

The Big Picture:

Macro trends in the Economy, Planning, and Zoning

Rocky Mountain Land Use Institute

March 2017

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What's Up With the Economy?





Uncharted Waters:

Trump Sets New Economic Course for the Aging Expansion
Implications for Western States and Commercial Real Estate

Andrew J. Nelson
Chief Economist | USA

RMLUI Western Places/Western Spaces. Denver, CO
March 16, 2017





**The Uneven, Moderate
Expansion Continues**

Deserves more respect

Expansion

The Uneven, Moderate Economic ~~Recovery~~ Continues Not perfect but good enough (at least for property markets)

- Strong enough to drive tenant demand and property investment and yet . . .
- Not strong enough to overheat (most) markets or encourage excessive supply

THE GOOD

THE UNKNOWN

THE BAD



Home prices and sales back to prior peak; home starts strong



Skewed recovery; weak wage growth; growing wealth inequality



Essentially at full employment and still going strong



Slow global growth and trade; shaky European banks



Consumers happier, stronger, confident . . . and spending



Weak mfg / exports; strong dollar; low CAPEX



Credit markets still benign



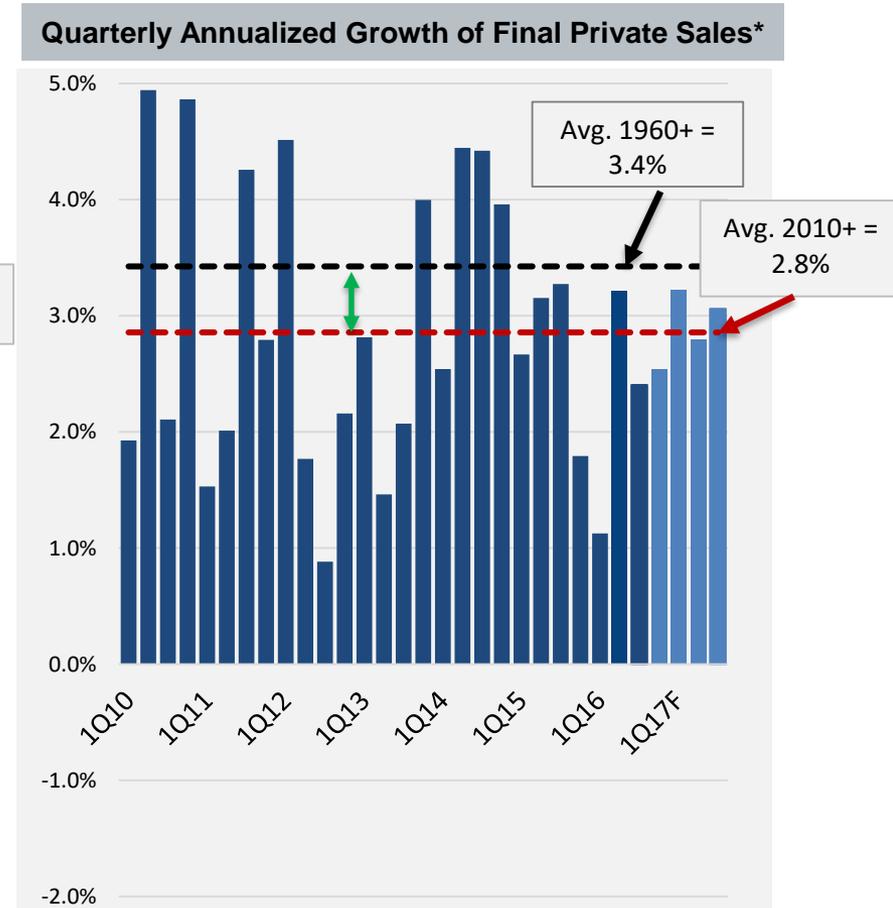
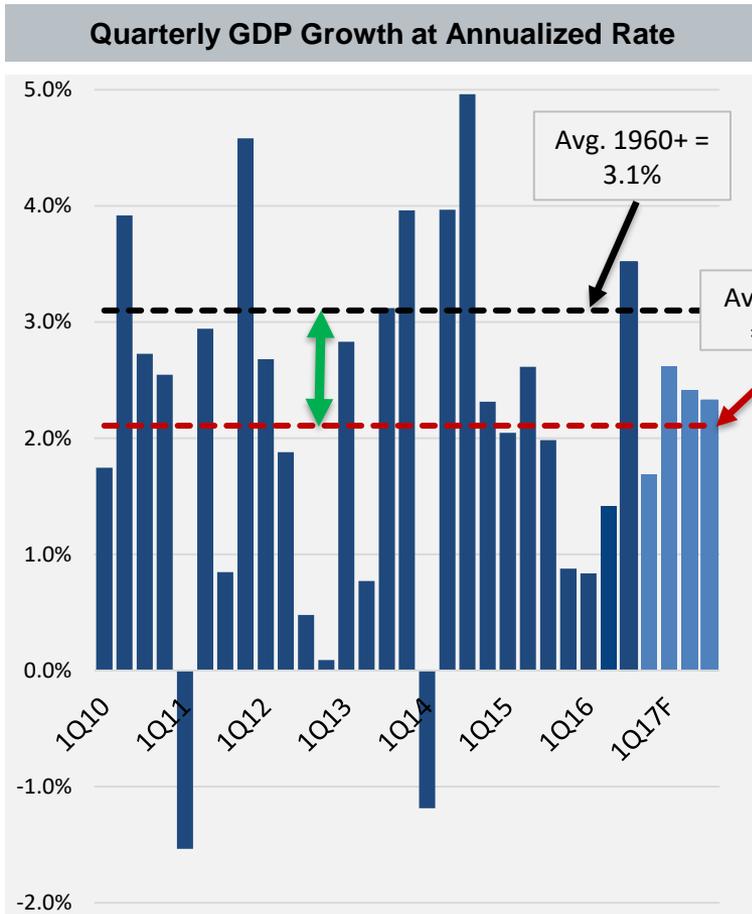
Decaying, inadequate infrastructure



Source: Colliers International

The Uneven, Moderate Expansion Continues (1)

Still no breakout, but private domestic economy better

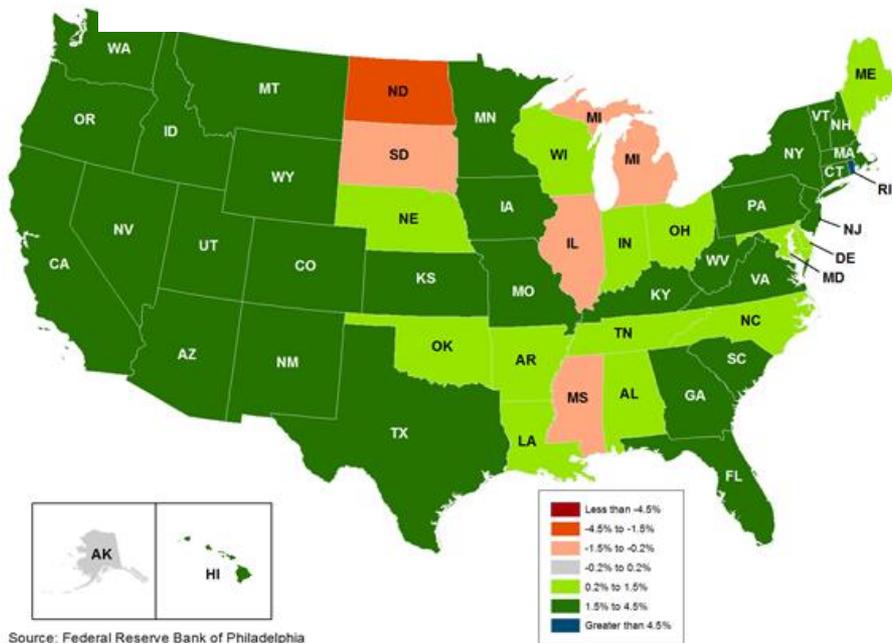


Note: * Final Sales to Private Domestic Purchasers = GDP less Net Exports, Net Inventory Adjustments, and Government Spending and Investment.
 Sources: BEA, Macroeconomic Advisors via Haver Analytics and Colliers International.

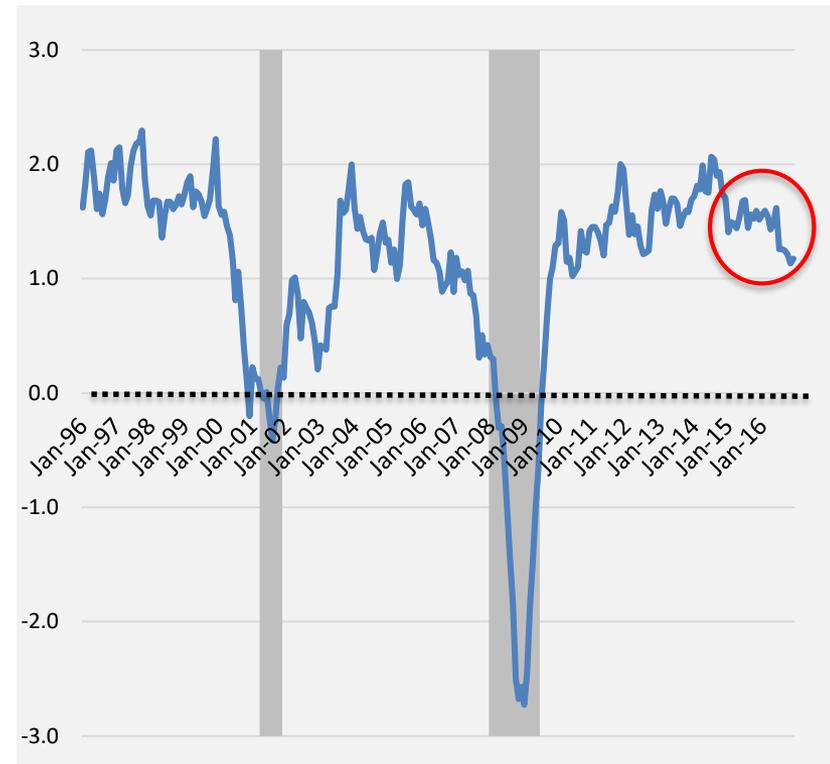
Leading Indicators Still Positive, But Trending Down

Most states to keep expanding – including Colorado and the West

State Leading Indexes: Expected Six-Month Change



U.S. Leading Economic Indicator Index



Source: Federal Reserve Bank of Philadelphia and Colliers International. Data as of December 2016.

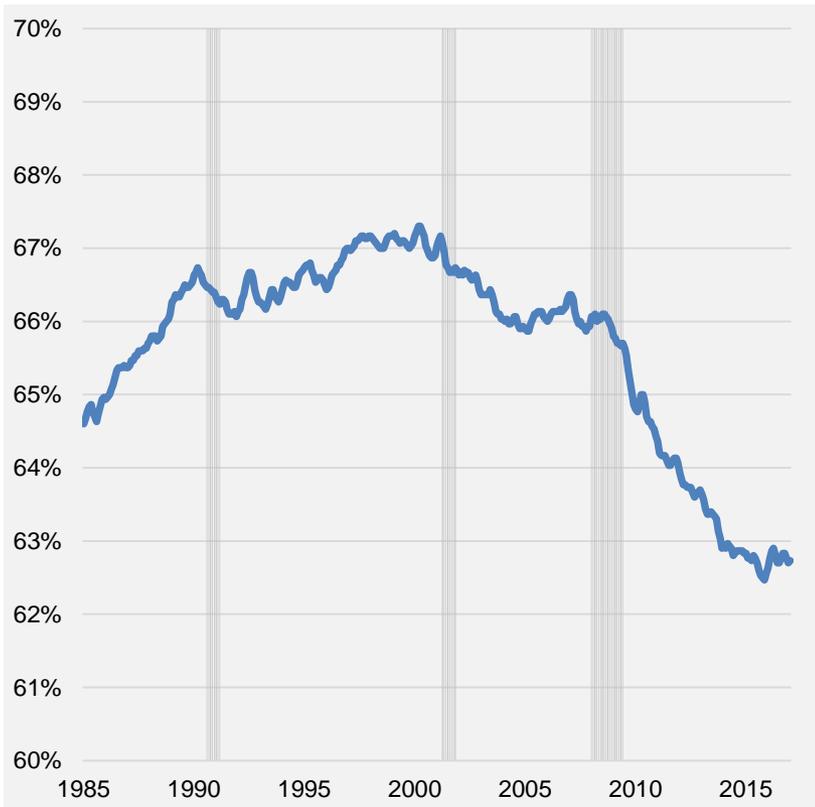
Economic Overview: Some concerns



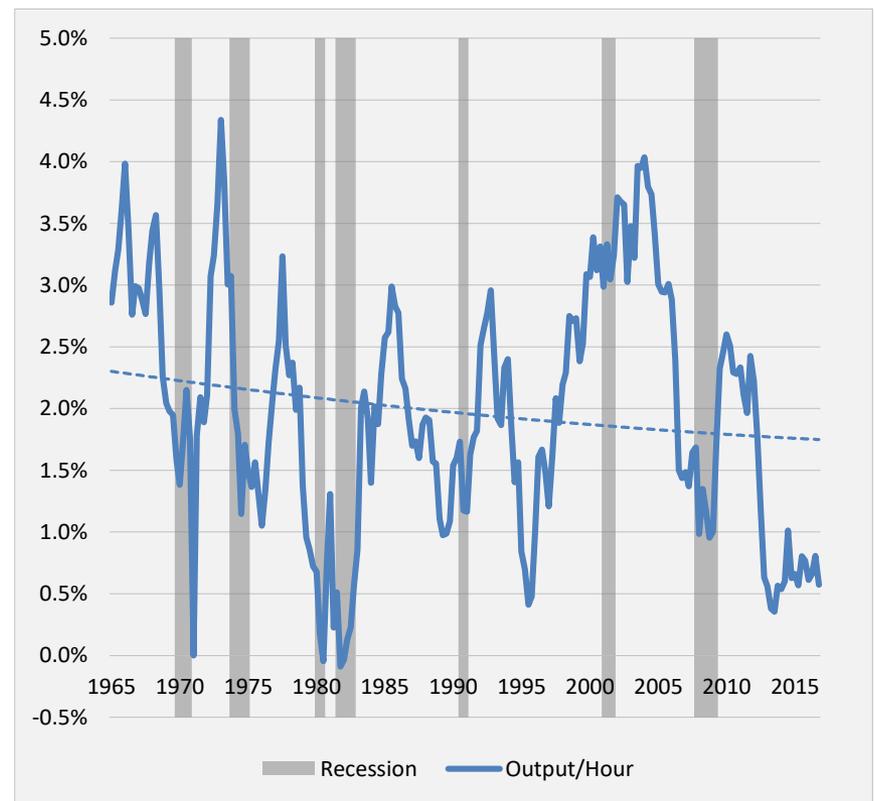
Economic Concerns (1): Smaller, Less Productive Workforce

Fewer workers carrying the load

Labor Force Participation Rate* (1985+)



Quarterly Productivity Growth (1965+)*

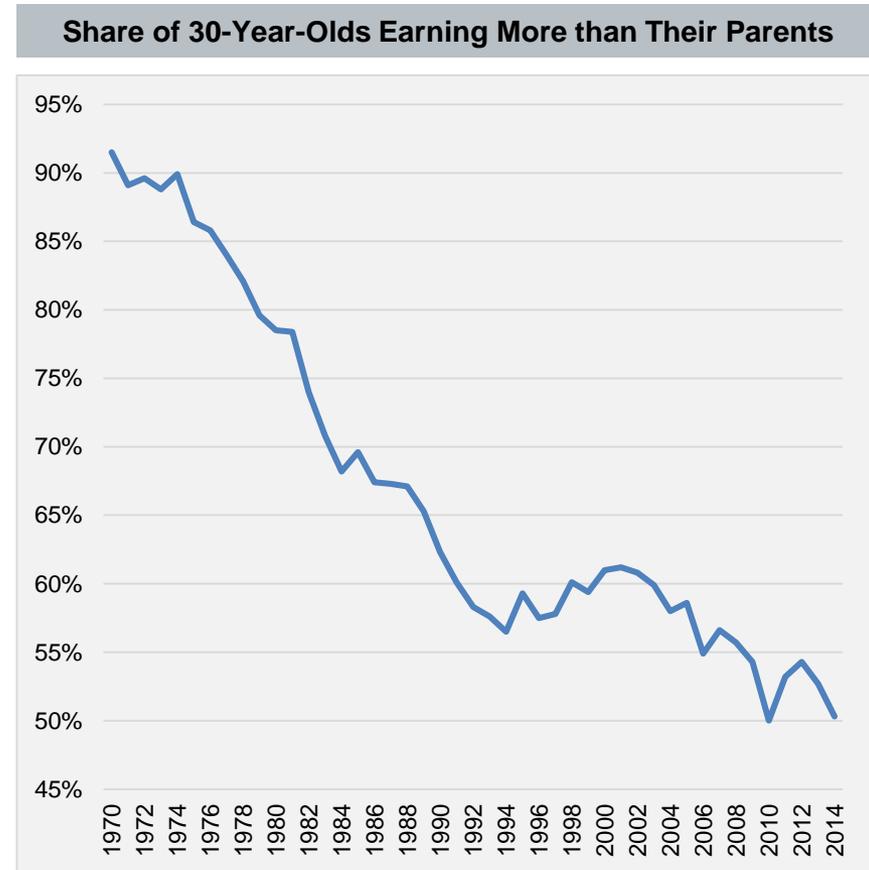
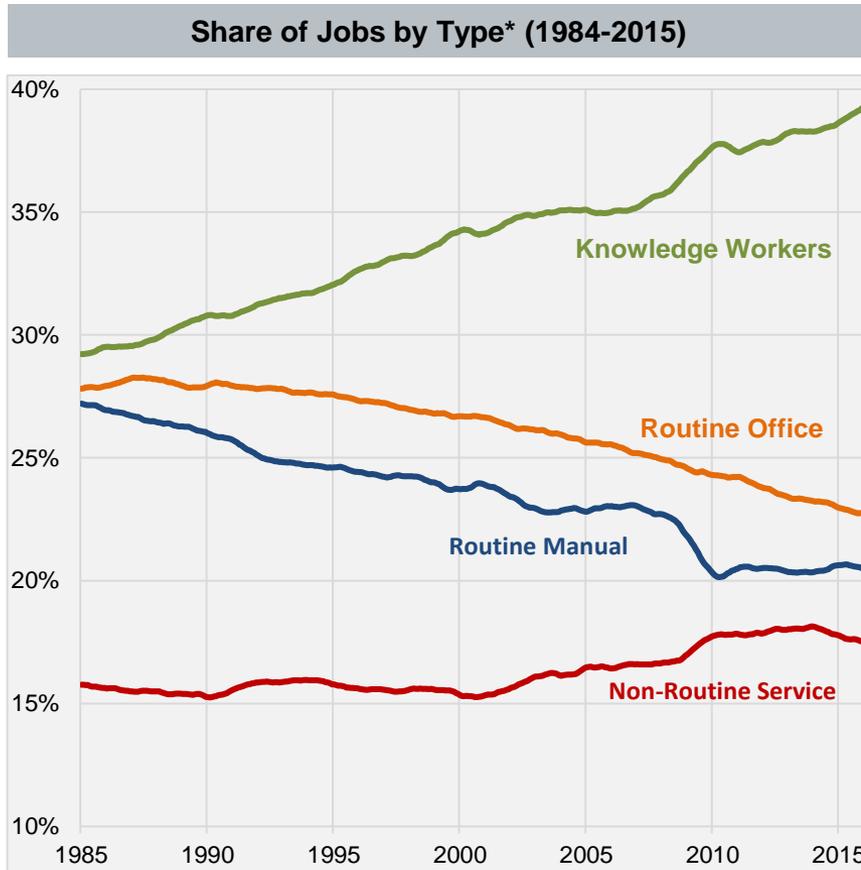


* Three-year moving average.

Sources: Bureau of Labor Statistics and Colliers International.

Economic Concerns (3): Job Polarization and Flat Incomes

Inter-generational income gains end as well-paid blue collar jobs fade



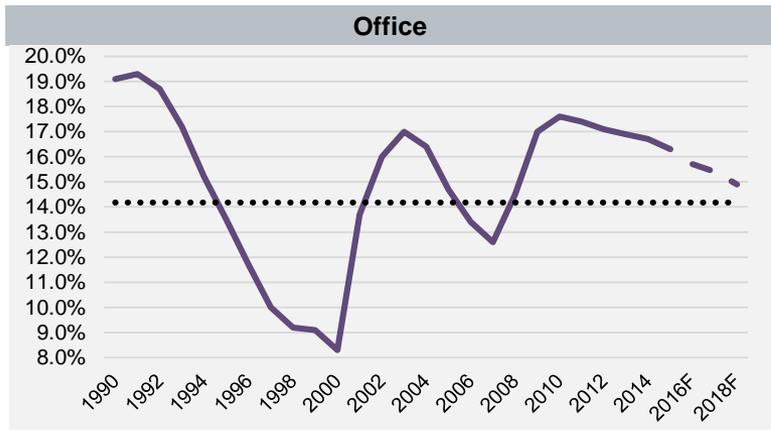
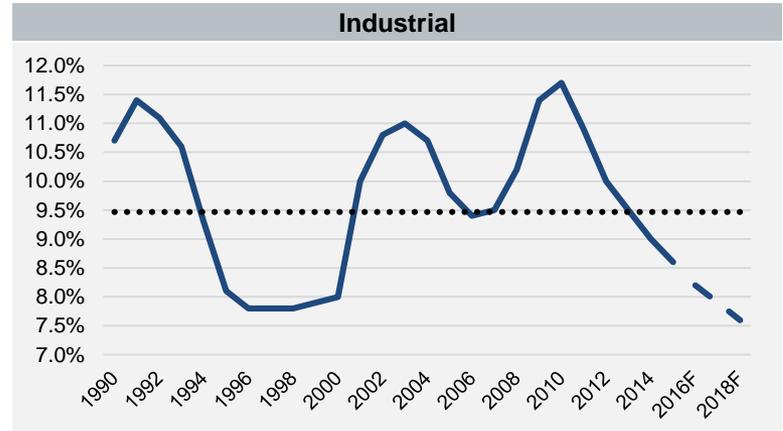
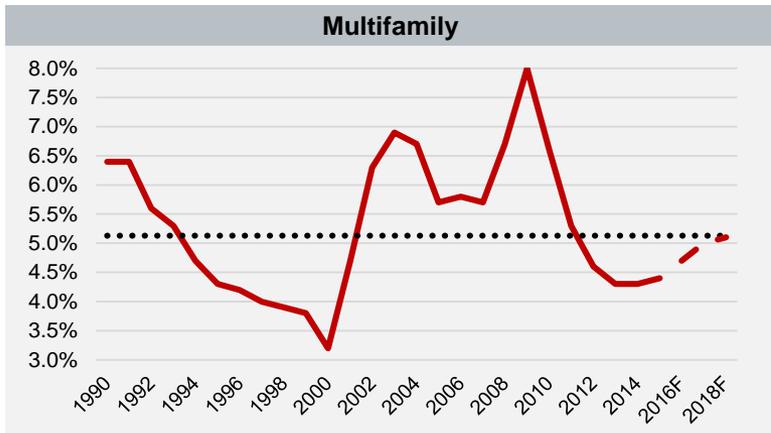
* 3-month moving average.
 Source: Bureau of Labor Statistics, The Equality of Opportunity Project, and Colliers International.



Property / Capital Markets

Markets Mostly Recovered or Getting There

MF and industrial vacancies below avg.; office and retail still elevated

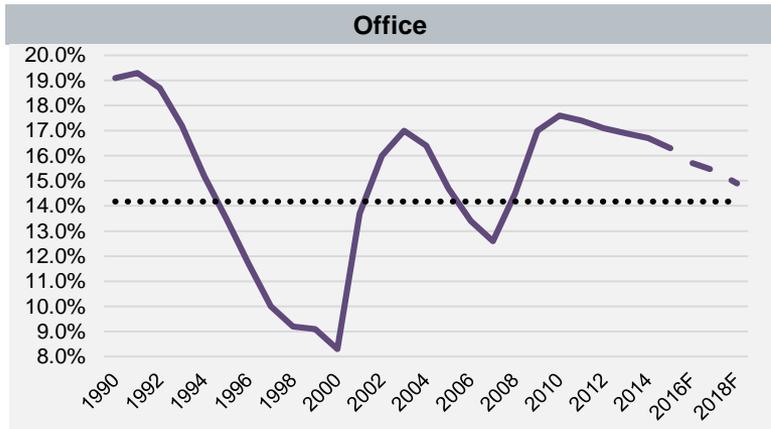
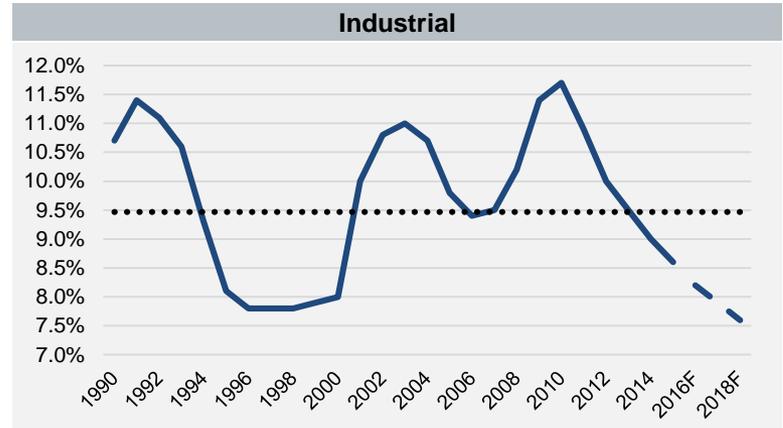
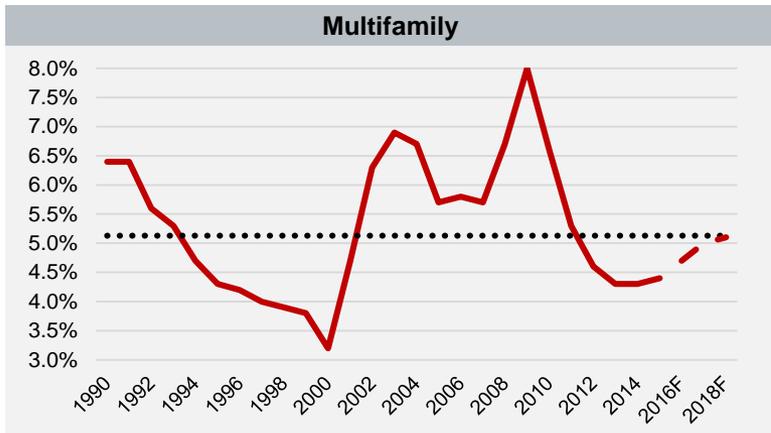


..... = Average Vacancy 1990-2007

Sources: REIS and Colliers International

Markets Mostly Recovered or Getting There

MF and industrial vacancies below avg.; office and retail still elevated

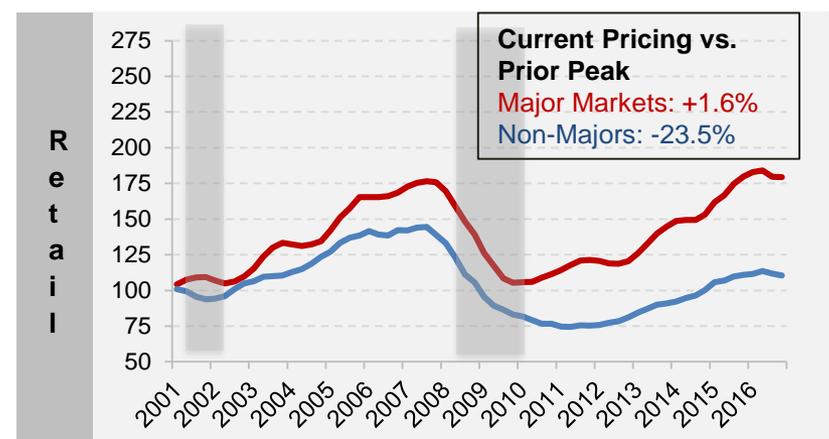
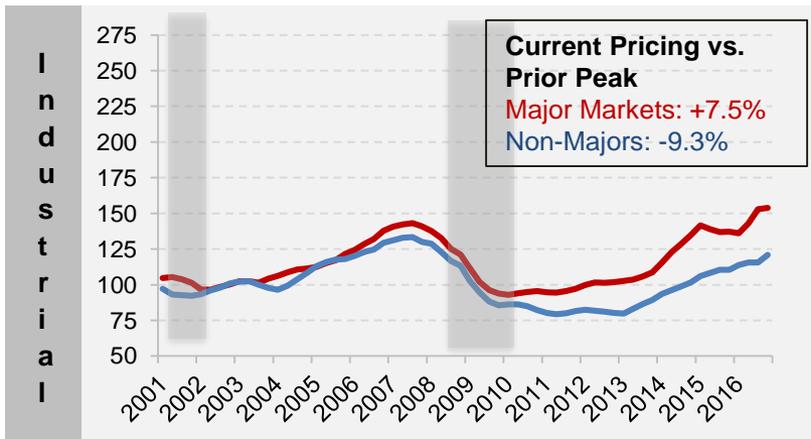
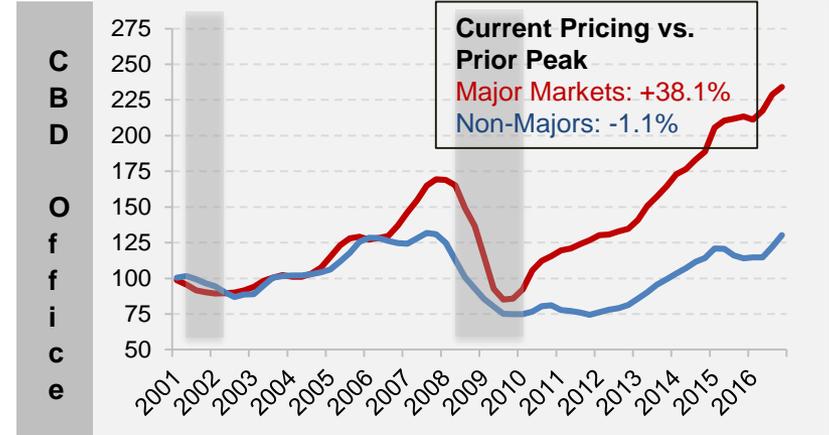
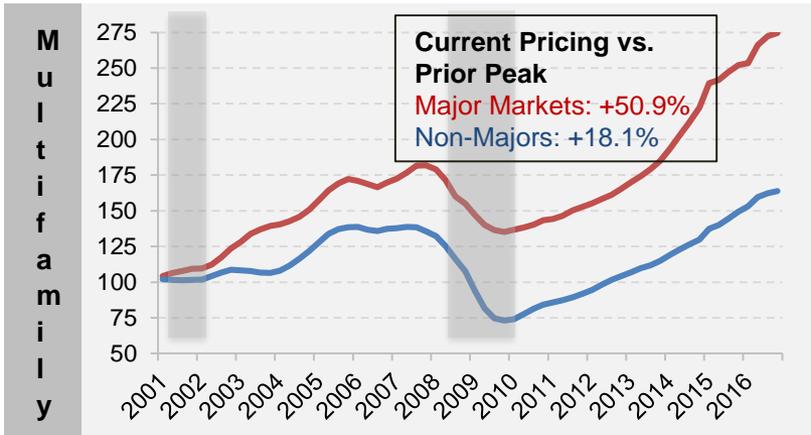


..... = Average Vacancy 1990-2007

Sources: REIS and Colliers International

Real Estate Concerns: Property is Pricy

Values surge in office and multifamily; lag in industrial and retail



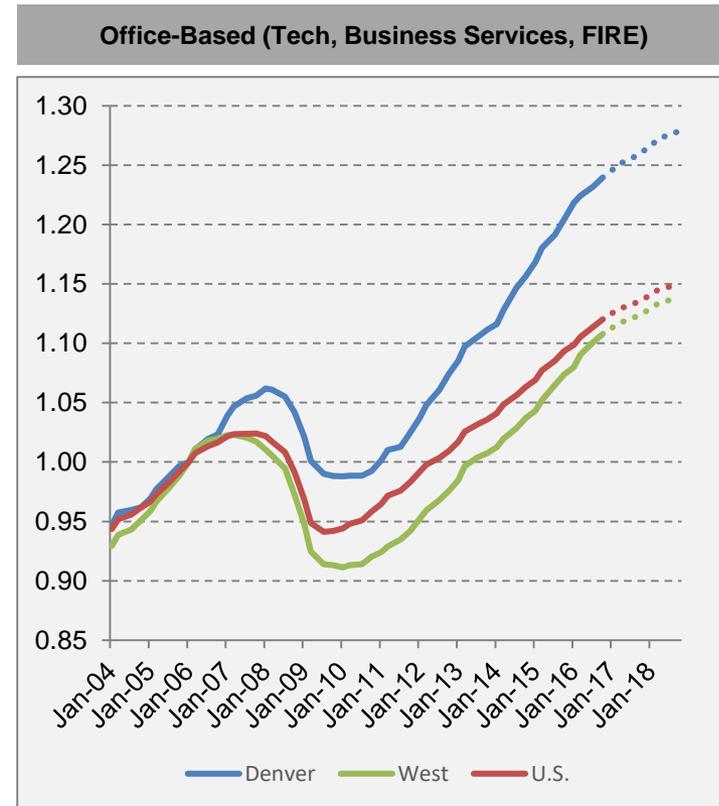
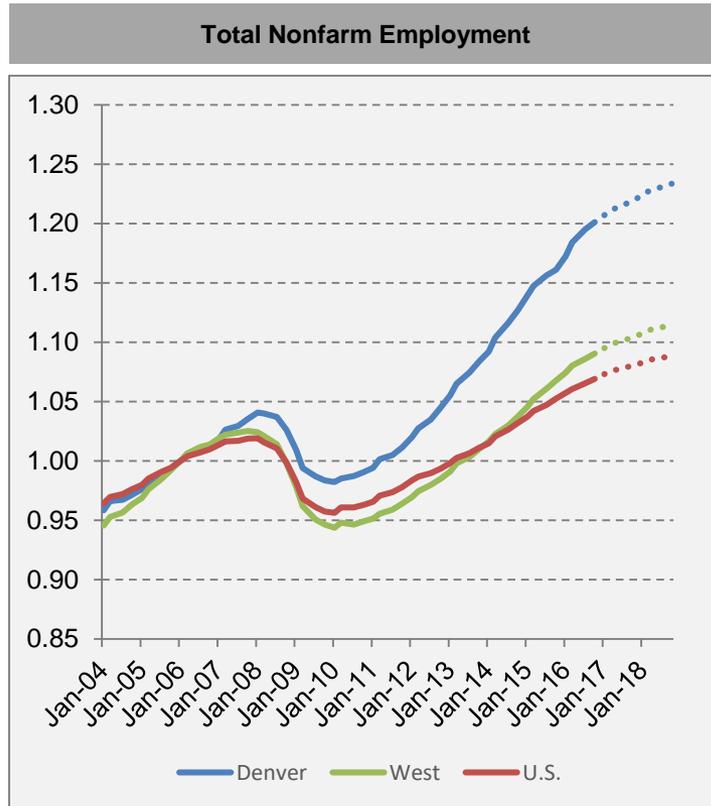
"Major Markets" includes Boston, Chicago, Los Angeles, San Francisco, New York and Washington, DC. Indexed where Jan. 2001=100 and then adjusted for inflation.
 Sources: Real Capital Analytics and Colliers International

Denver and Western States in Context



Jobs: Denver and the West vs. U.S.

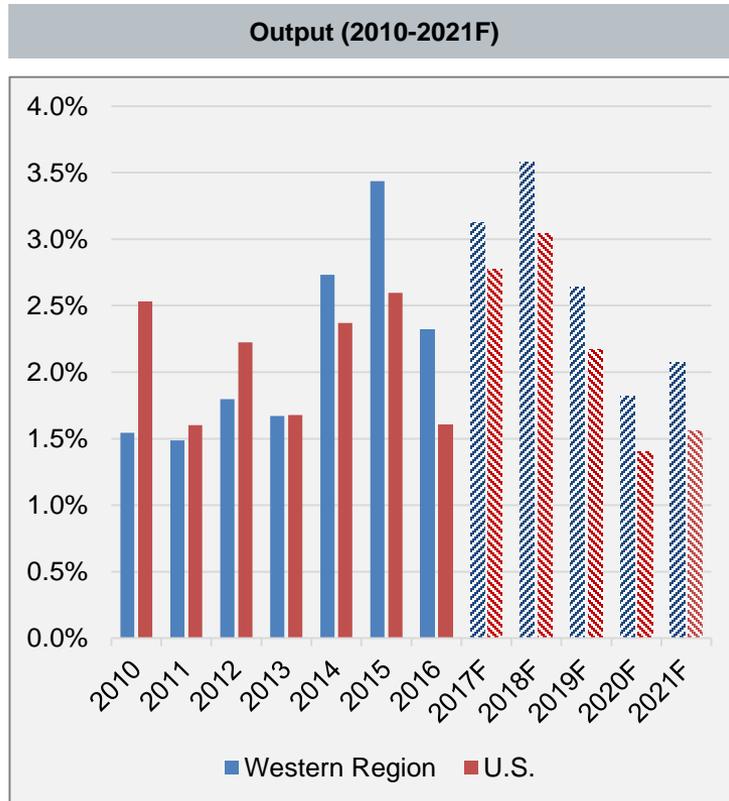
Denver far outpaces the rest; western states mostly on par with nation



Sources: Oxford Economics, Seasonally Adjusted. Indexed employment change where January 2006 = 1. Colliers International.

Output and Employment: West vs. U.S.

West slower to recover but consistent outperformance since



Sources: Moody's economy.com and Colliers International

Summary and 2017+ U.S. Forecast

“Mostly sunny with
increasing clouds and a
chance of showers”

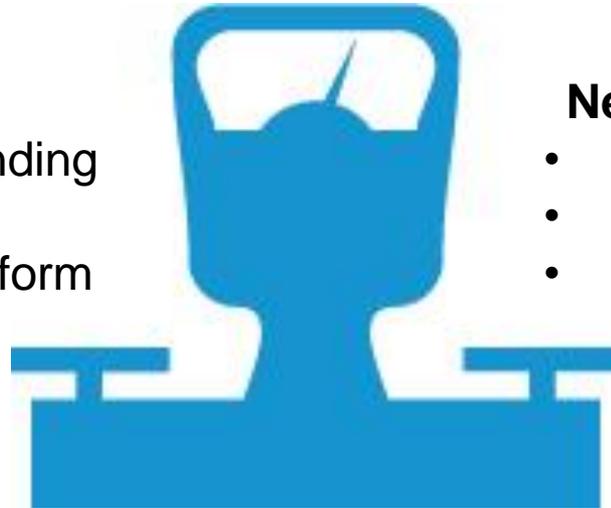


Enter President Trump

Upside near-term potential with elevated downside risks

Positives

- infrastructure spending
- tax cuts / reform
- regulatory relief reform



Negatives and Risks

- deficit spending (?)
- protectionist policies
- isolationist initiatives

› *Trump's 2017 stimulus package could provide modest economic lift*

- Too **many unknowns** for definitive projections.
- Don't expect implementation / impacts until **late 2017** or later.
- **Rising inflation, stronger dollar, and higher interest rates** will blunt gains.

› *Trump's broader economic platform has upsides . . . and major risks*

- **Business-friendly tax and regulatory reforms** could fuel stronger GDP and job growth.
- **Protectionist and isolationist initiatives** could slow long-term growth and derail expansion.

2017-18 U.S. Economic Forecast

“Mostly sunny with increasing clouds and a chance of showers”



› **We’re (much) closer to the end of the expansion than the beginning**

- The economy had been cooling but year ending on a strong note.
- One to two good years left, but Trump could extend cycle – and raise risks.

Forecasts for Key Economic Indicators

	2015	2016	1Q17	2017		Trump Change	2018	
				Mean	Range**		Mean	Range**
GDP*	2.6%	1.6%	2.2%	2.3%	↑ 2.1%-2.5%	+0.1%	↑ 2.4%	2.1%-2.7%
Consumption*	3.2%	2.7%	3.1%	2.7%	↔ 2.5%-2.9%	+0.3%	↓ 2.6%	2.3%-2.9%
Business Investment*	2.1%	-0.4%	2.2%	3.1%	↑ 2.6%-3.6%	+0.1%	↑ 3.9%	3.1%-4.7%
Net Exports (Billions)	(\$540)	(\$562)	(\$599)	(\$624)	↓ (\$598)-(\$650)	+\$25	↓ (\$696)	(\$634)-(\$758)
Industrial Output*	0.3%	-1.0%	0.5%	1.4%	↑ 1.0%-1.8%	+0.2%	↑ 2.3%	1.7%-2.9%
CPI	0.1%	1.3%	2.5%	2.5%	↑ 2.3%-2.7%	+0.2%	↓ 2.3%	2.0%-2.6%
Wages	2.1%	2.2%	N/A	2.5%	↑ 2.2%-2.8%	(0.2%)	↑ 3.0%	2.6%-3.4%
Unemployment Rate	5.3%	4.9%	4.7%	4.6%	↓ 4.5%-4.7%	(0.1%)	↓ 4.5%	4.3%-4.7%
Y/E 10-Year Treasury	2.2%	2.5%	2.5%	2.9%	↑ 2.8%-3.0%	+0.6%	↑ 3.3%	3.0%-3.6%

* Average percent change on previous calendar year

** mean consensus average ± standard deviation

Source: Consensus Forecasts, February 2017 and Colliers International

What's Next for Property Markets

“Continued improvement in fundamentals but growing risks”

- › ***We're (much) closer to the top of the property market cycle than the bottom***
 - Absorption to continue slowing.
 - Financial returns will continue easing as cap rates stabilize / rise . . .
 - But strong investor interest will maintain asset values for now.

- › ***Impact of Trump's economic agenda on property sector will depend on specifics***
 - **All property sectors would gain** from stimulus, lower taxes, regulatory relief.
 - **Office** leasing would benefit from expected regulatory rollback, esp. financial sector.
 - **Industrial** gains from military and infrastructure spending, loses on any reduction in trade.
 - **Retail** would benefit from HH tax cuts but lose from reduced population and costly imports.
 - **Multifamily** could gain from higher interest rates that raise cost of home buying.

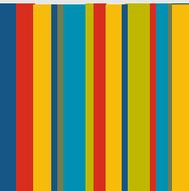
- › ***Investors should prepare for inflation, higher interest rates, and end-of-cycle impacts***
 - **Higher inflation** will favor multi-tenant buildings with shorter lease terms.
 - Risk of **recession** will favor top-credit tenants under long-term leases.
 - Domestic and off-shore **investor demand for U.S. property remains** strong . . . but
 - **Higher interest rates** and potential **trade wars** could curb investor appetite for real estate.



How is the Practice of Planning Evolving?



Emerging Trends...the next 5, 20 and 50 years?



American Planning Association
Making Great Communities Happen

2065?

10.4 billion global population

67% urban =

7.0 billion global urban population

or

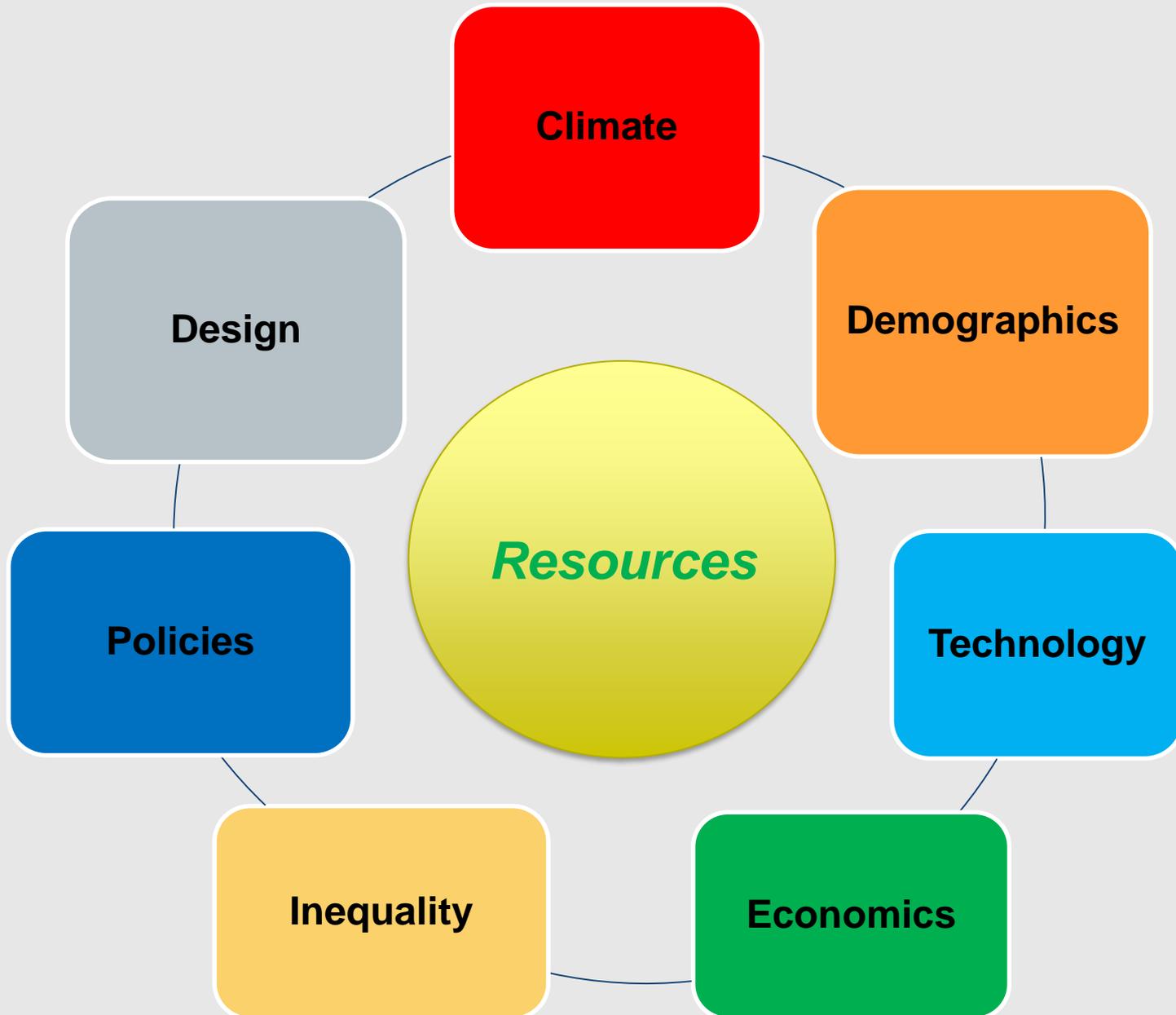
3.7 billion more people in cities =

456 New York Cities (7.6/yr)

or

1,496 Denver Metro Areas (25/yr)

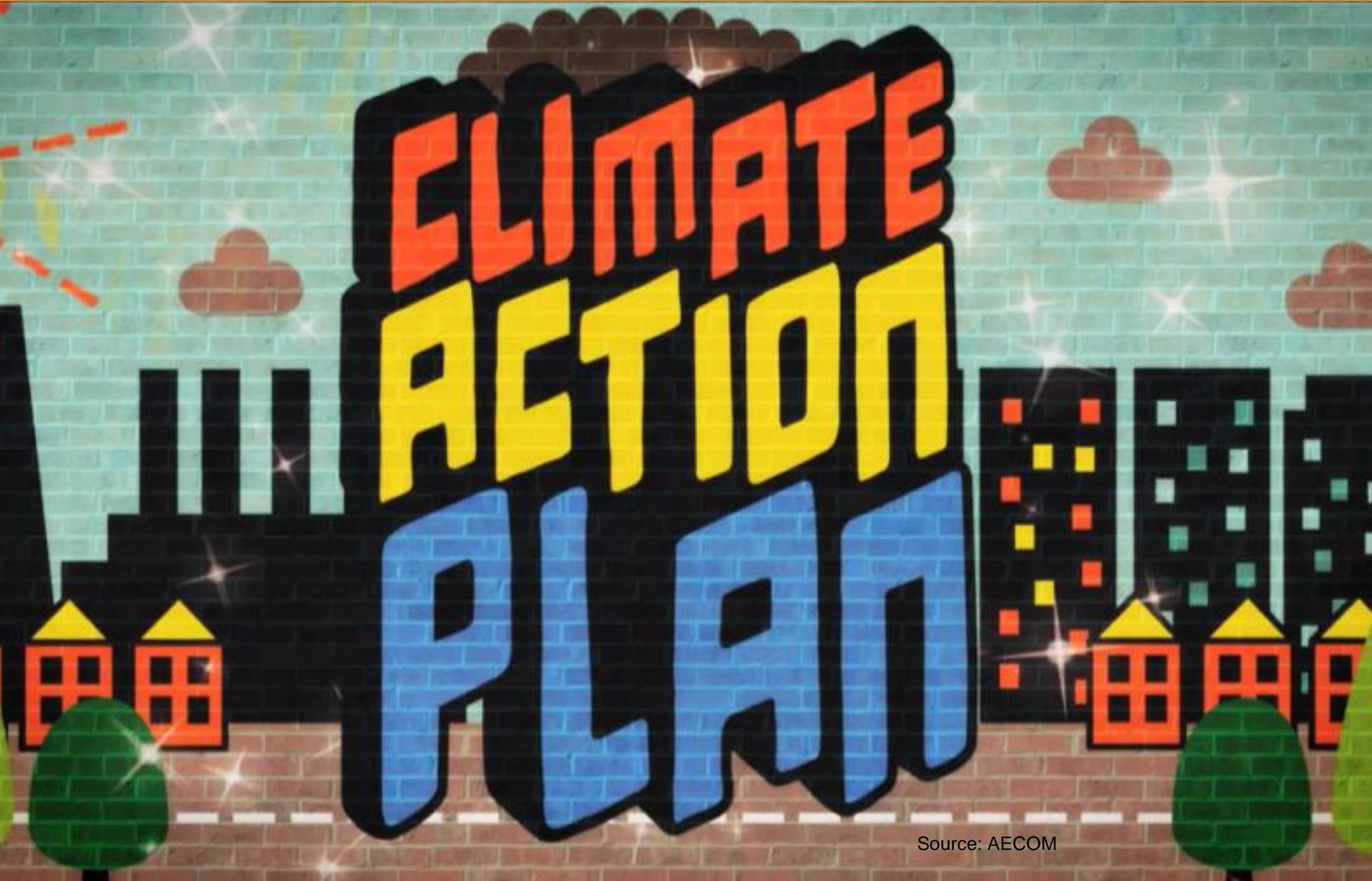




Access to Water – Too Much, Too Little, or Too Dirty

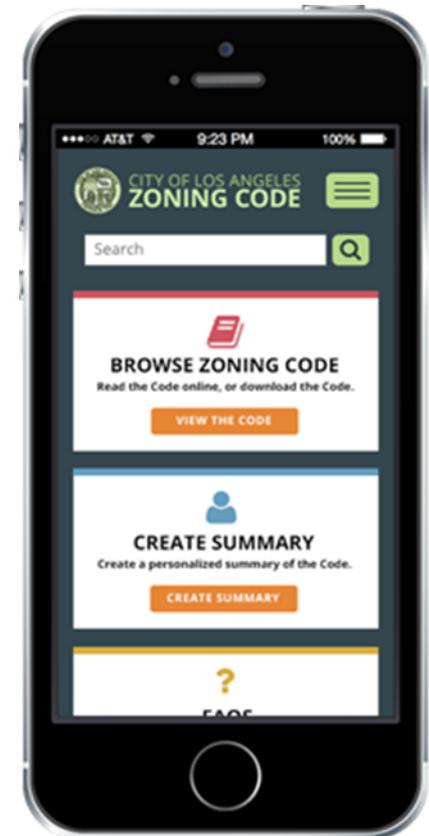
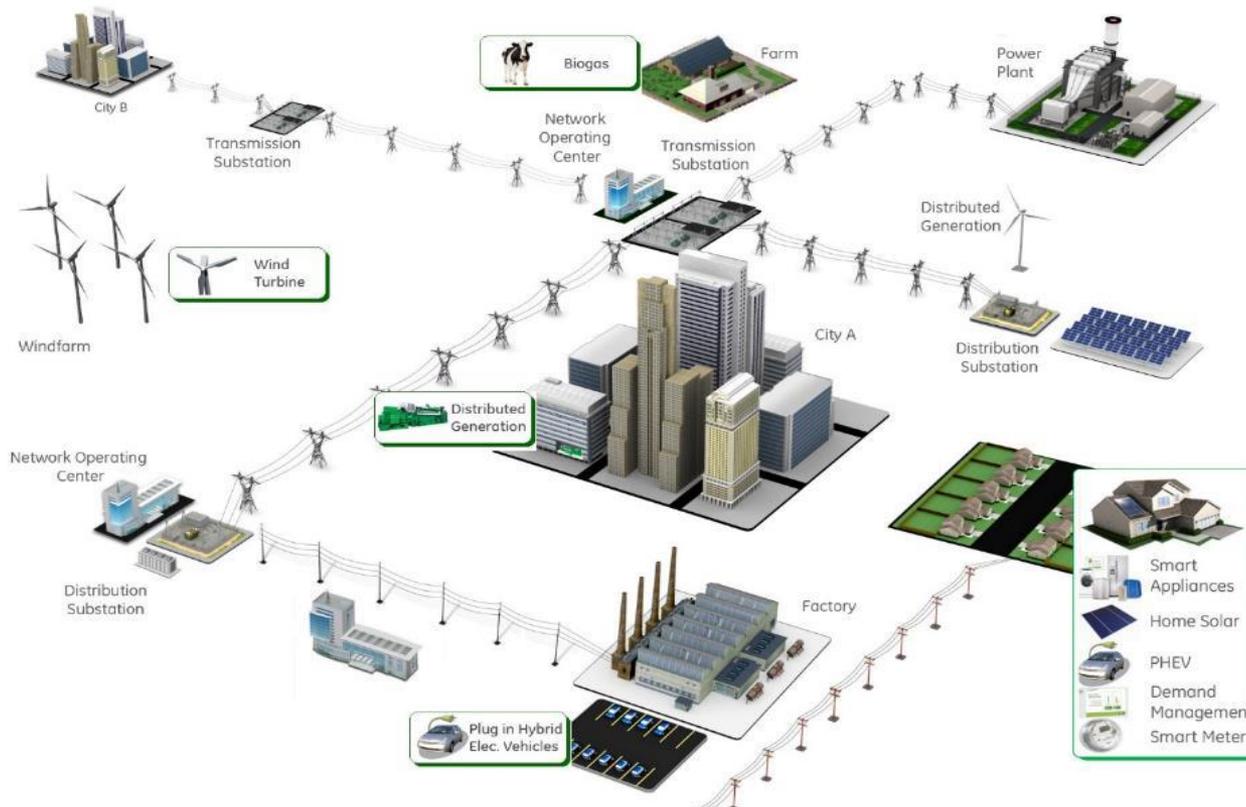


SUSTAINABILITY

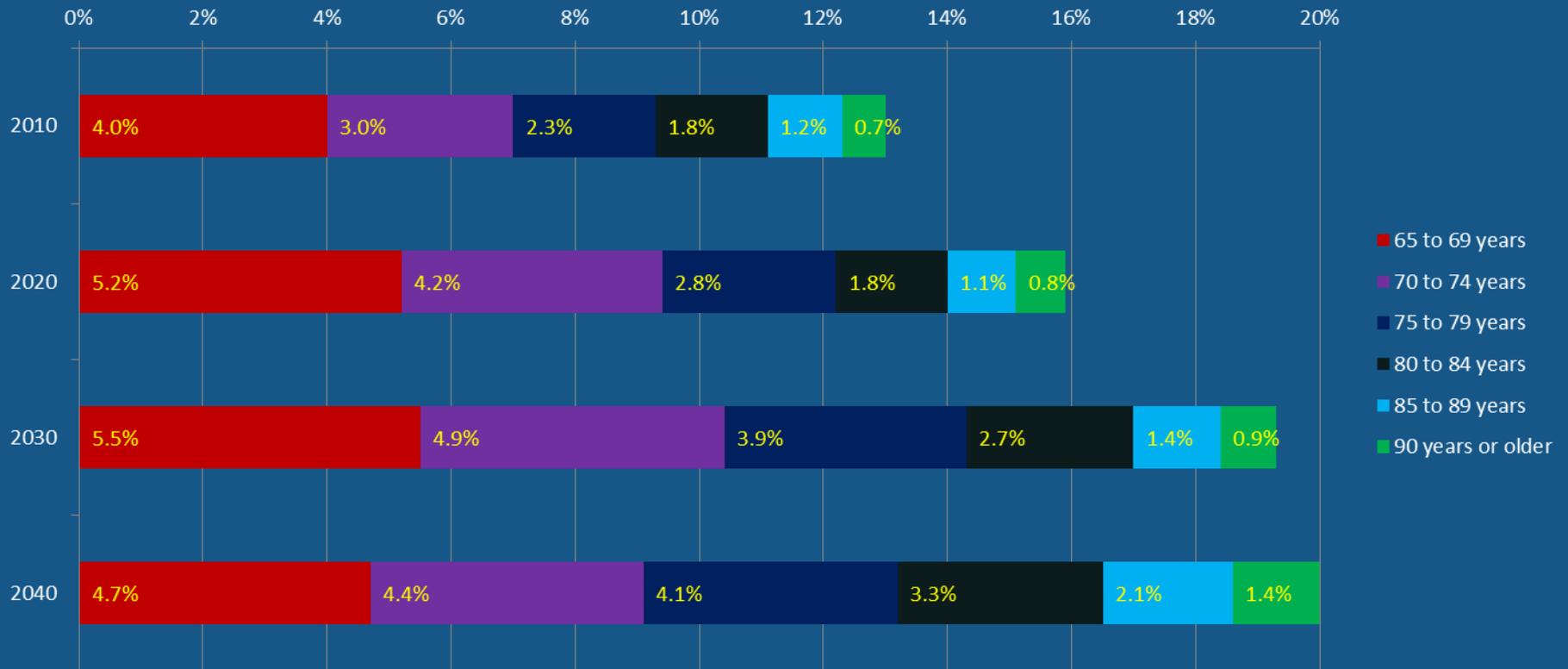


Source: AECOM

Smart Cities and Technology



Projected Proportion of U.S. Population by Age, 65 Years or Older



Source: U.S. Census Bureau, *The Next Four Decades: The Older Population in the United States, 2010 to 2050*



HEALTH

The Planning and Community Health Research Center advances plans and policies for improving the built environment to promote public health.

Planning and Community Health Research Center



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Anna Ricklin

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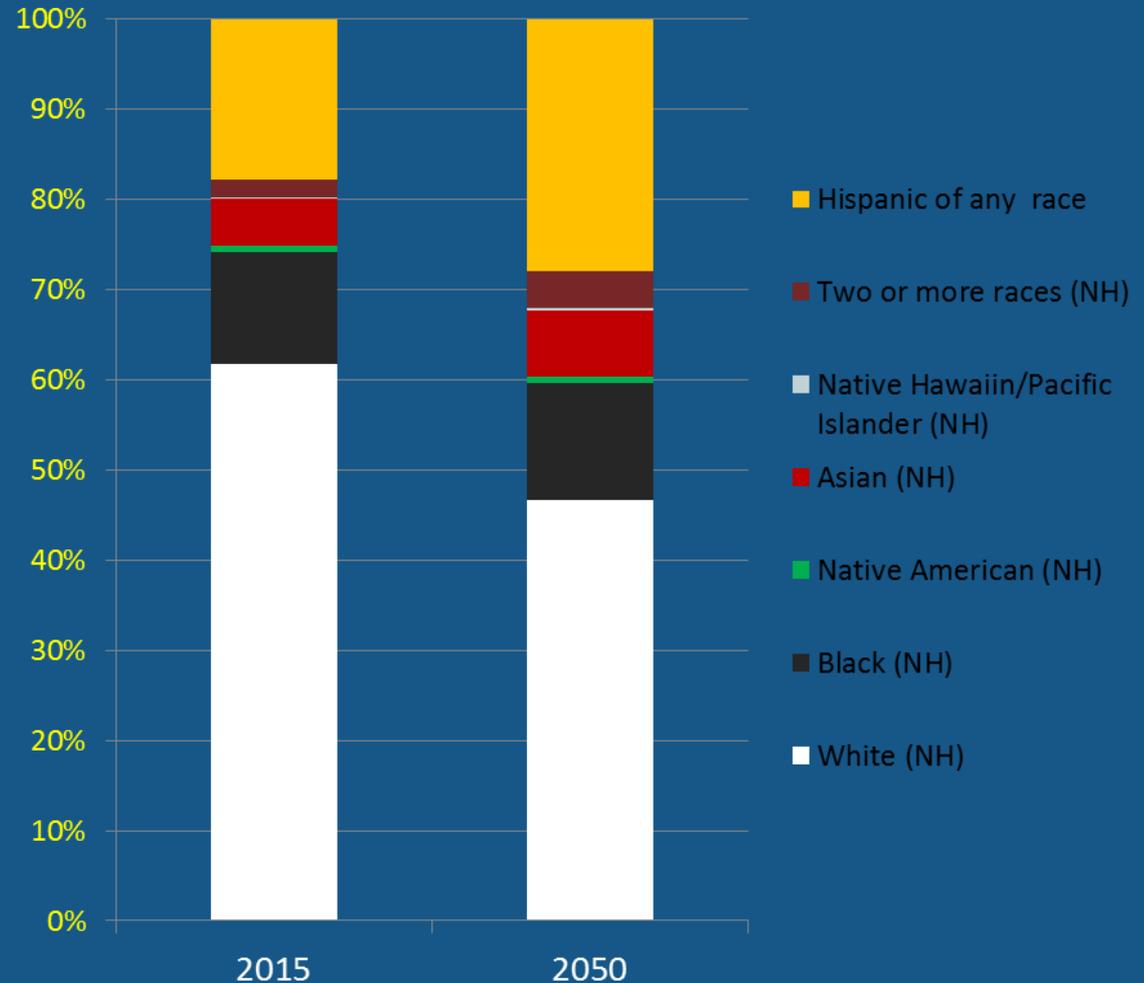
A American Institute of Certified Planners



Building Healthy Environments and a Healthy Population



Changing Face, Changing Place



2015
 Millennials – 92m
 Gen X – 61m
 BB – 77m



“The problem is we’ve got to plan for people who haven’t been born yet, with the support of people who will be dead.”

The Next Five Years –

US Pop 335m / World Pop 7.8b

Planning as
a partisan
issue?

Education &
income
inequality
between
regions

The politics
of what to
do?

Off-shoring
production &
pollution -
public health
issue

China, India
and regulating
air-quality
soon, before
it's too late –
& the US?

Where will
millennials live
when they
have families?

Will technology
enable or
disrupt
meaningful civil
discourse?

Education &
income
inequality
within regions

Divisiveness -
the impacts of
exclusion

The Next Five Years –

US Pop 335m / World Pop 7.8b

Effective response in the immediacy of a crisis or natural disaster (refugee/immigration, superstorms)

Water, water, water

Immigration and refugees – from war, strife, poverty, lack of water

Impacts of global security on cities

Highway capping in cities (125 projects underway now), infrastructure repair + placemaking

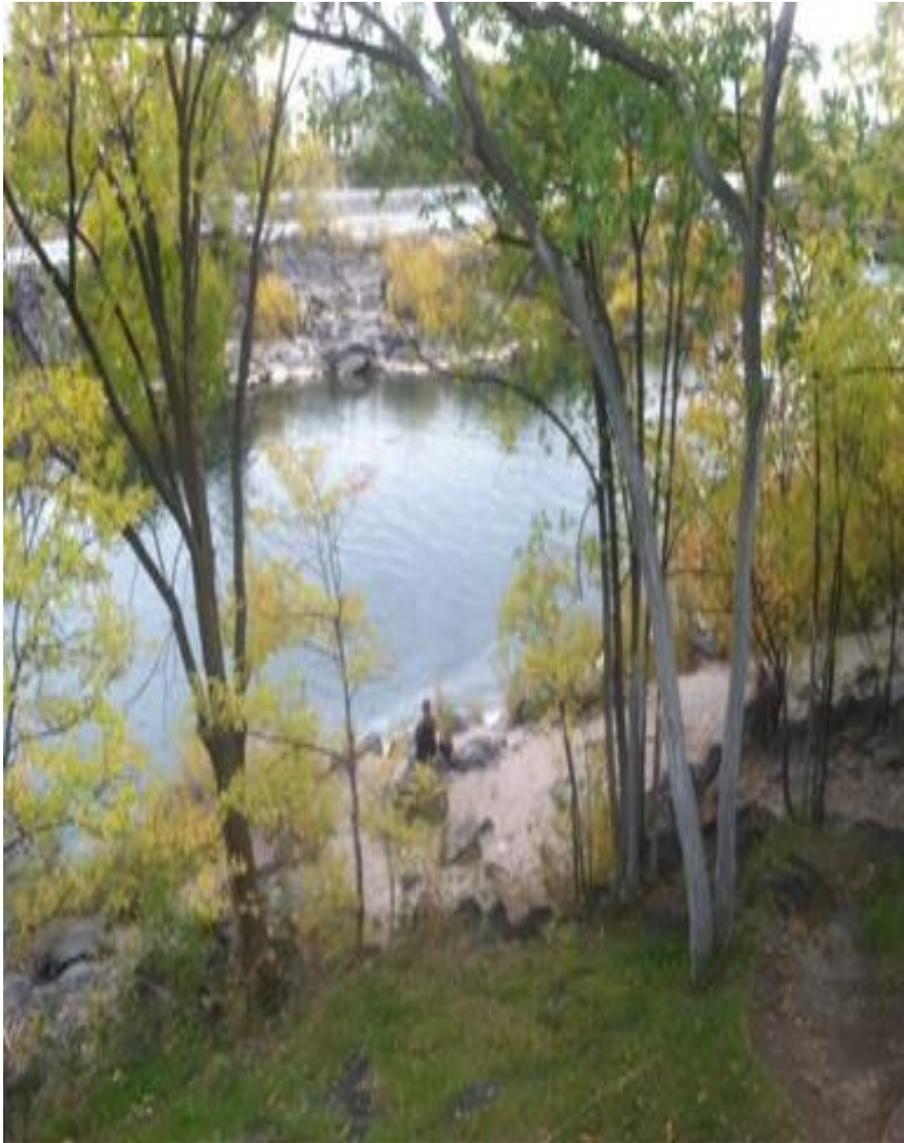
Municipal finance crisis - pensions vs. services - less room for planning

Rebuilding from disasters

Technology, civility, and meaningful public discourse, or not

Sharing economy and the built environment

"The infusion of place-making into infrastructure is a gigantic ball of transformation that's rolling, at different speeds in different places."



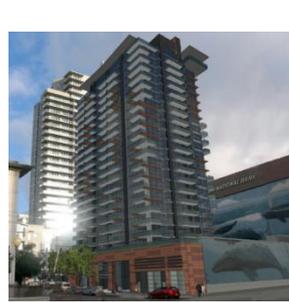
“Transportation is becoming a service, not a product.”

Plan for Market Choices

Mobility

Housing

Community



The Next 20 Years

US Pop 370m / World Pop 8.8b

Shift from
ownership to
usership in
transportation

Is the public
transit industry
nimble enough
to adapt?

Impacts from
changing
technology on
the workplace

Drones & 3D
Planning

Global
migration of
population

Cities will be
where the
wealth is
concentrated

Technology -
thinning the
middle strata
of the labor
force

Bifurcation of
housing
market

The Next 20 Years

US Pop 370m / World Pop 8.8b

Demand for multiple benefits from public investment

More eco communities

Autonomous vehicles and their effect on spatial planning

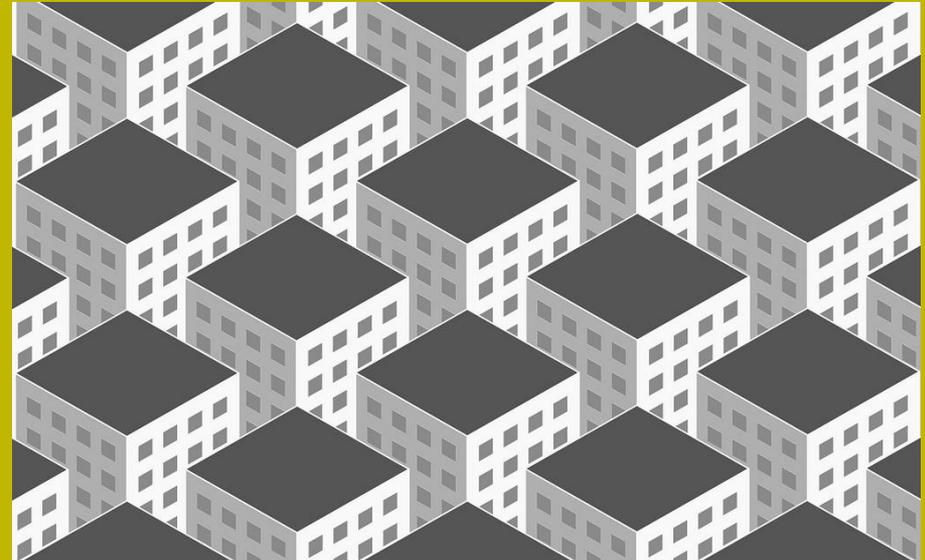
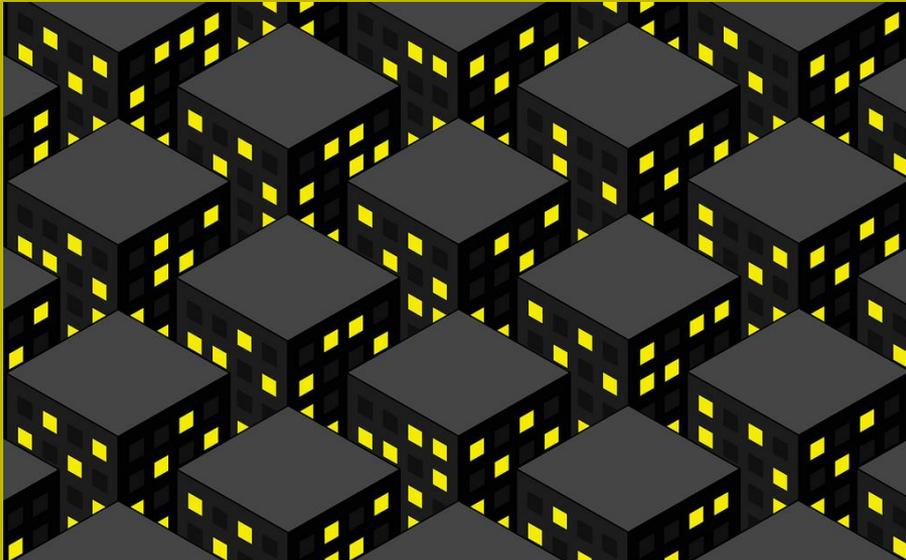
Big Data feedback on energy consumption

The regeneration of the GI Bill Communities

90% of growth in the Global South - major migration to cities

Climate change and geopolitical shifts

“If we’re constantly competing for a limited amount of resources, and it’s a global competition, then we’re going to be doing more with less.”



The Next 20 Years

US Pop 370m / World Pop 8.8b

Wealth will move toward risk (shore/beaches, and open space)

Globally, some cities will grow rapidly;

While other cities will slowly empty out - Russia, Korea, Japan

Successes' externalities

Mass Transit redefined - working with sharing mobility & technology

In cities, more mobility choices; purchasing power specialized

Worsening inequality

The Next 20 Years

US Pop 370m / World Pop 8.8b

Monopolies,
oligopolies
won't survive
the sharing
economy...

...maybe
even local
government
and transit

Evolution from
the Ownership
Society to the
Renter and
Sharing society

Technology
and smart
pricing

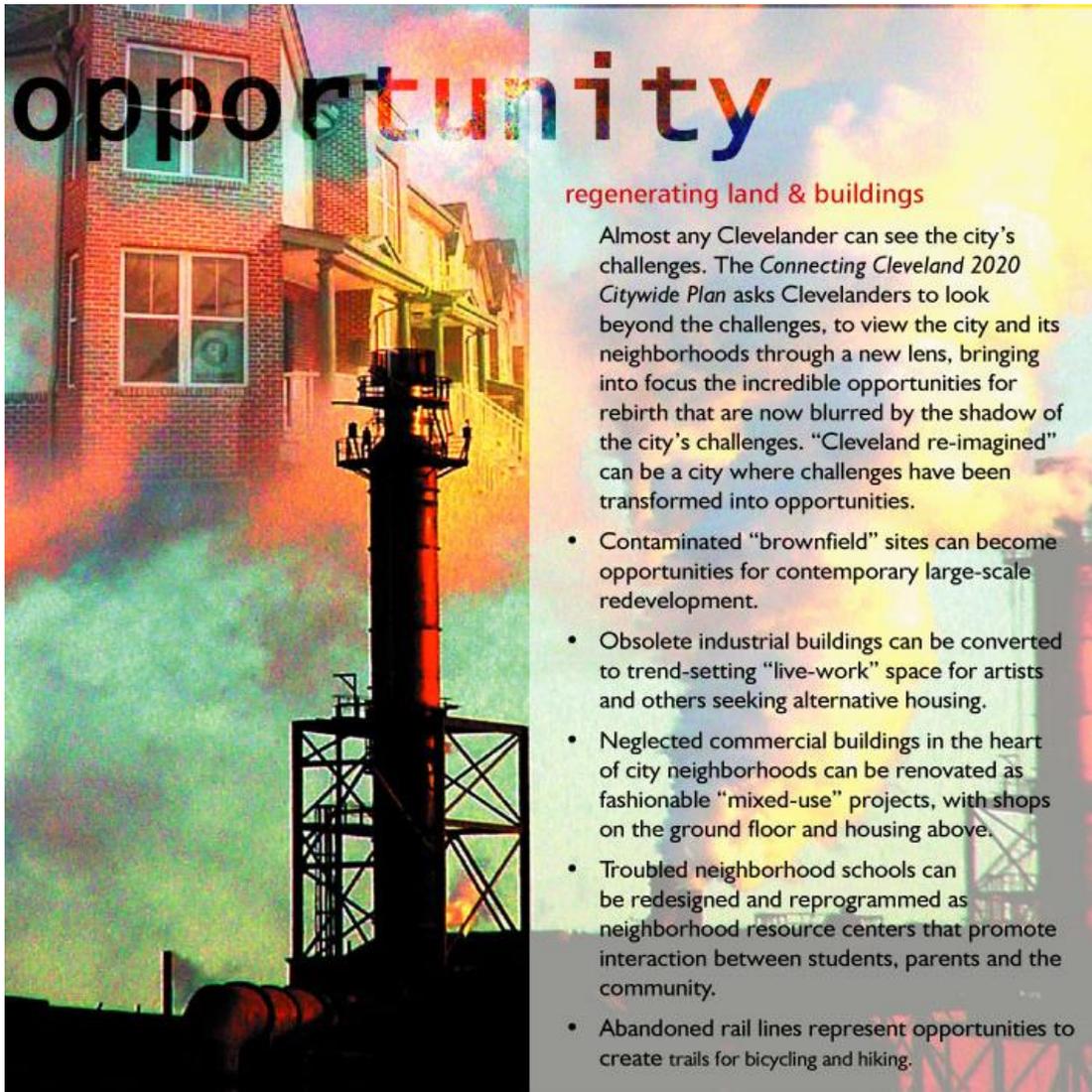
E-commerce's
impact on
commercial
development

Food Security
and the geo-
politics of
water

The impacts
of rising sea
levels will
become real

“The planning profession grew up in a long era of growth. We are not built for decline; for some cities, will it stop?”

Regenerating Cities



opportunity

regenerating land & buildings

Almost any Clevelander can see the city's challenges. The *Connecting Cleveland 2020 Citywide Plan* asks Clevelanders to look beyond the challenges, to view the city and its neighborhoods through a new lens, bringing into focus the incredible opportunities for rebirth that are now blurred by the shadow of the city's challenges. "Cleveland re-imagined" can be a city where challenges have been transformed into opportunities.

- Contaminated "brownfield" sites can become opportunities for contemporary large-scale redevelopment.
- Obsolete industrial buildings can be converted to trend-setting "live-work" space for artists and others seeking alternative housing.
- Neglected commercial buildings in the heart of city neighborhoods can be renovated as fashionable "mixed-use" projects, with shops on the ground floor and housing above.
- Troubled neighborhood schools can be redesigned and reprogrammed as neighborhood resource centers that promote interaction between students, parents and the community.
- Abandoned rail lines represent opportunities to create trails for bicycling and hiking.



Connecting Cleveland
2020 Citywide Plan

<http://planning.city.cleveland.oh.us/cwp/Economic>

As a shrinking city, Cleveland had to re-imagine itself as a city based on a new form of sustainability.

“Will Millennials in
their 60s be like
me?”

The Next 50 Years

US Pop 441m / World Pop 10.4b

Genomics
influencing
community
choices &
design

Impact on
open space,
human
health, and
psychology

Will
technology
make cities
unnecessary?

The
redesigned
street &
streetscape

On-call,
hydrogen
autonomous
vehicles



The Next 50 Years

US Pop 441m / World Pop 10.4b

Re-emerged
Detroit, Toledo,
and Cleveland

Mosaic
cities rather
than
integrated,
pluralistic
cities

Shrinking
cities in Asia

More and
more poly-
centric cities

Big
infrastructure -
Maglev, flood
gates, water
storage,
aerotropolis

Ghost beach
towns

Africa - the
Asia of the
future

Equatorial
regions hotter,
northern
regions more
temperate -
people will
move back

The Next 50 Years

US Pop 441m / World Pop 10.4b

Wealth and power distributed more broadly
- China and India

The 21st Century is about differentiation - will housing and communities reflect that?

4D printing of custom manufactured housing

More individualized society & space

Digital Age of consumption may replace the Material Age of consumption

Land bridges to move autonomous trucks - like bike bridges

Cooperative housing and support for aging population

The Next 100 Years

The First
Planned
Community &
Zoning Code
on Mars



Source: www.universetoday.com

And What About Zoning?

Three Unfortunate Truths

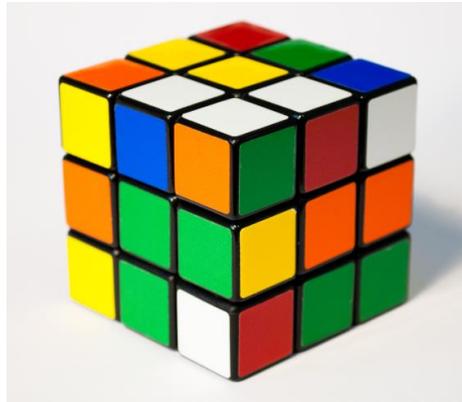
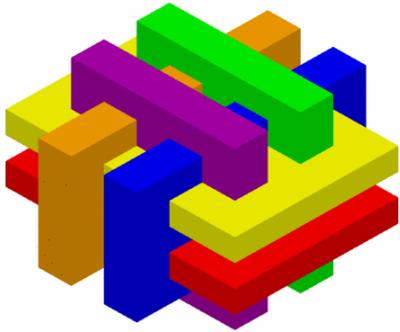
1. It's DNA is Exclusionary

2. It Tends to Get More Rigid Over Time



And What About Zoning?

Three Unfortunate Truths

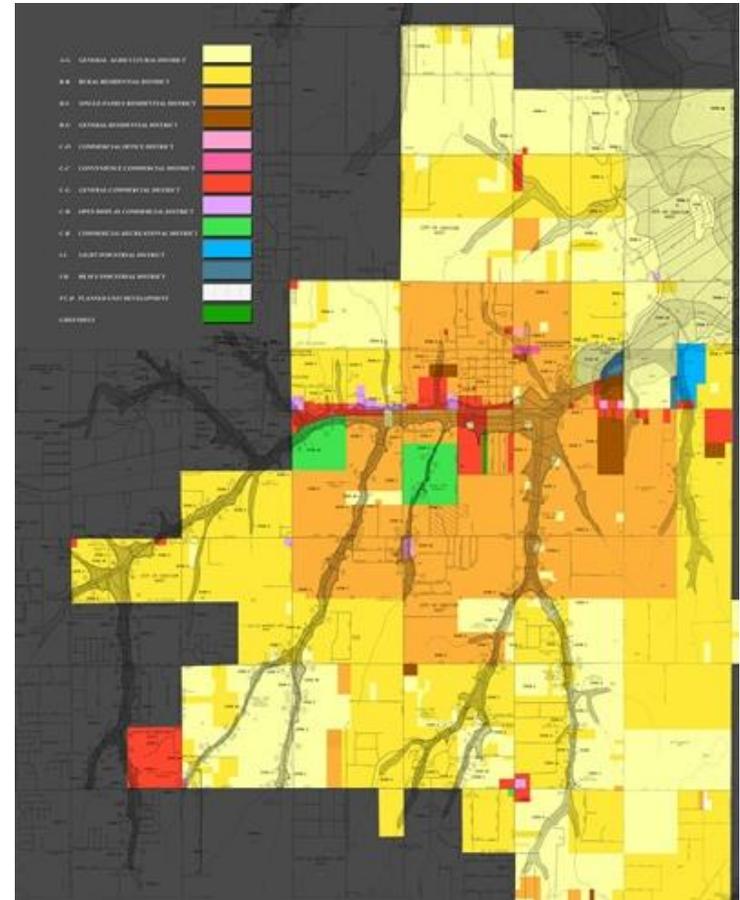


3. It Tends to Get More Complicated Over Time

And What About Zoning?

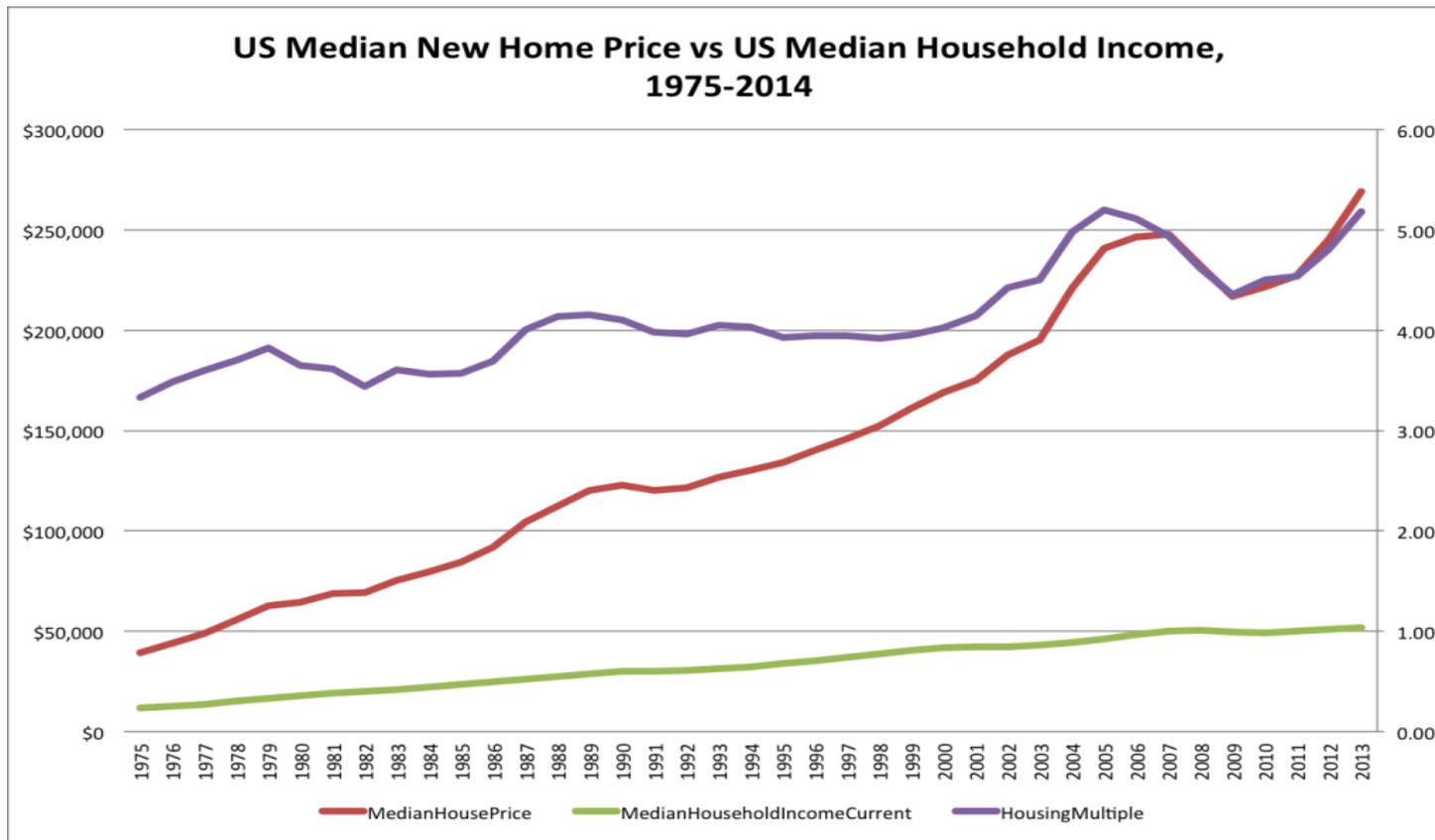
These Truths Affect Use-Based Codes

LAND USES BY ZONING DISTRICTS		DISTRICTS					
Land Use		MS-1	MS-2	MS-3	DT-1	DT-2	DT-3
		Dwelling, Single-Family	C	P	C		C
Dwelling, Multi-Family	P	P	P	P	P	P	
Cultural Uses	P	P	P	P	P	P	
Eating Places	P	P	P	P	P	P	
Institutional	P	P		P	P		
Offices	P	P	C	P	P		
Recreation / Entertainment	P		P	P	P	P	
Retail and Services	P	P	P	P	P	P	



And What About Zoning?

Housing Affordability Challenges are Structural

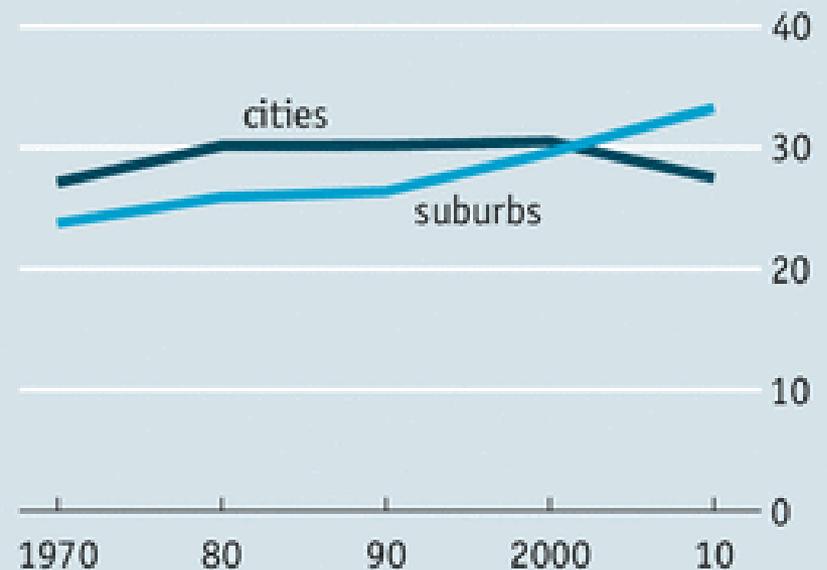


And What About Zoning?

Suburbanization of Poverty (the Not-so-Great Flip)

Of picket fences and poverty

Percentage of America's poor* living in:



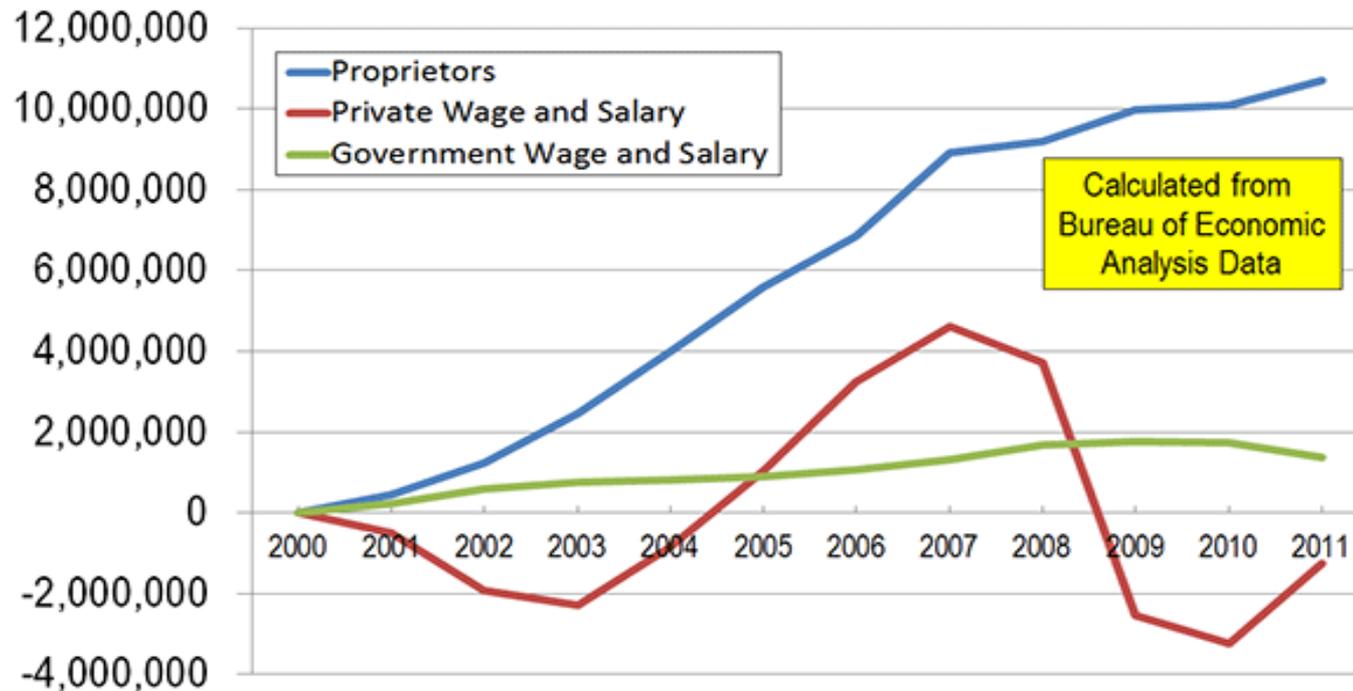
Source: Brookings
Institution

*People living below the
federal poverty threshold

And What About Zoning?

More People Self-Employed

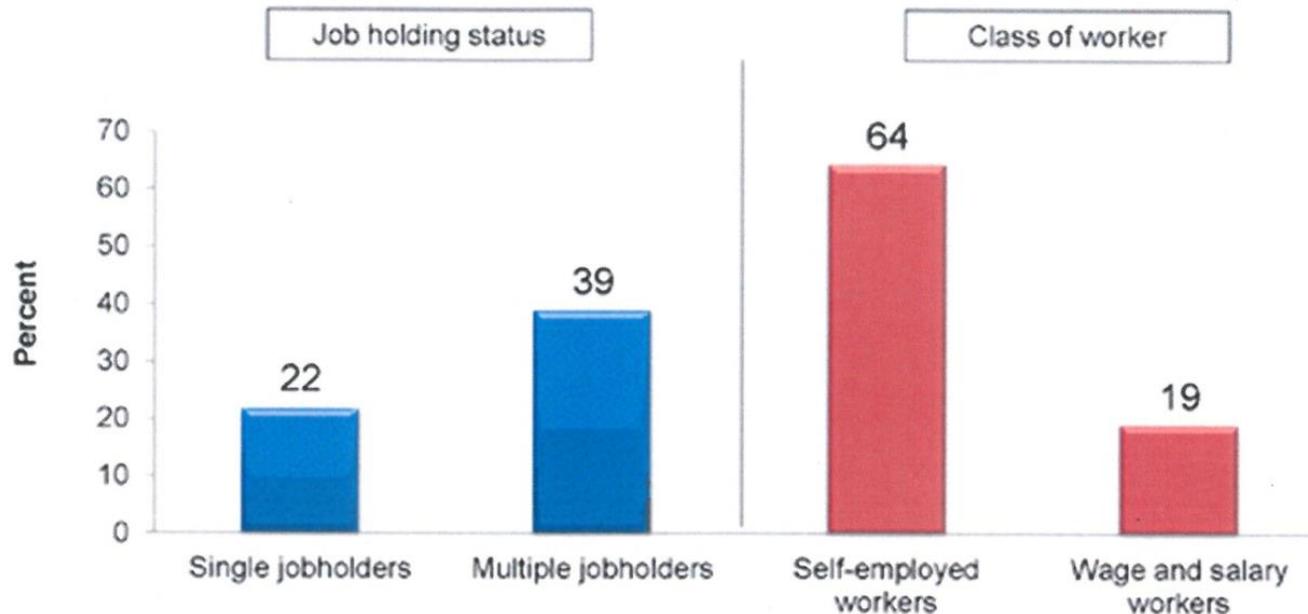
US Employment Growth: 2000-2011 SELF EMPLOYED, PRIVATE & GOVERNMENT



And What About Zoning?

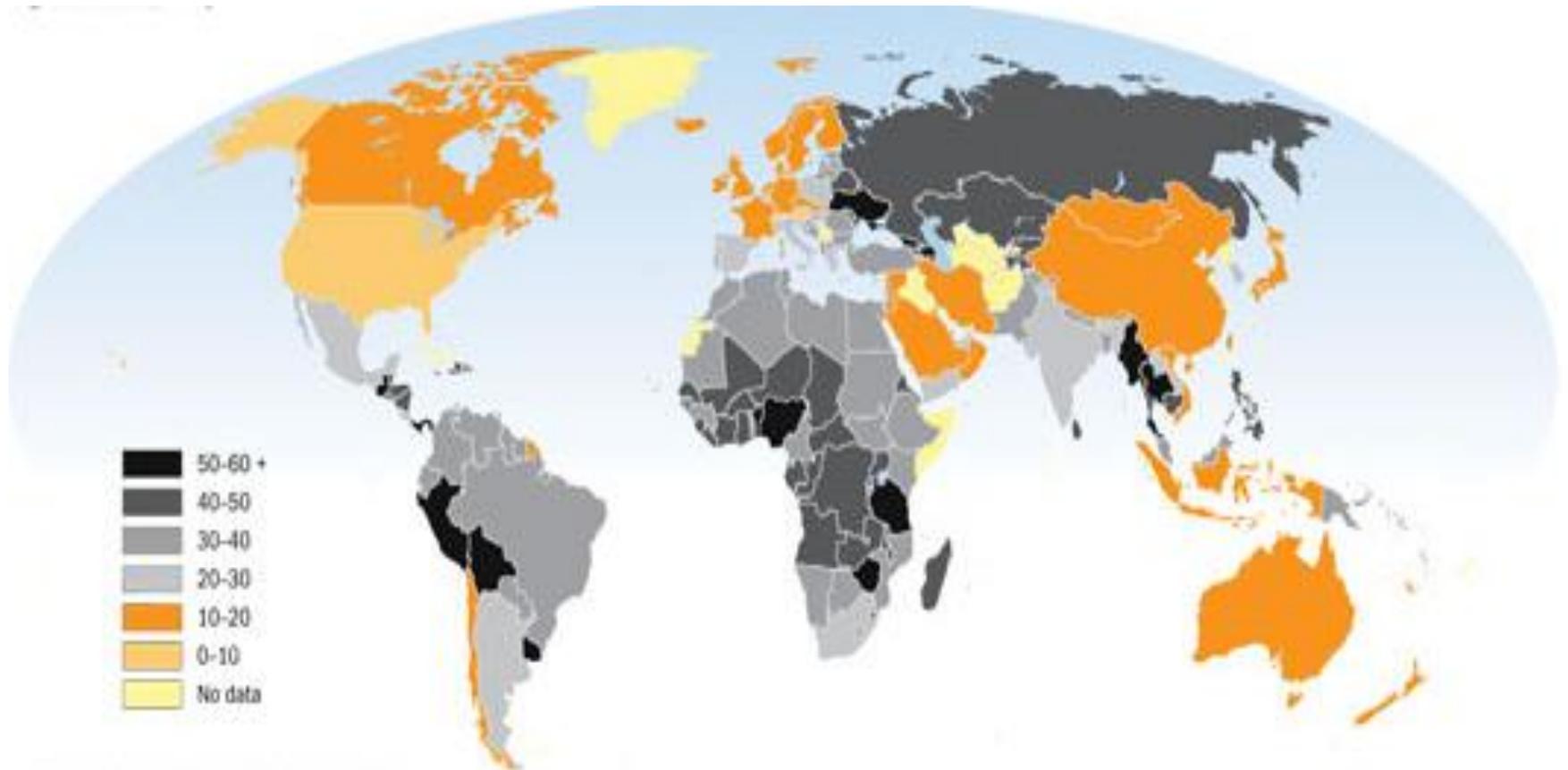
More People Working From Home

Percent of employed persons who worked at home on an average workday



And What About Zoning?

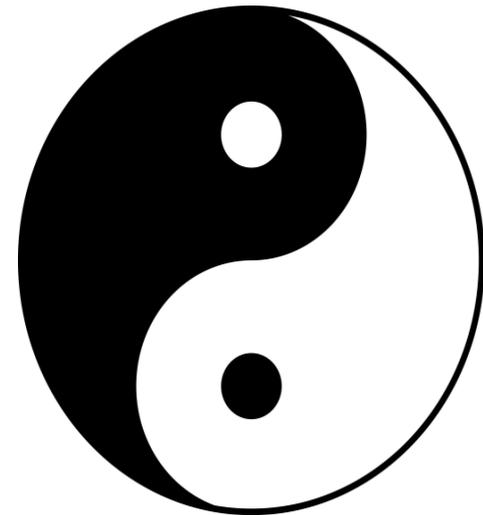
A Huge and Growing Informal Sector



And What About Zoning?

1. The age-old tension between Predictability and Flexibility will continue.

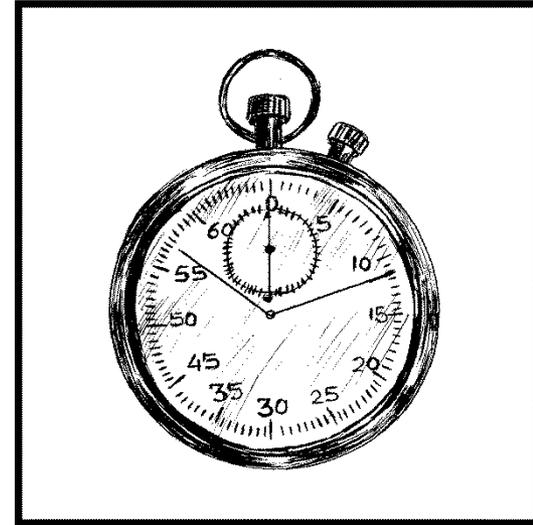
- Residential neighborhoods will continue to demand predictability
- Mixed-use and other areas will continue to need more flexibility
- And the rapid pace of economic change will push us to innovate in new forms of “predictable flexibility” – flexibility within clear boundaries.



And What About Zoning?

2. Flexibility will need to be achieved with much greater efficiency.

- We will stop using PUDs that need to be endlessly amended because they are too strict (or too flexible).
- Sunsetting PUDs that convert into more predictable base zoning?
- More staff authority to approve projects that do not meet standards – within a defined range of changes?



And What About Zoning?

3. Hybrid codes with both use and building form controls will be the norm.

- Because even form-based codes really do contain significant use regulations
- And most use-based codes already contain much more detailed building form controls than they used to
- And citizens care about both of them
- It's just a matter of finding the right balance for different parts of the community.



And What About Zoning?

4. We'll get much more flexible about housing.

- Allowing smaller housing units (micro-units, cottages, co-housing)
- Allowing multi-household occupancy of big suburban houses that were originally built for one household
 - For lower income
 - For multiple generations
- Loosening up on home occupations – because a growing part of the population needs to work from home



And What About Zoning?

5. We'll allow mixed uses more often – and get smarter about it.

- Because it allows shorter commutes and reduces emissions
- Because more people will need to work from home with more impacts than a home occupation
- Because it evens out peak traffic burdens
- Specific controls will probably become more performance based (i.e. noise, deliveries, hours of operation)



And What About Zoning?

6. We'll adjust parking and design standards to reflect autonomous vehicles and drone deliveries.

- They're coming – much faster than you think
- Some impacts depend on whether autonomous vehicles are privately owned or managed as services
 - If privately owned – promotes sprawl
 - If operated as a service, might not promote sprawl
 - Maybe less parking, more staging



And What About Zoning ?

7. We'll allow a wide variety of services and facilities for the elderly – close to where they live.

- Food delivery services
- Physical therapy / nursing services
- Drug delivery services
- Home repair services
- Many of which could be delivered by autonomous cars or drones, but they will still need fulfillment / staging areas



And What About Zoning?

8. We'll create or accommodate many new types of "third places".

- Housing affordability pressure means smaller units,
- Which means less time at home, (and some of that time will be work time)
- Which means we'll need more types of places to get out of the home for other social / physical activities.
- It also means more self-storage units
 - so you better make them good



And What About Zoning?

9. We'll lighten up on non-conformities

- Theory was based on the need to “fit in”– but all the trends are allowing or encouraging more things to fit into each type of neighborhood
- It's already there – leave it alone
- And reuse of existing buildings is more “sustainable” in terms of embedded energy and labor
- Only put pressure on the dangerous ones



And What About Zoning?

10. Zoning will become more automated, prescriptive, inclusive, and “European”.

- Global pressures to be efficient and adjust quickly will require more standards and less negotiation
- After a century of being mostly exclusionary zoning will become more inclusionary -- mostly for economic rather reasons
- We have models for how rational people react to resource constraints and global economic pressures – they’re in Northern Europe



Questions and Discussion

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