Emerging Trends in Real Estate®

The global outlook for 2014

pwc

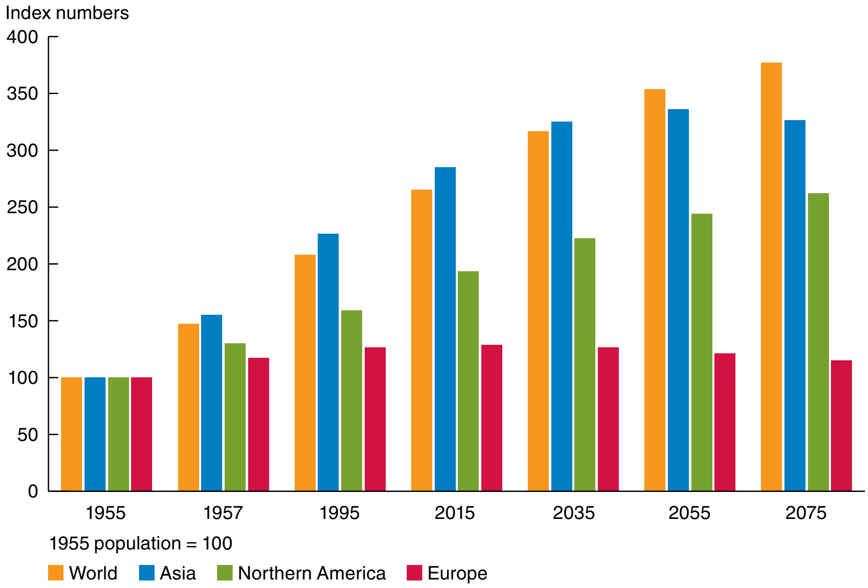
Urban Land Institute

Demographics at work

Institutional investors invariably claim to be in real estate for the long term, but how many look beyond the average length of a lease and pay heed to the demographic trends that will shape demand for decades to come?

That is an uncomfortable question for some investors who are only now recovering from the fallout from the global financial crisis and starting to generate decent returns from property. But a clear message in all three *Emerging Trends* reports is that investors ignore demographic trends at their peril.

Figure 11 **International trends in total population**



Source: United Nations

As Professor Dirk Brounen, Professor of Real Estate Economics at Tilburg University in the Netherlands, suggests in *Emerging Trends in Real Estate® Europe 2014*, many European markets have entered a new era in which success and returns are no longer yielded by "tapping into a growth trend".

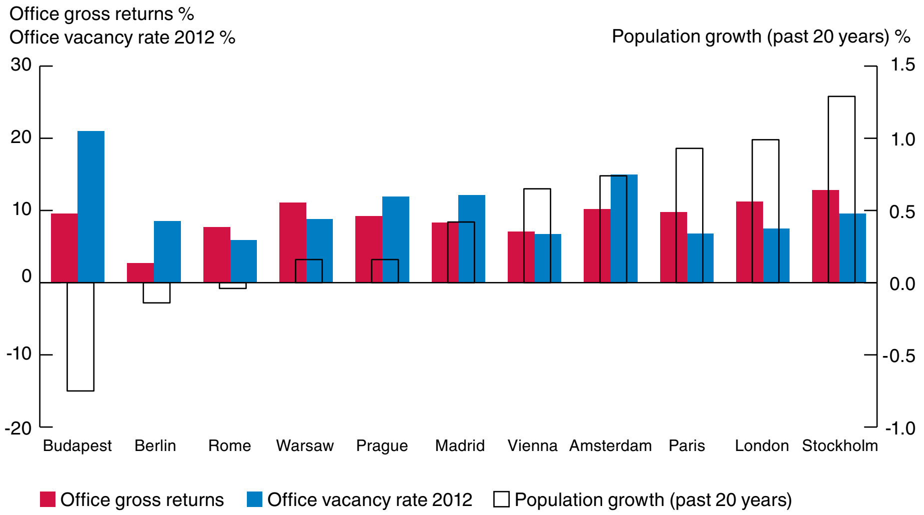
Professor Brounen writes: "Commercial real estate success is a careful outcome of adjusting supply to changes in demand. This sounds fairly simple, but the past few years have proven otherwise. More and more cities and investors suffer from the painful side-effects of what economists like to refer to as 'disequilibrium'."

In other words, there needs to be a far more considered analysis of supply and demand, which encouragingly is starting to happen in the US as Generation Y – those people born between 1979 and 1995 – starts to make its presence felt.

As the American *Emerging Trends* points out, Generation Y – also known as the Millennials – numbers some 72 million, which is approaching the size of the baby boom generation of 73 million. But Generation Y is growing through immigration and it also stands out as the most urban, multicultural and transient generation in America today.

The growth of Generation Y and its impact on all sectors of commercial real estate could be the singular most dominant trend for many years. This group lives, works and plays in different ways than previous generations. The Millennials will be more urban and less suburban; they won't want to drive as much but will want to be mobile.

Figure 12 **City populations and office markets**



Source: United Nations

As a result, all real estate property sectors are making changes. Office users are demanding less space per worker as they reconfigure for more collaboration. Retailers are looking for urban formats that will be able to serve city dwellers more efficiently. Industrial space is being designed and located where it can meet the needs of online retailers with ever faster delivery times. And multifamily space is adapting to provide less space per unit, but increased common areas.

It is worth noting that a city does not need to be in the top 10 in terms of growth to benefit from the impact of the Millennials. San Francisco, New York, Chicago, Washington DC and Atlanta are all projected to have average to below-average total population growth, but will see much stronger growth in the 20-to-34-year-old population.

Europe has reached its peak and is gradually transiting into a future where the annual outflow of elderly retiring from the labour force exceeds the number of youngsters that join in.

But while Asian and North American populations continue to grow, global property investors no doubt acknowledge that the issue for much of Europe is demographic ageing. As Professor Brounen puts it, "Europe has reached its peak and is gradually transiting into a future where the annual outflow of elderly retiring from the labour force exceeds the number of youngsters that join in."

Yet this demographic decline is not the same everywhere. In parts of Europe, such as Scandinavia and Turkey, populations will continue to grow. Professor Brounen acknowledges that the influence of these varying demographic trends over the performance of local real estate markets still needs testing.

He adds: "Perhaps real estate entrepreneurs will manage to incorporate these long-term trends adequately in their plans for new supply, ensuring that a decrease in demand does not result in oversupply."