

Gen Y – Practical Implications for the Real Estate Industry

| Highlights from ULI UK 2014 Seminar



Demographic changes are influencing real estate as never before and the growing dominance of Generation Y, in particular, will have a profound impact on all sectors.

That was the key message from a recent ULI UK seminar at the London office of Deloitte where leading industry figures debated the likely impact of Gen Y, which will account for around 75% of the world's workforce by 2025.

With only a decade to go before so many millennials make up the majority of the workforce – a widely acknowledged forecast based on a 2011 report by the BPW Foundation – the industry ignores the implications at its peril.

Anthony Duggan, Deloitte's Head of Real Estate Strategy, set the scene with some generally accepted characteristics of Gen Y employees: they are hyper-connected, better-informed and more socially aware than other demographic groups. They are also increasingly mobile.

All of which indicates a different take on the age-old issue of work-life balance by Gen Y, defined as people born between 1980 and 2000. "It doesn't mean people are working less hard but in a different, more flexible way that

impacts the whole of our urban environment," said Duggan.

If Gen Y is more influential in sheer numbers, he argued, there will be therefore a shift in the balance of power in the workplace. "There is a far more even playing field between the workforce and the employer than there was before."

In this respect the most obvious consequences will be felt in the office sector and yet Bill Hughes, Managing Director, Legal & General Property, admitted to being "pretty negative" about how the institutional investment world has responded to demographic change: "We have done a really bad job."

Hughes explained: "The speed of obsolescence is increasing and it becomes tougher to own real estate and make sense of it. I think we have to be more imaginative about it. To expect to have to refresh and modify buildings is a concept the design industry needs to be more conversant with."

But he added: "With offices it is not all about remote working and the death of the office. This is more about urbanisation. I think there is an

ongoing desire for Generation Y to want to be in placed where they are co-located with other people, where there is a buzz, where there is interactivity. Certainly, leading cities will have to have adaptable, modern office spaces where people want to be."

When it comes to serving Gen Y, this move towards urbanisation, allied to dramatic advances in technology, has changed the entire real estate game, not just offices. As Christopher Choo, Vice President of AECOM, suggested, "it's the experience that matters now, more than the commodity. You can see that across every asset class." Duggan, too, talked of the pressure on real estate to be more flexible. "It needs to give more experience-rich environments," he said.

Such a shift in objectives may lead to a radical review of the value of real estate, according to Choo. "Now we price on the basis of how much square feet of stock we have," he said, "but in the future, whether it's retail or office, we may be pricing on the basis of how many people use it, in the same way you charge for how many hits you have on the internet to download something."

As a developer, First Base is looking at the effect of the internet on retail and how consumers want to interact with brands at a physical level now. "We see that as pushing much more towards a brand experience where we are delivering the opportunities and spaces for brands to have that relationship with their consumers and to try and demonstrate why they are better," said Elliott Lipton, the Chief Executive. "Creating those opportunities for a brand is a different take on retail that must be looked at as part of an integrated world for the consumer."

The idea of retail property serving up more of a feel-good experience than merely selling goods has been floated for years but, according to Hughes, this sector as a whole has not upped its

game accordingly. As he put it, *"retail is obviously massively challenged by the internet and digitisation"* and in the UK, retail property is *"obsolescing very quickly: it is not so much over-developed as under-demolished. You need to put a few wrecking balls out there and knock a lot of it down,"* he said, *"or, more intelligently, convert retail to another use, which might be services or it might be residential."*

If anything, housing is arguably the sector that struggles the most to reconcile the needs and the aspirations of Gen Y. *"Housing has to respond to changes in the work-life balance,"* said Lipton. *"People will work from home and homes have to cope with that. There is a greater expectation on homes to deliver higher levels of sustainability as people become much more environmentally focused. And there is the issue of social equality."*

Vanessa Hale, Analyst at Strutt and Parker, referred to ULI research in the US, which showed an apparent disconnect between the aspirations of Gen Y – not least in the desire to own their own home – and financial reality: a massive collective student debt allied to potentially higher unemployment rates.

Indeed, Ben Page, Ipsos MORI's Chief Executive, presented research to delegates that revealed *"a pattern of real anxiety among young people"*. In a recent Ipsos MORI poll in the UK, 90% of young people say they want to own their own home and yet as many as 60% of them believe they will never be able to afford it.

According to the Ipsos MORI research, younger people acknowledge that there is a housing crisis and they cite house prices as the main difficulty in getting onto the property ladder. But Page added that there is little suggestion of placing this crisis at the door of the government and still less likelihood that they will turn out in big numbers at the next general election.

Ben page's full presentation can be downloaded from

http://uk.uli.org/wp-content/uploads/sites/73/2015/01/Ben-Page-Ipsos-MOIR_ULI-UK-Generation-Y-event-30th-October-2014.pdf

About ULI

The Urban Land Institute provides leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. It is an independent, global, not-for-profit organisation supported by members representing the entire spectrum of real estate development and land use disciplines. Founded in 1936, ULI has 32,000 members worldwide. National Councils are ULI's country networks which organise local events and activities. ULI UK is the largest National Council in Europe with over 700 multi-disciplinary members.



One consequence of the housing crisis, said Hale, is a shift from home ownership to renting in the UK for the first time in decades. Strutt and Parker has also carried out work on the idea of *"micro mansions"* – building smaller scale, bespoke rental accommodation, which not only gets round the high cost of housing development but reflects the fact that Gen Y people will move job frequently and need less space anyway.

"When you look at Gen Y, we are more mobile. We are happy to be global," said Hale. *"While we may aspire to ownership at some point in our lives it may not be at 25 or 30. It may actually be that we'll own something when we are 50 and we have done all the moving around and we are quite content to retire somewhere."*

Whether it's housing for sale or for rent, there will be an impact on the major global cities, according to Choa. *"All the globalised cities are getting stronger and bigger,"* he said. *"More and more people want to move to them but they are all having exactly the same conversation, which is: 'How can we afford to do this? It is not sustainable.' People almost use scarcity as a proxy for desirability and they continue to move there. On the other hand, I think it's potentially a time bomb."*

Choa added: *"At some point bigger cities are going to get denser, they have to."*

Panellists

Ben Page

Chief Executive Officer, Ipsos MORI

Christopher Choa

Vice President, AECOM

Bill Hughes

Managing Director, Legal & General Property

Elliott Lipton

Chief Executive Officer, First Base

Vanessa Hale

Analyst, Strutt and Parker

Chair: **Anthony Duggan**

Head of Real Estate Research, Deloitte

GEN Y

The generation born in the 1980s and 1990s, comprising primarily the children of the baby boomers and typically perceived as increasingly familiar with digital and electronic technology.



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