

# 2022 REAL ESTATE OUTLOOK

The Global 51 Investor Forum

June 23, 2022

With you today



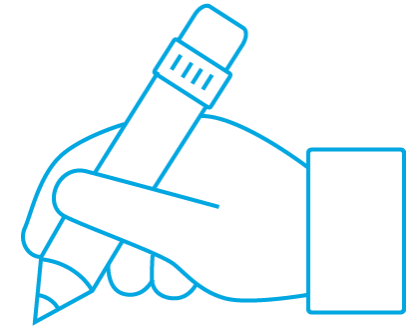
**Lauren Gerdes, CPA**  
Senior Manager, Assurance Services  
Real Estate Senior Analyst



**Gene Garcia**  
Senior Manager, Private Client Services  
Real Estate Senior Analyst

# Agenda

- U.S. Economy
- Real Estate Outlook
- Tax Insights
- Investment Trends in Family Office
- Q&A



# US ECONOMY

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## U.S. growth picture

- Growth slowing back towards long term trend of 1.8% following a period of overheating
- Robust hiring and capital expenditures
- Inflation and rising interest rates as Fed attempts to restore price stability
- Policy normalization at central bank to quicken and include balance sheet runoff
- Recession probability at 50% on back of Fed rate hikes & geopolitical tensions



## Interest rate outlook

- Policy rate recently raised 75 basis points, expect 50 basis points in July and September, followed by 25 basis points at subsequent meetings
- Pandemic era policies over. Policy rate moves into restrictive terrain by end of the year
- Draw down of balance sheet



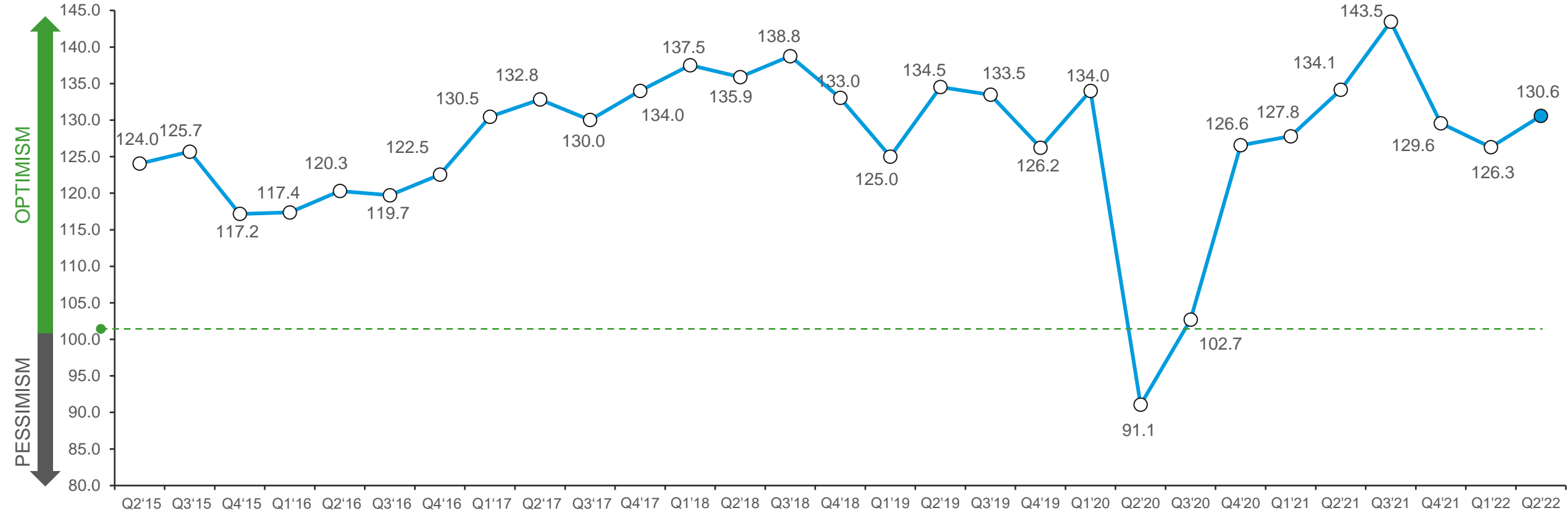
## Inflation and risks to the economic outlook

- Supply chain constraints will last into 2023
- Inflation once highly concentrated in energy, transportation and lodging, now spreading out
- Wage pressures at lower end of income ladder
- Watch cost of shelter and owners equivalent rent for longer term inflation problems

# The RSM US Middle Market Business Index

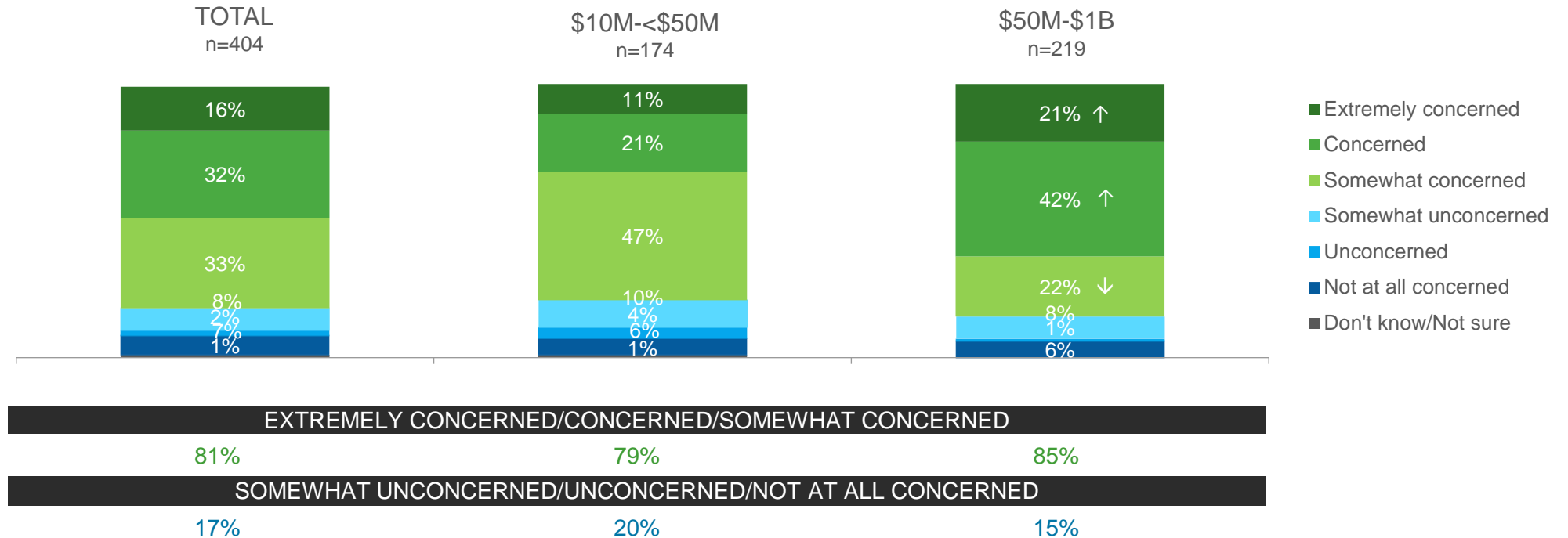


MIDDLE MARKET BUSINESS INDEX  
(Seasonally Adjusted)



# Concern about the impact of war in Ukraine on business

## CONCERN ABOUT THE IMPACT OF WAR IN UKRAINE ON BUSINESS (BASE = total sample)



M22 How concerned are you, if at all, about the impact of war in Ukraine on your business?

ARROWS = Significantly higher/lower than \$10M-<\$50M at .05 level of significance

# Areas of concern given the impact of the war in Ukraine on business

## AREAS OF CONCERN GIVEN THE IMPACT OF THE WAR IN UKRAINE ON BUSINESS

(BASE = concerned about the impact of war in Ukraine on business– multiple responses were allowed)

	Total (n=329)	\$10M-<\$50M (n=137)	\$50M-\$1B (n=186)
	%	%	%
Inflation	59	91	34↓
Price of oil and natural gas	55	78	36↓
Supply chain disruptions	55	69	44↓
Cybersecurity	55	65	46↓
Navigating sanctions	20	22	19
Tax considerations related to operations in Russia or Ukraine	19	19	20
Financial reporting considerations related to operations in Russia or Ukraine	18	15	21
Operations in Ukraine	15	14	15
Operations in Russia	14	15	13
Employees in Ukraine	14	10	17
Employees in Russia	10	9	10
Other	1	1	1
None of the above	8	0	14↑

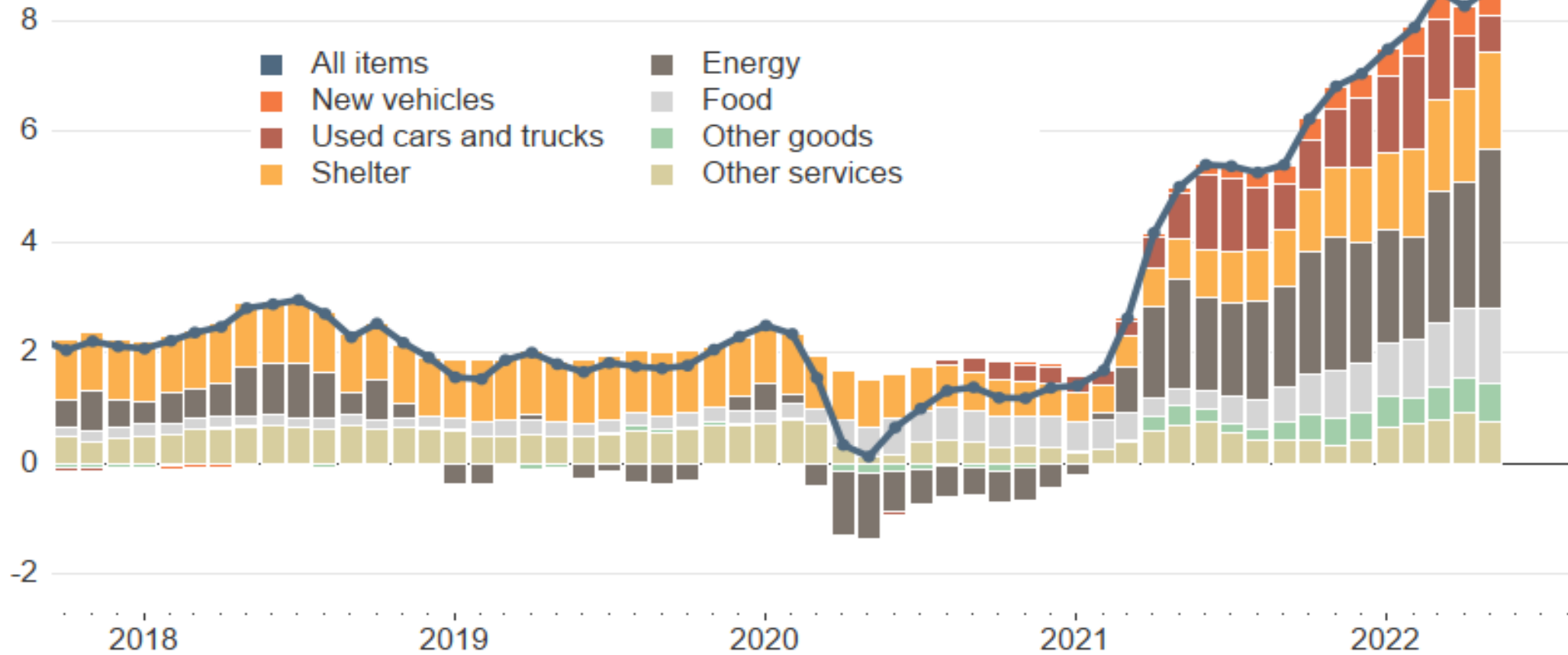
**M22** How concerned are you, if at all, about the impact of war in Ukraine on your business?

**M23** In which of the following areas are you concerned about the impact of the war in Ukraine on your business? *Please select all that apply.*



# Inflation: Year-over-year CPI changes

With main component percentage contribution; seasonally adjusted



Source: BLS, RSM US



# REAL ESTATE OUTLOOK

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# Real estate outlook



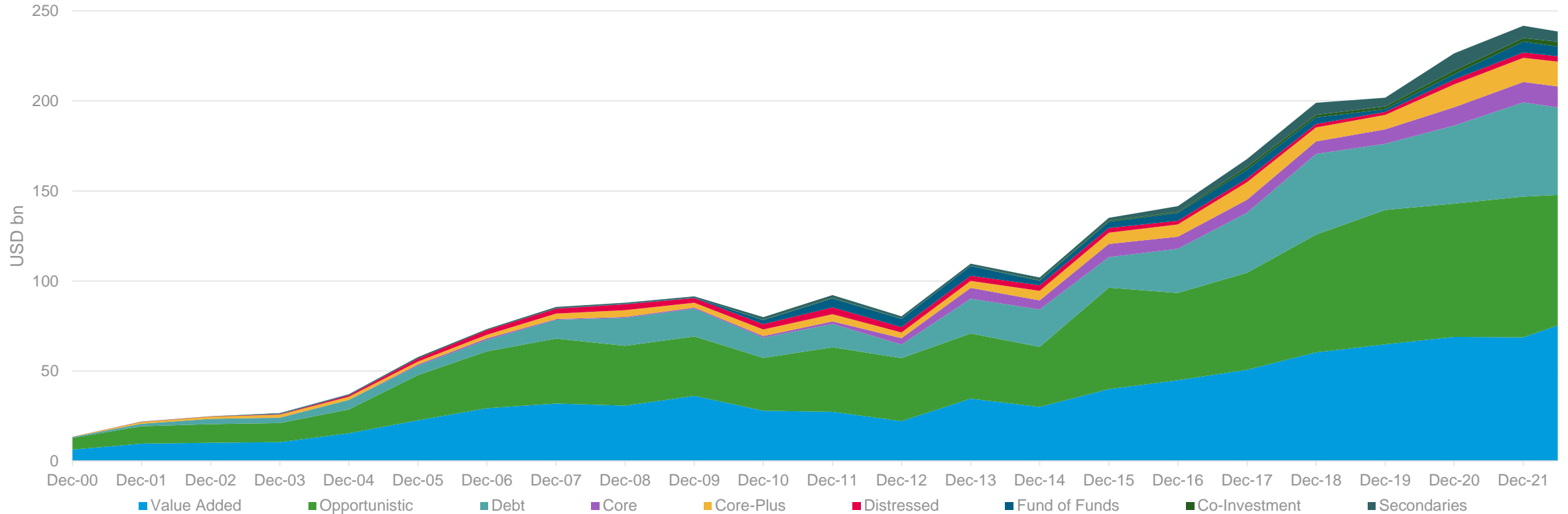
## 2022/2023 Themes

- Fund managers looking to deploy capital, with dry powder at record levels
- Transaction activity moderating as a result of higher interest rates
- Property values rising as cap rates fall
- Multi-family and industrial space continuing to lead the way

Source: RSM US LLP

# Money burning a hole in managers' pockets

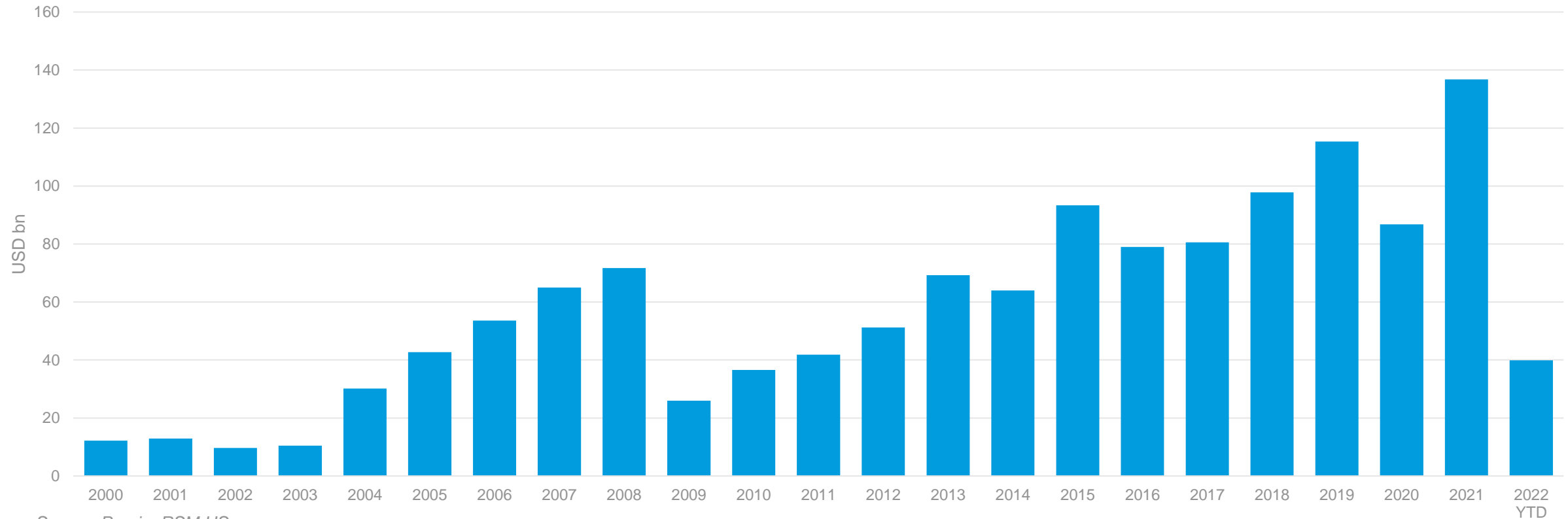
Real estate dry powder at record levels



Source: Preqin, RSM US

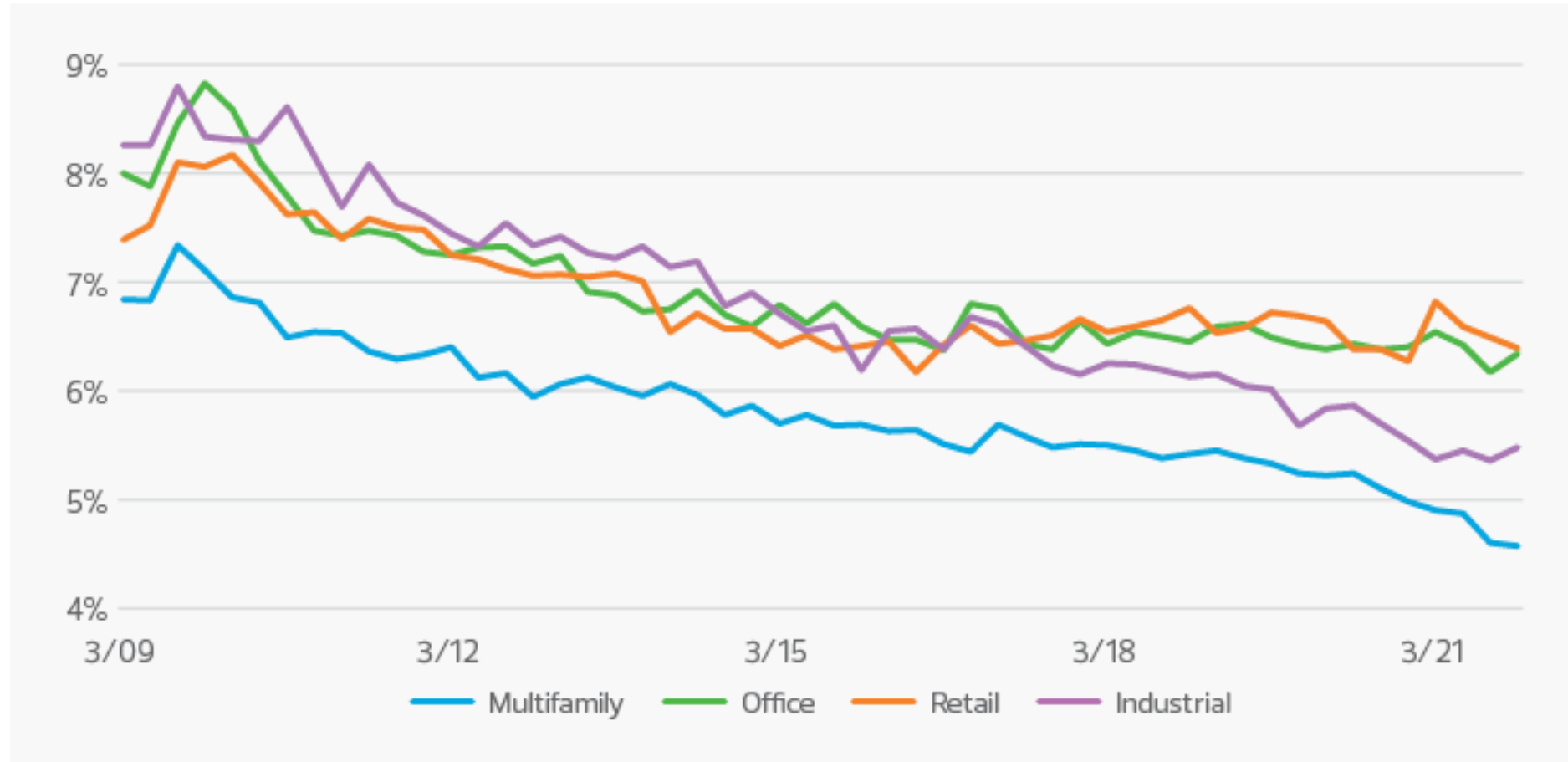
# Real estate fundraising market

Aggregate capital raised



Source: Preqin, RSM US

# Property values continue to rise as cap rates fall



Source: Bloomberg; Real Capital Analytics

# REAL ESTATE TAX INSIGHTS

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## Federal Tax

- Depreciation
  - Bonus depreciation 100% in 2022
  - Phase-out starting 2023 to 2027 (20% decrease every year)
- 199a deduction where it applies
- Energy Tax Deduction/Credits (179D permanent (commercial and residential over 4 stories)
  - 45L expired but may get extended soon
- 30-year ADS for Residential Rental Property
- Opportunity Zones still offers opportunities for tax deferral to 2026

## State Taxes

- State income tax limitation workarounds
  - Pass-through entity taxes (PTETs)
  - Structure is critical in state planning opportunities
  - SALT cap expires after 2025 with no action



## Gain deferral methods

- 1031 Exchange
  - Remains deferral of choice for family offices
- Delaware Statutory Trust
  - Offers flexibility when difficulty finding replacement property in a 1031
- 721 Exchange
  - Defer capital gains into a REIT without gain recognition and enhanced liquidity
- Opportunity Zones
  - Defer gain to 2026
- Installment Sales
  - Revenue management opportunity and flexibility over time

### The Opportunity Zones Transparency, Extension, and Improvement Act

- If enacted later this year, first substantial update to the Opportunity Zone statute since it was enacted in 2017
- Allow states further flexibility to add new OZ designations
- Term "Qualified Opportunity Fund" updated for more opportunities for smaller OZ investments and feeder fund options
- Reinstate and expand reporting requirements for more transparency
- Extend deferral of capital gain to 2028
- Increases penalties on non-compliance

# INVESTMENT TRENDS IN FAMILY OFFICE

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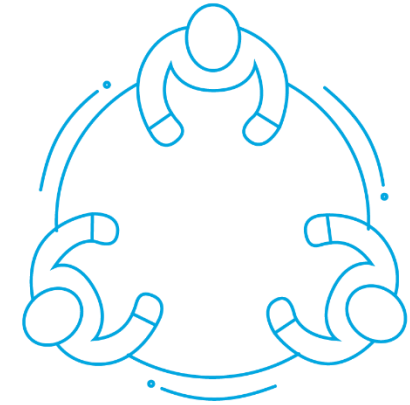
## Direct investments

- Structure of choice – Increase return on investment
  - Co GP – Share on upside and downside more risk/ Share in Promote and Developer Fees
  - Joint Venture – Equity Partner with substantial influence
- Due Diligence of DI – High entry cost to vet a deal
  - Usually needs an expert in the industry to understand the economics and viability of the deal
  - Legal counsel expertise to review organizational documents and understand deal risk
- Control of decisions
  - Cash flow – Capital calls and distribution timing
  - Timing of exit – Fund exit strategies may not meet family goals
  - Management – Property level and through developmental period
  - Structure – Flexibility for PTET and Estate Planning efficiencies
  - Tax – Revenue management/credit considerations
  - Transparency – Access to financial data

## Investment trends in real estate (cont.)

### Indirect investments through funds

- Families use funds to diversify their real estate portfolio
  - Sector/strategy
  - Risk profile
  - U.S. region
  - Global opportunities
- Benefits families find investing through funds
  - Multiple assets as opposed to a single asset investment
  - Opportunity to review the fund portfolio before entry
  - Enhance domain expertise through investments
  - Build relationships to graduate to side car investments/direct investment opportunities
  - Decreased due diligence and access costs
  - Low internal infrastructure needed to support investment in funds



THANK YOU FOR  
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+1 800 274 3978

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