**Talal Juraythi**

**An Analysis of the Real Estate Industry**

**(NAICS 531)**

**1. Industry Overview**

The Real Estate industry is primarily concerned with the sale, management and acquisition of real estate properties for others, as well as the provision of various real estate-related services (Bureau of Labor Statistics, 2015). In order to investigate the Real Estate industry in sufficient depth, it is important to take into consideration a number of factors that influence its dynamics, such as residential housing statistics, employment data and economic indicators – as this industry is known to be highly vulnerable to financial crises and economic recessions.

Following the 2008 Global Crisis, which is said to have been triggered by the burst of a housing bubble between 2005 and 2006, the U.S. real estate industry has been under scrutiny. In spite of that, as of 2014, over 160.000 firms operated in the residential management and brokerage sector, whose overall profits amounted to $170 billion (Franchise Help, 2015). Moreover, statistics indicate that in the United States there are nearly 120 million occupied housing units, over 65% of families own their primary property, around two million licensed realtors are currently active, and nearly five million existing properties and almost 440 thousand newly-built properties were purchased by consumers in 2014 (National Association of Realtors, 2015).

Overall, the real estate industry is very cyclical and its trends are affected by fluctuating interest rates, among other things. For example, in the early 2000’s, the U.S. real estate market grew significantly as a result of low interest rates – even though the economy was not performing particularly well (Franchise Help, 2015). However, when the housing bubble burst, the whole sector went through a severe crisis from which it has not fully recovered yet (Franchise Help, 2015).

**2. Industry Developments**

As a result of growing disposable income and relatively low interest rates, the real estate industry has been growing rather steadily since 2011. Thanks to the affordability of both commercial and residential properties, sales have gone up and both brokers and real estate agents have been able to benefit from consumers’ willingness to take advantage of low prices and interest rates (IBIS World, 2015).

According to analysts, the real estate industry is heading towards a very positive phase, to the extent that in 2016, homes sales may reach their highest point since 2006 (DiChristopher, 2015). Specifically, Providence and Rhode Island are expected to become particularly promising and active markets within the next few months, and millennials – who are now in the position to purchase their first properties – are going to contribute to the full recovery of the real estate industry (DiChristopher, 2015). As far as existing homes are concerned, sales and prices will probably decrease slightly next year; on the other hand, analysts believe that new home sales will rise by 16% in 2016 (DiChristopher, 2015).

As reported by Pwc (2015), a number of emerging trends are going to shape the development of the U.S. and Canadian real estate industry in 2016. The so-called 18-hour cities are a secondary market that is expected to attract numerous investors thanks to its high yields, stable growth, excellent prospects and its ability to combine the benefits of large urban areas with lower costs (Pwc, 2015). With regards to property value, recent statistics show that in 2015, the value of apartments and CBD offices decreased slightly, whereas the value of industrial properties, retail properties and suburban offices increase to 13%, 13,5% and 16,8% respectively (Pwc, 2015).

As a result of growing employment rates, demand for offices grew quite significantly in 2015 and is expected to keep rising in 2016 not only in urban areas but also in the suburbs (Pwc, 2015). On a more qualitative level, data indicate that more emphasis is being placed on safety measures aimed at minimizing the negative effects of environmental phenomena and disasters on properties (Pwc, 2015).

**3. Consumer Market Data**

Demographic indicators have a profound impact on the real estate industry, as factors such as age, income, employment rates and preferences can help to predict how the market will evolve in the near future. The United States have a population of over 320 million, most of whom are aged between 25 and 54 (nearly 40%); the total median age is 37,8 years and the population growth rate amounts to ,78% (CIA, 2015). More than 15% of the nation’s population lives in poverty and 6, 2% are unemployed (CIA, 2015). As reported by the United States Census Bureau (2014), the median household income went from over $51,900 in 2013 to nearly $52,300 in 2014.

As reported by Statista (2015), the wealth of high worth people in the United States grew from $8, 4 trillion in 2008 to $11, 8 trillion in 2012. While most high worth individuals live in New York, recent reports have revealed that wealth is rapidly growing in cities whose technology and energy sectors are experiencing significant growth – e.g. San Francisco, San Jose, Dallas, Los Angeles, Washington, Detroit, Philadelphia, Houston etc. (Capgemini, 2014).

The 2008 Global Crisis has had a remarkably negative impact on the nation’s homeownership rate, which has recently dropped to 63, 4%, i.e. the lowest point since 1967 (Olick, 2015). However, as previously mentioned, growing employment rates combined with millennials’ propensity to get on the property ladder are bound to have a positive effect on the whole industry.

With regards to the commercial segment of the real estate industry, lending keeps growing, even though regulatory changes and uncertainty concerning interest rates may jeopardize future growth (Deloitte, 2015). On the other hand, more and more foreign investors are starting to see the United States as an excellent investment destination (Deloitte, 2015). As for financing, new financing options can help firms offer better terms to their clients whilst leveraging innovative funding options – e.g. green bonds (Deloitte, 2015).

**4. Competitor Information**

Technology is one of the most important factors that anyone who wishes to operate in the real estate industry should monitor and take into consideration. That is because more and more online portals are emerging which give users the opportunity to look for properties according to their specific criteria and access a vast amount of data regarding their location – e.g. crime rates, schools, amenities and so forth (Franchise Help, 2015). Moreover, forecasts indicate that technology and innovation are going to play a crucial role in shaping the future of the real estate industry, to the extent that more and more market players are quickly becoming aware of the importance of automation, customization, privacy and safety (Deloitte, 2015).

It has been estimated that over the next few years, the number of people operating in this industry will grow significantly, which will make the real estate sector much more competitive than it currently is (Franchise Help, 2015). Moreover, policy-makers have been gradually changing regulations in order to enable banks to operate more freely within the real estate industry, which may encourage financial institutions to become more active in this sector, thus threatening the status and profitability of both real estate agencies and brokers (Franchise Help, 2015).

As reported by the Federal Trade Commission (2015), real estate professionals are adapting to changing trading conditions by allowing potential buyers to access information about properties online, using online tools to match sellers and buyers, introducing new services in order to distinguish themselves from their rivals, and offering competitive fees.

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