The Coming Uber Revolution and REITs

By Paul Bubny | June 27

Newport Beach, CA – "Many assets may already be mispriced" because underwriting hasn't anticipated the future popularity of ride-handling and driverless cars, says Green Street Advisors. There will be winners and losers among property categories.

Self-driving vehicles could arrive on the market as early as 2020. (Photo courtesy of Google)

"The coming revolution in transportation will be a gamechanger in real estate," begins a new report from Green Street Advisors. The Newport Beach, CA-based advisory firm predicts that the future popularity of ridehailing services such as Uber and driverless cars will, to use another sports analogy, rewrite the playbook as it's now constructed.

For starters, if vehicle ownership declines over the next few decades, some 75 billion square feet of parking space eventually will become obsolete, including garages. That's more than the total square footage of US apartment, office, mall, strip centre and industrial real estate combined.

"Because the transportation revolution's impact on real estate doesn't show up in underwriting today, many assets may already be mispriced," according to Green Street. Best positioned to benefit from the revolution are CBD office and, especially, "high-quality infill malls with densification opportunities," the report states, citing General Growth Properties' Oakbrook Centre in the suburbs of Chicago as an example.

Conversely, the future looks considerably less rosy for self-storage, outdoor display, transit-oriented residential and "commoditized retail," and for the REITs that concentrate on these categories.

Although the halving of current parking capacity that Green Street anticipates is some 30 years in the future, the firm points out that in many ways, the future is closer than it seems. We're "in the early innings" of ride-hailing, but the report notes that more than 25% of 18- to 29-year-olds have used such a service, and likewise adults with household incomes of greater than $75,000. In San Francisco, which is "leading the way" in this regard, single-occupant vehicles' share of auto trips declined from 62% in 2009 to 50% in 2015; by 2019, their share is expected to drop to 40%.

As for driverless cars, although roadblocks ranging from mechanical to regulatory still need to be overcome, Green Street notes that technology companies and traditional automakers alike are investing heavily in this format. Many foresee 2030 as the year in which mass adoption begins, although the report cites a General Motors executive who now expects fully autonomous vehicles to be available in 2020, 15 years earlier than he had predicted just three years ago.

The report acknowledges that "a healthy dose of humility" is required in making long-term predictions, especially predictions around technology. It cites a study that AT&T commissioned from McKinsey & Co. in the early 1980s, predicting that worldwide cellphone subscriptions would reach only 900,000 by the turn of the century. In fact, there were more than 109 million cellphone subscribers in the US alone as of 2000.

That being said, the report notes that while "real estate market participants typically do a great job assessing cash flow prospects over at least the next seven years when valuing properties, "issues extending beyond that seven-year horizon generally are ignored, resulting in mispricing. It's too soon to say exactly how "the coming revolution in transportation" will unfold, but Green Street says this revolution is "inevitable and powerful," and as such warrants incorporation into the investment process.

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