

WHITE PAPER

Deloitte Commercial Real Estate Trends 2023









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GRI CLUB

CONTENTS

Trend 01 – Incorporating ESG: Living up to stakeholder expectations and business opportunities.....	04	
Trend 02 – Digital transformation, a new Real Estate era.....	07	
Trend 03 – How Artificial Intelligence (AI) can enhance the Commercial Real Estate industry.....	09	
Trend 04 – Mobility hubs.....	11	
Trend 05 – Driving into the Future of Parking Spaces.....	12	
Office Space 2023 Overview.....	13	
Shopping Malls and Retail Space 2023 Overview.....	14	
Industrial & Logistics Space 2023 Overview.....	16	

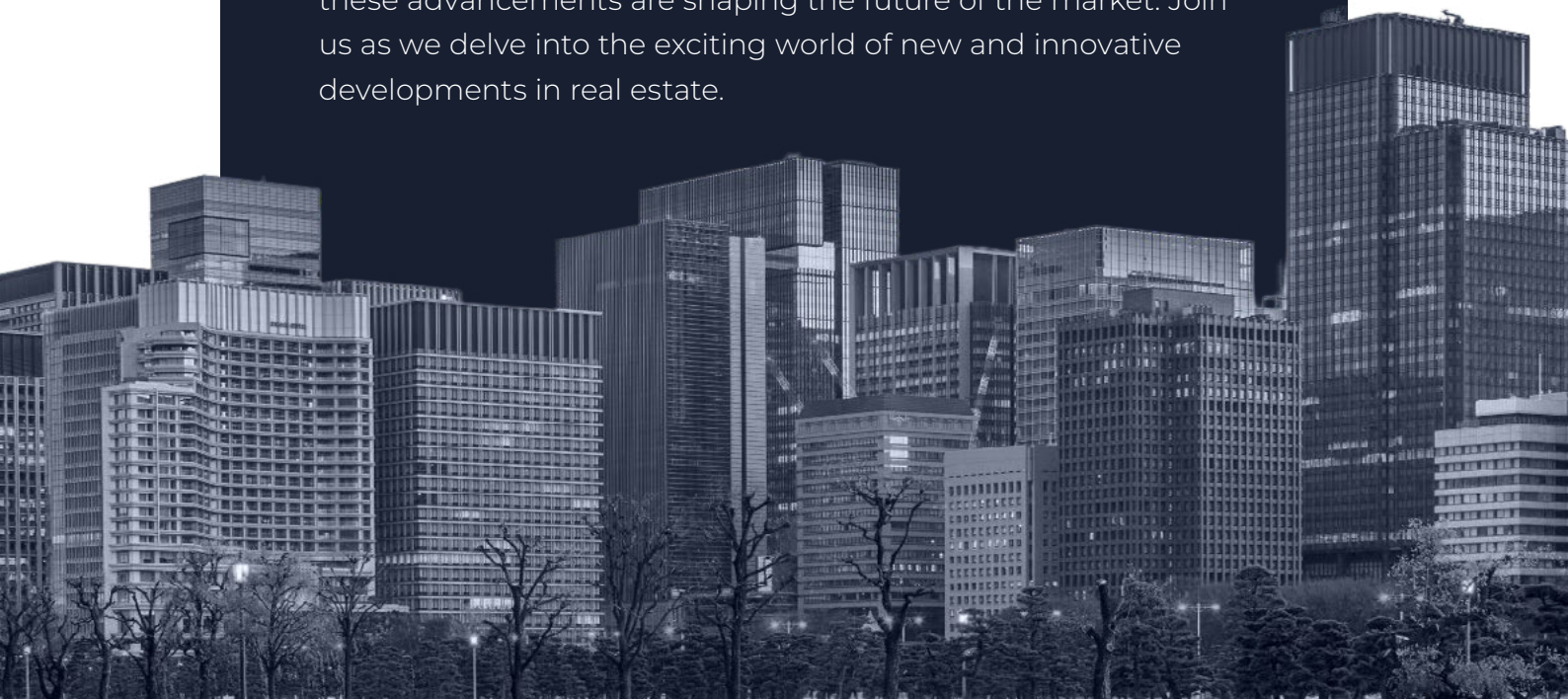
THE TOP REAL ESTATE TRENDS FOR 2023

Commercial Real Estate is a dynamic and ever-evolving field, but between the pandemic, the climate crisis, and the rapid development of technology, the sector has been undergoing a major transformation and faces unique new challenges arising every day.

With increasingly stringent ESG regulations, a growing focus on sustainable living and travel, the rise of artificial intelligence, greater demand for smart buildings, new technological requirements, and a significant shift in consumer and retailer habits it can be difficult to sift through all of the many voices clamouring for attention to find the lasting trends that will truly benefit the industry and leave behind the fads that will simply come and go.

In light of these factors, Deloitte collaborated with GRI Club to analyse the biggest trends and drivers in the sector, the impacts they are expected to have on real estate, and how to make the most of these opportunities to achieve greater success in 2023.

From ESG-friendly planning to AI-powered property management systems, we explore the many ways in which these advancements are shaping the future of the market. Join us as we delve into the exciting world of new and innovative developments in real estate.



TREND 01 – INCORPORATING ESG: LIVING UP TO STAKEHOLDER EXPECTATIONS AND BUSINESS OPPORTUNITIES¹

Environmental, Social, and Governance (ESG) issues have emerged as a top focus, and companies need to respond to meet growing investor, tenant, and employee expectations.

Key Trends and Drivers

According to Architecture 2030², a non-profit environmental advocacy group, the **built environment generates nearly 40% of annual global CO₂ emissions**. Of these, 27% are caused by building operations, and the remaining 13% by building materials and construction (embodied carbon). Real estate leaders can make an impact as the world transitions into a lower-carbon economy.

Implications for Real Estate

›› Real Estate leaders around the Globe are:

- **Collecting and assessing data** on the environmental impacts of building operations
- **Investing and implementing** resource efficiencies
- **Partnering with developers** who use sustainable practices and materials

›› Green leasing³ offers upside:

Over half of the respondents in the Americas of the 2022 RICS Sustainability Report see a **rise in investor interest in climate risk assessments**. It is a well-known general market practice that **green leases command premium rents**, and those without sustainability features offer reduced rents to compensate tenants.

¹ Deloitte “Real Estate Predictions 2022”

² Architecture 2030, “Why the building sector?”

³ Green leasing means that tenants either commit to or benefit from embracing sustainable practices, such as waste reduction)

» Align Social Initiatives with Business Opportunities:

Industry leaders should be **aware that stakeholders increasingly expect improvements in these areas**, with actions such as **increasing diversity** in the tenant-mix to reflect community socio-demographics or **urban conversion and property repurposing** of underutilised space to provide suitable spaces for the local community.

» Prepare for More Stringent Regulatory Requirements:

As **regulators step up ESG reporting demands**, firms will soon have to prioritise these efforts. Countries like the US, EU Member States, and China are starting to require companies to identify, track, and report on key performance indicators, such as carbon emissions and human capital metrics.

In developing countries, quantifying climate risks in their business and portfolio as well as quantifying Diversity, Equity, and Inclusion (DE&I) initiatives were particularly challenging.



Firms that take a proactive role in the field of ESG will create a competitive edge. For Commercial Real Estate firms who are aiming to improve ESG governance and impact, Deloitte foresee the following actionable items:

- » Design and implement processes to record progress and hold leaders accountable for achieving target metrics. This would improve reporting as regulators increase disclosure expectations.
- » Create a road map that establishes and documents ESG strategy as part of the broader business strategy. Effective governance and long term value creation requires a strong focus on priorities and clear, actionable, and measurable goals. Share this road map with stakeholders and key decision makers to help assess risk and move initiatives forward.
- » Intentionally incorporate ESG into the business from the start of a project all the way through to how it is managed daily, post-construction. This involves everything from raw materials to the use of data analytics to help existing tenants reduce their carbon footprint.
- » Communicate the firm's ESG vision and plans to investors and employees alike. Sustainable investing is a growing area of capital formation. Commercial Real Estate companies can take advantage of this new wave if they are transparent about how they incorporate ESG into the mission of their company.
- » Conduct a robust climate risk assessment to mitigate overall risk and inform strategies.



TREND 02 – DIGITAL TRANSFORMATION, A NEW REAL ESTATE ERA

ConTech and PropTech – How is technology pushing the Real Estate industry?

Key Trends and Drivers

Technology is increasingly central in the Construction and Real Estate industries as they usher in a new era, opening themselves to **new methods, business models, and disruptive processes**. Enterprises and investors are increasingly interested in disruptive technologies and innovations in the **ConTech** and **PropTech** domains, however the macroeconomic environment is slowing the sighted rapid growth.

Implications for Real Estate

» ConTech or Construction Technology

The application of technology before and during the construction of the property, in any of its facets, at any of its moments but always within the temporality of the construction phase (BIM: Building Information Modelling— Virtual models used in building construction).

» PropTech or Property Technology

The application of technology to the property when it is already built and can be marketed for sale or lease. Forbes defined it as “Businesses using technology to disrupt and improve the way we buy, rent, sell, design, construct, and manage residential and commercial property.”

» OpCo (Operating Company) / PropCo (Property Company) structures for funding PropTechs

In the last decade, the **PropTech ecosystem** has boomed under the umbrella of the Industrial Revolution 4.0.



The PropTech sector¹ has grown by 1,120% over the last five years, and investment volume stood at approx. USD\$33 billion at the end of 2021; however, due to the macro-Real Estate environment², it dropped to \$20 billion by the end of 2022.

Given the above mentioned drop-off, for 2023, PropTech key players are talking about:

- » Cautious capitalism
- » Clear outcomes vs. spend
- » Recalibration of expectations on valuation
- » Mergers of companies with better capitalised or faster-growing competitors.



(¹ Center for Real Estate Technology & Innovation ("CRETI") 2022 PropTech Venture Capital Report.)

(² Market volatility continues to persist due to monetary policy, rising interest rates, and recessionary fears.)

TREND 03 – HOW ARTIFICIAL INTELLIGENCE (AI) CAN ENHANCE THE COMMERCIAL REAL ESTATE INDUSTRY¹

Customised AI tools can support large amounts of data, quality checking, and provide insights into the drivers behind trends. Scenario simulation and its evaluation can enhance key investing, budgeting, and planning decisions.

Key Trends and Drivers

Commercial Real Estate planning, asset management, and investment decision-making are critical factors for future urban planning since they **require a clear understanding of the current and future supply-demand dynamics and underlying macroeconomic factors.**

The **Real Estate market data** required for city and master plans - including supply, transactions, price, and lease information - typically comes in disparate source formats. Also, the correlation of economic metrics, such as GDP or construction financing, often needs to be clearly articulated.

Implications for Real Estate

AI algorithms can **incorporate existing historical data** from asset-level information, macroeconomic data, and public opinion into such a tool or algorithm **in a structured and standardised way.** These data sets are also helpful as they can show the **impact of future trends.**

Building Information Modelling (BIM) and smart city data are now expected to be integrated into the analytics model to create an **enriched solution** for assisting property owners and asset management companies, providing planning departments and developers with the information needed to **support demand-driven decision-making.**

⁽¹⁾ Deloitte "Real Estate Predictions 2022".



For developing a CRE AI solution, companies need to gather at least the following data:

>> Retail

An assessment of **socioeconomic growth, consumer spending, retail asset transactions, occupancy by influence area, retail pipeline, and GLA per capita** (or per sq. m) to review the **supply gap** and determine **potential sq. m demand for retail space** and expected **market share**.

>> Offices

Information on **employment by sector, economic growth, mobility data, lease information, office space pipeline, and absorption** of sq. m to estimate **potential demand for offices** and expected **market share**.

>> Industrial

Assessment of **industrial sector employment, trade, expected investments, industrial space pipeline information, ecommerce activity, and absorption** of sq. m to estimate **potential demand for industrial space** and expected **market share**.

TREND 04 – MOBILITY HUBS¹

A significant challenge in many cities across Latin America is the growing commuting times due to poor public transportation solutions and a general increase in traffic²

Key Trends and Drivers

Individually, we want our trips from A to B to be fast, cheap, and comfortable. Therefore, for many citizens, the car is their preferred mode of transport. Yet, **from a collective point of view, we want safe, livable, and sustainable cities with high-quality public spaces.**

Creating incentives for a **mobility transition** from individual private cars to high-quality public transportation includes measures to provide better cycling and walking infrastructure and stimulate shared mobility initiatives. Most attention is paid to the **mobility hub, which has become a global trend.**



Implications for Real Estate

A **mobility hub** is a place with a **high concentration of seamlessly integrated modes of transport and facilities** in an **attractive, mixed-use urban design**. It provides a **safe and convenient** place to transfer between modes of transportation, thus **improving the traveller experience.**

⁽¹⁾ Deloitte “Real Estate Predictions 2022”

⁽²⁾ Deloitte Analysis).

TREND 05 – DRIVING INTO THE FUTURE OF PARKING SPACES¹

The rise of Hybrid Plugin and Electric Vehicles (HPEs and EVs) will drive the need for more parking spaces with EV chargers within Commercial Real Estate.

Key Trends and Drivers

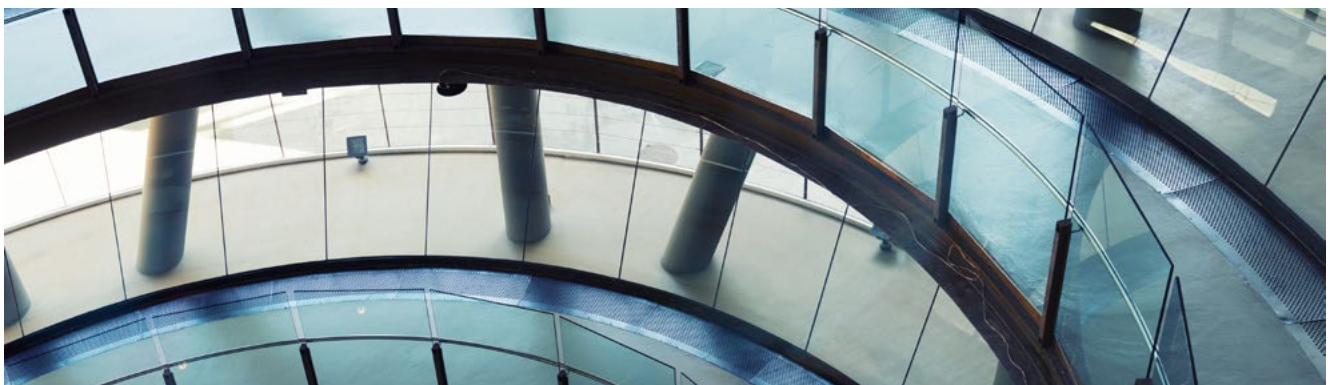
In addition to **hybridization**, most large vehicle manufacturers heavily invest in **electrification**. However, the current implementation on Latin American roads and streets is limited to the routes and common destinations of the higher-income population living in the biggest cities.

This scenario will likely change soon, with manufacturers rapidly progressing their vehicles towards being fully electric, the rapid increase in the availability of affordable electric cars, governments signing agreements and acquiring compromises for zero carbon emissions over the upcoming years, and younger consumers being more environmentally aware.

Implications for Real Estate

High-speed electric chargers within parking spaces are currently seen as a luxury since electric vehicles are somehow too; however, this technology will shortly be a must-have, and commercial Real Estate must take this into account to keep their projects attractive by including them as an amenity in their commercial pitch.

Alliances between power companies, automotive corporations, real estate developers, and commercial operators may arise since high-speed electric battery charging is expected to happen soon.



⁽¹⁾ Deloitte Analysis).

OFFICE SPACE 2023 OVERVIEW

Key Trends and Drivers

The Covid-19 pandemic has had a significant impact on society, the economy, and the Real Estate industry – and it will continue to do so. Especially in those where digital technologies were already playing an important role.

» Future of Work

The **work environment is fundamentally changing**, more citizens will continue to work from home, more companies will use online channels to reach customers, and remotely operated processes will increase significantly.

Covid-19 has further accelerated these changes. The pandemic also showed that **complex and creative activities as well as social interactions are still more effective in a face-to-face situation**. As a result, **organisations are questioning the purpose of their offices** and their respective workplace strategies.

Implications for Real Estate

There is a trend towards a **hybrid working environment**, with the **office developing** into a **user-centric and activity-based place for ideas, creativity, and personal interaction**. This requires a **higher degree of flexibility** and creates an increasing demand for certain smart building features that create an attractive working environment and support their employees throughout the working day, including **room and desk booking, seamless wireless connection, and keyless entry in order to pull their workforce back into offices and foster collaboration**.

Overall, there is a **marked preference for quality**. This means offices in **highly connected locations**, complete with **market-leading amenities**, including **outdoor spaces and fitness centres**, as well as **good sustainability credentials** such as LEED platinum, a green certification standard¹.

¹ Citi Global Wealth Investments. "Wealth Outlook 2023, Roadmap to Recovery: Portfolios to anticipate opportunities")

SHOPPING MALLS AND RETAIL SPACE 2023 OVERVIEW¹

Even before the pandemic, shopping centres and retailers were facing many challenges: The rise of e-commerce, shrinking foot traffic, and changing consumer shopping preferences threatened a way of shopping that has existed for decades. Shopping malls are evolving and transforming, creating unique opportunities for the industry

Changing consumer behaviours create opportunity

It is no longer enough to offer the physical space for consumers to find goods; retailers should entice consumers with a more enriching experience that fosters a sense of community. To successfully respond to this changing retail environment, owners can focus on three strategic priorities:

- ›› Recast the role of the shopping centre to serve multiple purposes
- ›› Drive greater customization in the tenant mix
- ›› Develop a new leasing model that captures the value derived from new business models

Certain shopping preferences will likely stick

Post-pandemic, consumers may never shop the way they once did. Consumers say they plan to work more from home than they did before the pandemic, so they expect to cook more and shop more from home for the foreseeable future. This preference to stay closer to home could create opportunities for shopping centres.

Retail real estate owners could have a brick-and-mortar presence with integrated omnichannel capabilities. This is one key advantage brick-and-mortar retailers have over large online retailers, which lack the physical infrastructure to offer same-day services in many markets.



⁽¹⁾ Deloitte Insights "The future of shopping: Creating customer value with retail real estate")

Understanding online and offline behaviour changes across geographies

Retail strategies should be curated and customised at the shopping centre level and informed by local consumer behaviours and buying habits in their respective trade areas.

Developing digital shopping malls with integrated omnichannel capabilities

Digital shopping malls are trending, as websites (or apps) that offer a variety of products to their customers as a one-stop shop are growing rapidly. Integrating these solutions into an omnichannel experience would give brick-and-mortar retailers the advantage of pick-up in-store or pick-up-in-locker solutions.



INDUSTRIAL & LOGISTICS SPACE 2023 OVERVIEW

Amid the macroeconomic difficulties we saw in 2022 such as inflation and higher interest rates, long term forces are continuing to create potential opportunities within real estate

Opportunities derived from the e-Commerce revolution

According to the Citibank Wealth Outlook 2023¹, while e-commerce may reduce the need for retail space, **online transactions require three times the warehouse space of traditional retail** (Prologis Q3, 2020).

Each 1% increase in e-commerce sales as a proportion of overall retail sales is expected to result in over 6 million square metres of demand for industrial space. According to JLL, eCommerce demand has mainly increased the need for **larger, more sophisticated, and centrally located distribution centres** to enhance “last-mile” facilities for same-day or next-day delivery. This trend is expected to continue to be the case in 2023.

Opportunities derived from the Nearshoring phenomenon²

Nearshoring has also heavily impacted the Mexican border, Mexican Bajío cities, and some specific Central and South American ports and hubs; with **demand outpacing supply, overall vacancy rates are historically low.** The industrial real estate sector – which includes storage and distribution as well as manufacturing, production, and research & development facilities – **remains solid and stable.**

Mexico has attracted many international companies looking to **establish or expand their manufacturing or logistics operations in the country.** Additionally, there is a growing interest in e-commerce and last-mile logistics, which has increased demand for industrial properties in urban areas. Mexico will need to be careful with energy and water availability, providing a secure environment, and respecting the rule of law.

Panama and Costa Rica are also attracting foreign investment due to their strategic ports and hubs, while **Colombia and Peru** have recently been showing political instability, which might become a challenge for foreign investors.

¹ Citi Global Wealth Investments. “Wealth Outlook 2023, Roadmap to Recovery: Portfolios to anticipate opportunities”)

² Deloitte Analysis)

CONTACTS

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GRI Club

For more than 20 years, we have been inspiring partnerships and fostering relationships among leaders in the Real Estate and Infrastructure sectors. We contribute to business and economic development in the 4 continents in which we are present.



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