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## Trends to Watch in 2017

A LexisNexis® Real Estate Industry Report



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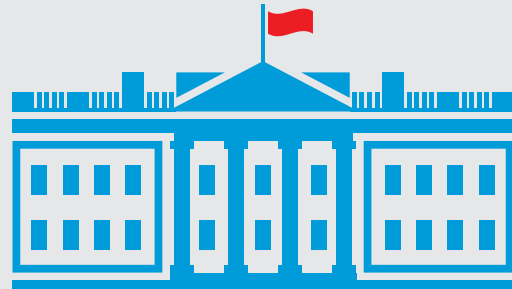
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Nearly a decade has passed since the bottom dropped out of the U.S. real estate market, but recent years have seen a significant rebound, spurring more investment. As a result, experts express cautious optimism when considering what 2017 will bring to the real estate industry. As with any industry, the new year brings new opportunities and challenges. Here are some trends that will influence the U.S. real estate industry this year:



### 1

## New White House, New Rules?



While a newly elected President doesn't usually qualify as a trend, the surprising election results last November left many wondering what 2017 would bring—including the real estate industry. While some predict that proposed cuts in government spending will lead to a recession, Rick Sharga, executive vice president of real-estate auction site Ten-X, expresses confidence saying, "He [Trump] seems committed to bringing regulatory relief—and regulatory certainty—to the financial services industry, which should make more credit more available to average home buyers who have been locked out of the market by today's extraordinarily tight credit standards."<sup>1</sup>

Based on the new President's picks of finance executives Steven Mnuchin for Treasury Secretary and Gary Cohn for director of the National Economic Council, Sharga could be correct. *Forbes* notes that Mnuchin "... has explicitly said his No. 1 regulatory priority is to 'strip back parts of Dodd-Frank that prevent banks from lending.'"<sup>2</sup> If such plans come to fruition, the real estate buying market will remain strong this year. However, investors in the largest U.S. real-estate brokerage firm received a note of caution from Marcus & Millichap VP of research services John Chang who writes, "The accelerated economic growth and ensuing inflationary pressure could prompt a quicker pace of rate hikes that are potentially more aggressive than exhibited over the past year."<sup>3</sup> Since the only interest rate hike of 2016 just happened in December, it won't take much for this prediction to come true.

## 2

## Foreign Investment Remains Steady

China may be backing away from overseas investment based on signals from Beijing last fall. In addition, the ongoing uncertainty about Brexit could lead to volatility in the euro and the pound, which could dampen investment.<sup>4</sup> That being said, a survey by the Association of Foreign Investors in Real Estate (AFIRE), finds that foreign buyers still view the U.S. as the “most stable and secure” for real estate investment. Interestingly, while 95 percent of AFIRE survey respondents said they would continue or expand their investments in the U.S. for 2017, the number who view the market negatively more than tripled since 2016.<sup>5</sup> In a switch from the past few years, however, the focus of foreign investors will shift away from multi-family to industrial properties, which will likely boost the attractiveness of retail and office space as well.

## 3

## Blockchain Technology Gains Steam

If you're not sure what blockchain is, you aren't alone. The most well-known blockchain application is Bitcoin, a cryptocurrency that catapulted into the spotlight after the FBI shut down black-market site Silk Road in 2013. At the time, the anonymity that Bitcoin offered the criminal underworld made it automatically suspect. Today, however, many see Bitcoin's underlying blockchain technology as the next wave for transaction-based applications. It won't happen overnight, of course. Last year, members of Congress asked U.S. regulators to weigh in on the technology—so we can expect some debate and delays—but watch for blockchain technology to emerge in real estate. Ragnar Lifthrasir, president of the International Blockchain Real Estate Association, contends, “The blockchain solves pretty much every problem in real estate that we have in terms of fraud, middleman fees and friction, opaque due diligence, slow price discovery, complex transaction process and other ills.”<sup>6</sup>

## 4

## Drones Bring a New Perspective to Real Estate

Now that the Federal Aviation Administration has approved commercial use of unmanned aerial vehicles, you can expect to see drones delivering more than packages from Amazon. Analysts agree that the real estate industry offers numerous opportunities to make use of drones. In examining the potential legal ramifications of drone use, the *National Law Review* notes, “There is vast potential for commercial use of drones in the real estate industry. Their use has become very important in marketing strategies for brokers and developers, for inspection teams on construction projects and even for construction of high-rise cable structures.”<sup>7</sup> A flyover video of a large property, for example, allows sellers to provide interested buyers with a unique, comprehensive view of the property and surrounding area. Even still images taken by a drone can have an impact for online property listings. Dallas Air Photos owner Joe Carriere notes, “A Feature Image taken from the drone's perspective is the perfect opportunity to grab the attention of a potential buyer with an incredible first impression that sets the property apart from all others.”<sup>8</sup>



## 5

## Pokemon Go Inspires Real Estate Industry

Augmented reality (AR) has been around for five years, but the success of Pokemon Go last year convinced many in the real estate industry that AR has great potential. In fact, Goldman Sachs Global Investment Research estimates that by 2025, the revenue potential from virtual and augmented reality applications for the real estate industry could hit \$2.6 billion.<sup>9</sup> Just as Pokemon Go encouraged people to step away from their computers and head outside in search of Pikachu and Pidge, PwC predicts that AR can drive traffic to real estate, noting, "Since real estate, both residential and commercial, relies upon the consumer experiencing a property—almost always in a site visit—before committing to a transaction, stimulating such a visit by a technological lure can be extremely powerful."<sup>10</sup>

Potential value  
of AR apps  
for Real Estate

**\$ 2.6  
BILLION**

## 6

## Millennials Will Make Their Mark on Real Estate

In 2015, Millennials surged by Baby Boomers and narrowly passed Gen-Xers as the largest labor force in America.<sup>11</sup> As such, they have the potential to shape not just the housing market, but the commercial market as well. Why? Millennials have different priorities and expectations—at home and on the job. The real estate industry will see a boom in transforming spaces to meet Millennials' needs. Mixed-use, or 'surban,' developments stay hot as they offer the convenience and walkability of urban areas with the green space more common to the suburbs. Meanwhile, commercial buildings will need to adapt to reflect the more collaborative environments that Millennials crave in place of the warrens of cubicles the Baby Boomers and Gen-Xers have 'enjoyed.'

## Conclusion




As with all predictions, hidden factors can influence whether a trend turns into a movement or fades into obscurity, but most experts agree that the outlook for the U.S. real estate industry in 2017 remains positive, with growth predicted to only decline slightly from 2016 figures.

1. <http://www.marketwatch.com/story/5-real-estate-trends-to-watch-in-2017-2016-11-15>
2. <http://www.forbes.com/sites/elyrazin/2016/12/22/5-commercial-real-estate-trends-to-watch-in-2017/2/#25498ae241f7>
3. IBID
4. <http://nreonline.com/investment/industrial-overtakes-multifamily-foreign-investors-most-preferred-asset-type>
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6. <http://knowledge.wharton.upenn.edu/article/blockchain-next-great-hope-hype/>

7. <http://www.natlawreview.com/article/droning-along-what-commercial-real-estate-property-owners-should-consider-drone-age>
8. <http://www.marketwatch.com/story/5-real-estate-trends-to-watch-in-2017-2016-11-15>
9. <http://www.pwc.com/us/en/asset-management/real-estate/assets/pwc-emerging-trends-in-real-estate--2017.pdf>
10. IBID
11. <http://www.pewresearch.org/fact-tank/2015/05/11/millennials-surpass-gen-xers-as-the-largest-generation-in-u-s-labor-force/>

The content for this report was obtained by conducting research on Nexis®, a leading source for business news and information, and was aggregated from data and projections shared by various industry experts.

## For more information

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-  1-888-46-NEXIS
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