

NEW DECADE EUROPE

TRENDS THAT WILL SHAPE THE REAL ESTATE MARKET IN THIS DECADE



DEMOGRAPHIC TRENDS **IN EUROPE**



**BNP PARIBAS
REAL ESTATE**

Real Estate
for a changing
world

INTRODUCTION

BY 2030 THERE WILL BE AN ADDITIONAL 1.2 BILLION PEOPLE IN THE WORLD with significant regional and country disparities. Equally significant is the general population is living and working longer. The fastest growing segment of the population will be those aged over 55yrs. In this publication we explore these changes in demographics and their impact on where we work and how we work.



For investors understanding the changing urban landscape will be valuable.



CHANGING DEMOGRAPHICS WILL CHANGE THE PURPOSE OF CITIES

WHERE WE WORK AND LIVE

Demographic trends and developments have a number of implications for cities, impacting the social and economic nature of the city.



Across Europe,
39% live in the cities,
32% live in towns and suburbs,
29% live in rural areas.

(Eurostat)

Metropolitan cities have benefited from the depopulation of rural areas. However, as non-metropolitan areas are fast becoming more dynamic, with good transport links, lower living costs, and with some benefitting from close proximity to key cities – these areas are experiencing positive population development.

WHAT IS DRIVING THIS TREND?

While a large share of the population still live in metropolitan cities, a higher share now lives in towns and suburbs.

Historically, people have been attracted to a metropolitan city as it offers better employment opportunities with greater access to amenities of all types. This in turn has driven demand for residential, office and retail space in central areas.

Now, an increasing number of people are becoming displaced due to the high cost of living in large metropolitan cities, forcing them to relocate to more affordable areas. This trend will now accelerate as we adapt to the new world post COVID-19. Places of work will change, no longer tying employees down to metropolitan cities. While many may opt to remain in close proximity to the city, others will prefer suburbs that are fast becoming big cities in their own right.

TRENDS OF TODAY

A fifth of the cities in Europe are witnessing declining populations.

Today across Europe, a fifth of the cities are witnessing declining population. Suburbanisation trends run in parallel to demographic change such as ageing populations. This is often referred to as 'second demographic transition'. As the population ages a number of people will fall out of the total population count. However, looking at the working age population trends, it is a similar story. Around 65% of the cities will experience a slowdown in working age population growth. All population forecast calculations account for future net migration. Thus an ageing population is not the only reason populations are declining in cities across Europe.

This decline is particularly prominent in the countries of Eastern Europe, for example Romania, Bulgaria, the Baltics, Hungary, Poland and the Czech Republic. A few Italian cities, such as Napoli, Genoa, Turin as well as German cities such as Dortmund, Essen and Hanover will also experience shrinking working age populations.

ACROSS WESTERN EUROPE THE TRENDS DO DIFFER

According to the French national statistics agency, Paris department – the administrative area, experienced a decline in population by an average of just over 10,000 people a year over 2011-2016. While the Ile-de France area, Paris' suburb continues to grow. Paris is unique, covering 40 square miles and is densely populated. By way of comparison, London covers 600 square mile.

The defined boundary of Paris has also constrained the extension of the City, 'intramuros' the old town, meaning the definition in terms of occupied space is unlikely to change much. Which has led to the exodus of people towards the suburbs, further helped



**85% of the key cities
in Europe will witness
population growth
easing this decade.**

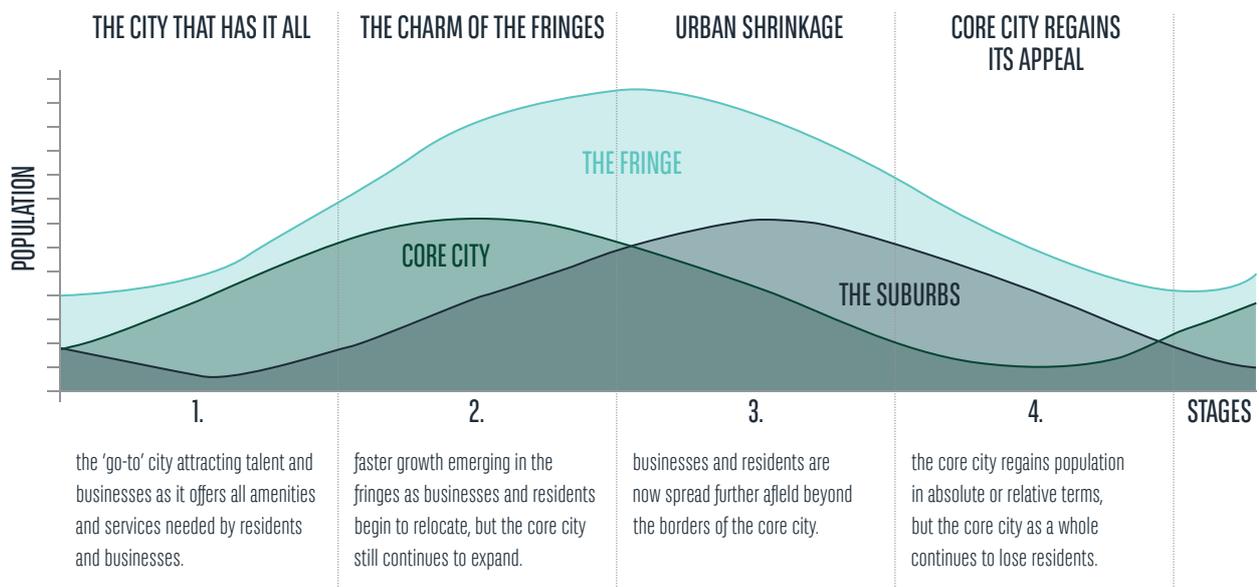
(Oxford Economics)

by Grand Paris. However, we have seen more people choosing to relocate away from Paris to other regional cities, which was already occurring in the UK. Population projections show this will remain the case but growth in London is expected to ease.

Is this anything new?

The simple answer is NO.

EACH CITY WILL PASS THROUGH ITS OWN LIFE CYCLE



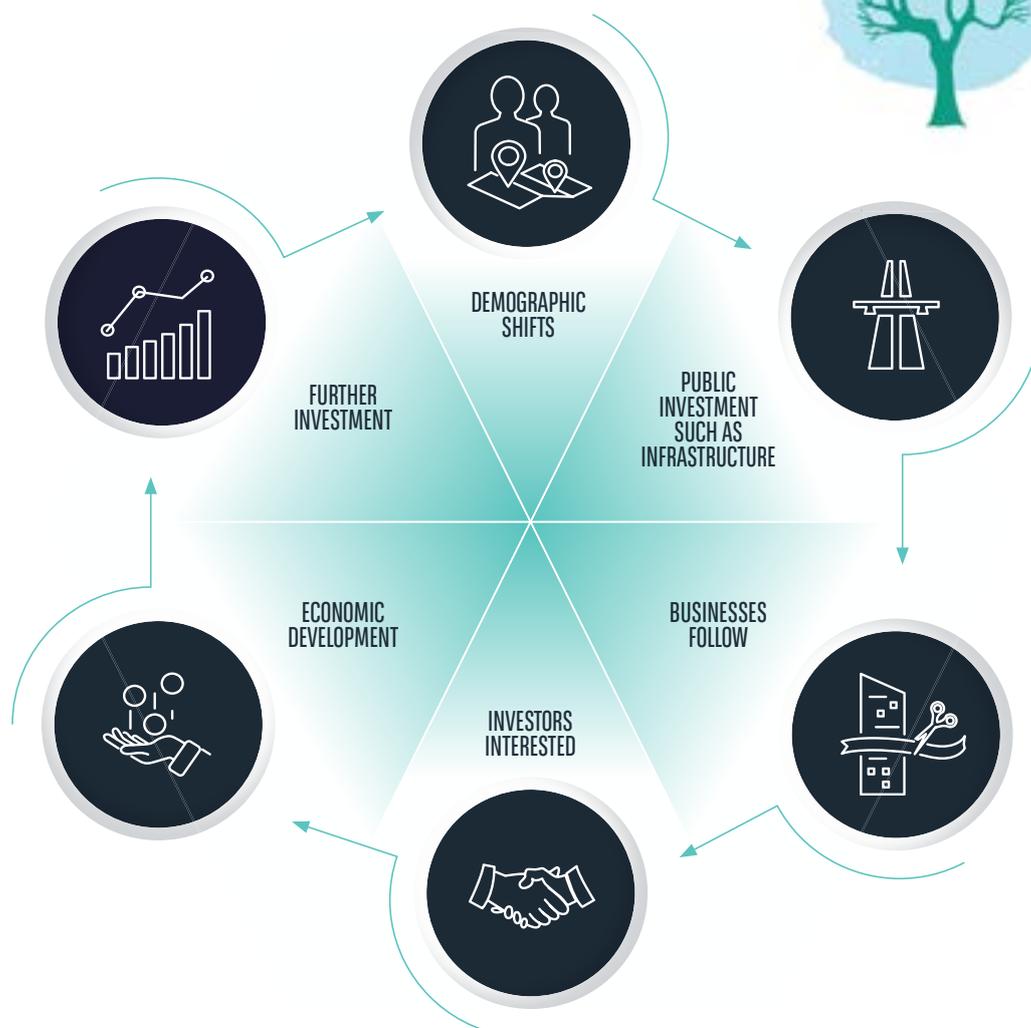
WILL EVERY CITY EXPERIENCE THIS DECLINE?

Understanding the dynamics of each city's decline is complex, partly because each city will not necessarily pass through each development stage. Cities can experience suburbanisation and early stages re-urbanisation simultaneously. While every city will undergo its own life cycle the immunity of a city from the wider trend will essentially depend on its ability to attract, retain talent and foster innovation. History has shown, cities that are driven by a single industry or occupy a cluster of businesses from the same sector are more likely to become more susceptible to urban shrinkage.

INVESTMENT CAN ALTER THE FATE OF DECLINING CITY, AND PUSH SUBURBS ON EQUAL FOOTING WITH A METROPOLITAN CITY

Attracting investment both public and private is a crucial part of the economic development of a city. This in turn will attract new businesses, creating jobs leading to population growth. But what comes first? Investors' interest in a city is based on a wide range of characteristics. Although the ideal characteristics vary from city to city, investors focus on key economic fundamentals, demographics and the type of assets available. Typically investors are veered towards 'core cities' despite better yields available elsewhere. A number of reasons drive these decisions, the economic fundamentals, familiarity of investing in these core cities and at times simply the pursuit of prestigious assets, which are primarily located in core cities.

The Virtuous Cycle, investment spurs investment



UNDERSTANDING DEMOGRAPHIC SHIFTS WILL HELP UNCOVER TRENDS IN REAL ESTATE THAT FOLLOW

Historically, regional cities are associated with higher yields compared to core cities given the higher risks associated. But this is likely to change. As investors begin to shift their focus towards regional cities, an adjustment in yields is likely. The adjustment will not be uniform across all markets. A lack of prime trophy assets will hold back some investors diverting their attentions towards the regions. But regions are responding to rising demand with new developments and kick starting regeneration projects. The initial investment will act as a catalyst for

further investment, promoting economic development. The change from urbanisation towards suburbanisation should not be conceived as something negative. This will bring opportunities to reshape suburban spaces. Driving a push towards the much needed sustainable cities, where the emphasis will not be solely on growth. Investors will have a greater choice, which in turn will drive a redistribution of economic growth and investment that will no longer be constrained to core cities.



AN AGEING POPULATION PROVIDES BOTH ITS OPPORTUNITIES AND CHALLENGES FOR REAL ESTATE

HOW WE WORK

In the coming years Europe's population will age considerably, as a result of the low levels of fertility and extended life expectancy rates. The proportion of people aged 55 or over in Europe is expected to increase by 10% by 2030 with that group occupying 40% of total population in Europe.

(OXFORD ECONOMICS DATA)

WHAT ARE THE CHALLENGES?

This will pose two challenges for real estate, the first for office design, and second on office demand.

Millennial – Generation-Y quickly became the enablers that drove change in the real estate landscape, whether it was their home buying preferences to the way they work. An emphasis on teamwork, collaboration and flexibility transformed the office layout as well as the workplace culture. Landlords adapted offices to accommodate the changing working methods by pushing agile working solutions, such as teleworking, co-working, desk sharing, etc.

But did this design take into consideration that a large proportion of the workplace will be over the age of 55?

A large proportion of the workplace will be over the age of 55, and it is important to recognise their needs will be much different, from their expectations from a work environment to their working arrangements. A large proportion of the workplace will be transitioning into retirement, retiring from the office not work. Faced with the potential of a shortage in the labour pool, employers will be keen to retain their much more experienced employees, just as they were to attract the millennial. Employers will actively offer flexible working arrangements that include part-time or reduced hours, introduce 'transition into retirement' programmes and be more receptive towards working from home.

A large chunk of the workforce will no longer be in the office, how will this impact office demand?



WHAT ARE THE OPPORTUNITIES?



The push for 'new generation of services' needs to go further.

A change in the supply and nature of the workforce is coming. We will eventually have five different generations in the workplace. It is important the needs of all population cohorts are considered in real estate.

Developers need to design spaces for a diverse range of uses allowing employers to provide conditions that promote intergenerational working. Older workers have different needs to a younger workforce. These needs vary from different types of spaces, to lighting and even acoustics. That is not to say that older workers are not as agile as the younger generation. Developers, landlords and occupiers need to provide flexibility so that they can adapt and respond to the changing needs of these workers as they age. Develop an age-neutral place of work incorporating a myriad of workspaces.

This traditionally rigid asset class has made strides, but adaptability will be the new flexibility.

The recent push towards flexible working and changing working methods is a move in the right direction. Looking ahead, workplace design will need to be more fluid, with a focus on adaptability. Occupiers will need to ensure the buildings stand ready to adapt to changes in technologies, ways of working and business models that don't even exist yet.

A REDISTRIBUTION OF OFFICE DEMAND, LEADING TO GREATER UTILISATION OF SPACE

With more workers retiring from the office not work, we are likely to see an increased demand for flexible offices in around where these employees live. Allowing employers to offer greater flexibility to their workers who choose to work from home or closer to home. This will increase the demand for flexible office space outside core locations potentially at the cost of traditional office demand.

Landlords and occupiers will be able to utilise the space better. The current office design with more communal spaces has caused the average square ft per employee to shrink. In the years to come, developers and occupiers will be able to re-purpose these facilities without sacrificing desk space. In addition the need for social distancing because of COVID-19 will promote sparsification, reversing the densification trend within offices.



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THIS IS PART OF A SERIES OF PUBLICATIONS,
EACH EXPLORING A TREND TO UNDERSTAND THE CHANGING
NATURE OF REAL ESTATE IN THE COMING DECADE.

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