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Real estate investment tips for 2020: North America

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A booming tech sector will provide opportunities for office, industrial and multifamily investment in US tech cities

As of the end of the third quarter in 2019, the US economy has officially seen its longest period of recovery in history. With numerous positive indicators, growth is expected to continue at least through 2020, despite ongoing speculation of a potential recession. A very robust labour market continues with low unemployment, real wage increases, and weekly unemployment claims at a 40-year low.

The tech sector continues to boom, driving growth across the US from several perspectives. Tech cities – those that attract giants like Amazon, Facebook, Google, Apple, Netflix and others – present both core and core plus opportunities for office, industrial and multifamily investment. Markets such as New York, Los Angeles, Seattle (above), San Francisco, Washington, DC, Atlanta, Boston, Nashville, Charlotte and Austin would be included in this set, presenting a combination of both mainstay gateway markets and growing millennial hot spots.

This demand will trickle down to close-in suburbs of these markets, presenting an opportunity for value-add as more cost-sensitive groups will seek proximity to tech leaders (along with similar quality and amenities).

As the economy continues to grow, so does the industrial sector (and the need for boxes). Demand is strong with declining vacancies and increasing rents. With growth expected to continue, a core opportunity will be in gateway markets including Northern New Jersey, Southern California, Dallas and Fort Worth and Greater Chicago.

Multifamily, in general, should be considered a value-add opportunity. However, there are several key markets, including New York and California, where restrictive regulations have held back growth.

2020 North America tips

Core

1. Prime logistics/warehouses in industrial gateway cities, Northern New Jersey, Southern California, Dallas, Fort Worth.
2. Prime Grade A office product in tech cities, New York, Los Angeles, Seattle, Austin, Nashville, Toronto.

Core plus

1. Office product that is under-leased or in need of minor repositioning in gateway office markets – New York, Los Angeles, Chicago, Washington, DC, San Francisco.
2. Mixed-use and office opportunities in secondary markets, particularly millennial hubs, Charlotte, Tampa, Nashville, Austin, Denver.

Value add

1. Multifamily product outside of regulated markets – restrictive laws in New York and California present challenge to investors in those markets.
2. Mixed-use or office/retail in close-in gateway suburbs.

Opportunistic

1. Smaller, more affordable markets with positive migration inflow, but softer market fundamentals – Calgary, Edmonton, Las Vegas, Phoenix.
2. Assets with a flexible space component in markets that are seeing strong growth from the sector, but also potential risk exposure given saturation – New York, Washington, DC, San Francisco.

Alternative

1. Hospitality in tech cities and millennial hot spots, Austin, Seattle, Charlotte, Nashville.
2. Ground lease opportunities in core markets, New York.

Source: Savills Research

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