



An Overview of the Real Estate Market

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When it comes to real estate, most people think about homeownership. A central part of wealth building is home equity, and it is often a significant contributor to net worth.

But real estate is much more than simple homeownership and can now be integrated as part of a diversified portfolio. The asset class was historically used by the ultra-wealthy, but over the last 50+ years, new structures and market developments have made access to real estate more available. Today, technology has enabled new ways to participate in the marketplace, such as participating in digital platforms that enable crowd-sourced investing.

In this piece, we'll dive into the different types of real estate and discuss potential market opportunities.

1. COMMERCIAL REAL ESTATE

Whether it's your favorite shopping mall in the Midwest, your local CVS, or that luxury store in Manhattan – commercial real estate is integrated into our everyday lives. It's estimated that the size of the U.S. commercial real estate market size is \$1.1 trillion.¹



Source: Ibis Worldwide, *Commercial Real Estate in the US - Market Size 2004-2022*

Businesses and sophisticated market participants often access opportunities through large deals (tens of millions and up), but the investment rationale is the same as it is for the residential market: the potential for capital appreciation and consistent income.

Commercial real estate is generally considered to be real estate used for business purposes, including office space, retail space, malls, hospitality property, parking lots, movie theatres, gas stations, and more.

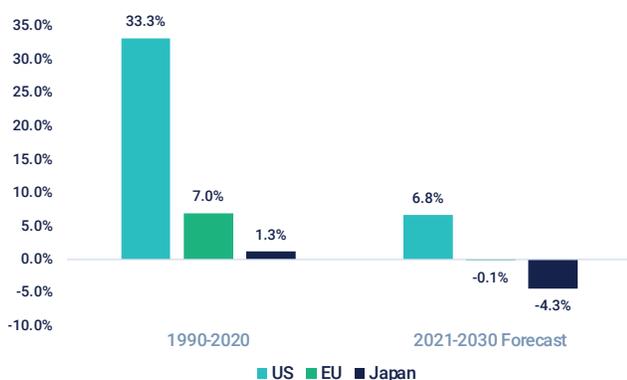
The past two years have changed the way commercial real estate is viewed as an opportunity, putting more pressure on the industry's future. This is mainly due to three major trends: Technology adoption, hybrid work environments, and the eCommerce shopping experience.

Although the future potential could be dependent on these trends, there may be opportunities ahead in commercial real estate.

2. RESIDENTIAL REAL ESTATE

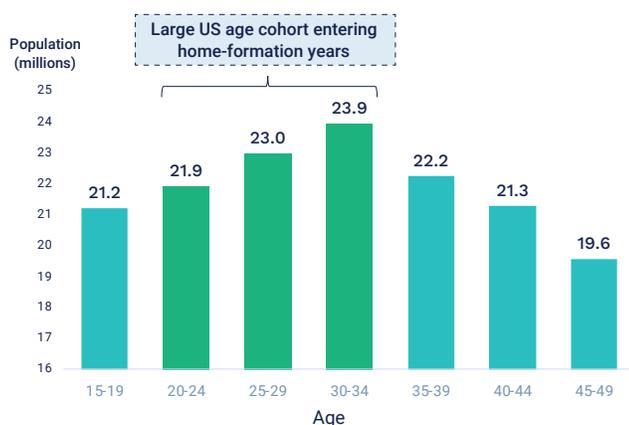
The trends shaping the growth of the residential market—millennials moving out of big cities, hybrid-work, technology adoption—have the potential to be long-term in nature.

U.S. Population Growth is a Long-term Tailwind for Housing



Source: U.S. Census Bureau, International Data Base, as of December 2021.

The Millennial Generation Increasingly Needs More Space



Source: U.S. Census Bureau, International Data Base, as of June 2022.

That said, there are many different types of residential real estate, including owner-occupied single-family homes, single-family rentals, condominiums/townhomes, cooperatives (Co-ops), mobile and boat homes, and duplex and triplexes.

3. INDUSTRIAL REAL ESTATE

Industrial real estate is not too dissimilar from commercial real estate, but it's primarily broken out into a different category due to the segment's use cases. Industrial real estate generally includes manufacturing and production facilities, storage warehouses, research and development, power plants, and data centers.

Industrial differs from commercial in the following way:

Office and retail buildings are largely service-oriented, so the layout, infrastructure, and details are focused on floor plans, location, and allowing for a business or shopping experience.

Industrial buildings focus on manufacturing, distribution, and logistics – so the design is centered more around size and functionality, and design and location have become less important to market participants.

Across the United States alone, 593 million square feet of industrial space is currently under construction, up 22% from the tally just prior to the pandemic.² With the growth in eCommerce and cloud computing, industrial real estate has continued to see growth through the pandemic.

TOP-LEVEL RISKS IN REAL ESTATE

As with all assets, real estate is subject to risk and there is potential for real estate assets to decrease in value. A few common to real estate are listed below:

Market Risk – Real estate, as with all assets, is subject to normal market fluctuations and the risks associated with investing in markets and therefore the value of real estate and the income from it may rise as well as fall and investors may not get back the amount originally invested. Asset prices of certain segments of real estate may be particularly sensitive to changes in interest rates.

Property Risk – Property is a specialized sector that may be less liquid and produce more volatile performance than an investment in other investment sectors. The value of capital and income will fluctuate as property values and rental income rise and fall. The valuation of property is generally a matter of valuers' opinion rather than fact. The amount raised when a property is sold may be less than the valuation.

Liquidity Risk – Real estate markets may be volatile, and may become illiquid. Timely and cost-efficient sale of

positions can be impaired by decreased demand and/or increased price volatility.

THE BOTTOM LINE

Real estate is a large marketplace and there are many ways to access this asset class. The different types of real estate offer varying potential opportunities and related risks. It is important to consider the characteristics of each segment and desired goals and objectives when considering participation.

Footnotes

1. Ibis Worldwide, Commercial Real Estate in the US - Market Size 2004– 2022
2. Plante Moran: Q3 2021 National Industrial Real Estate Market Summary

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