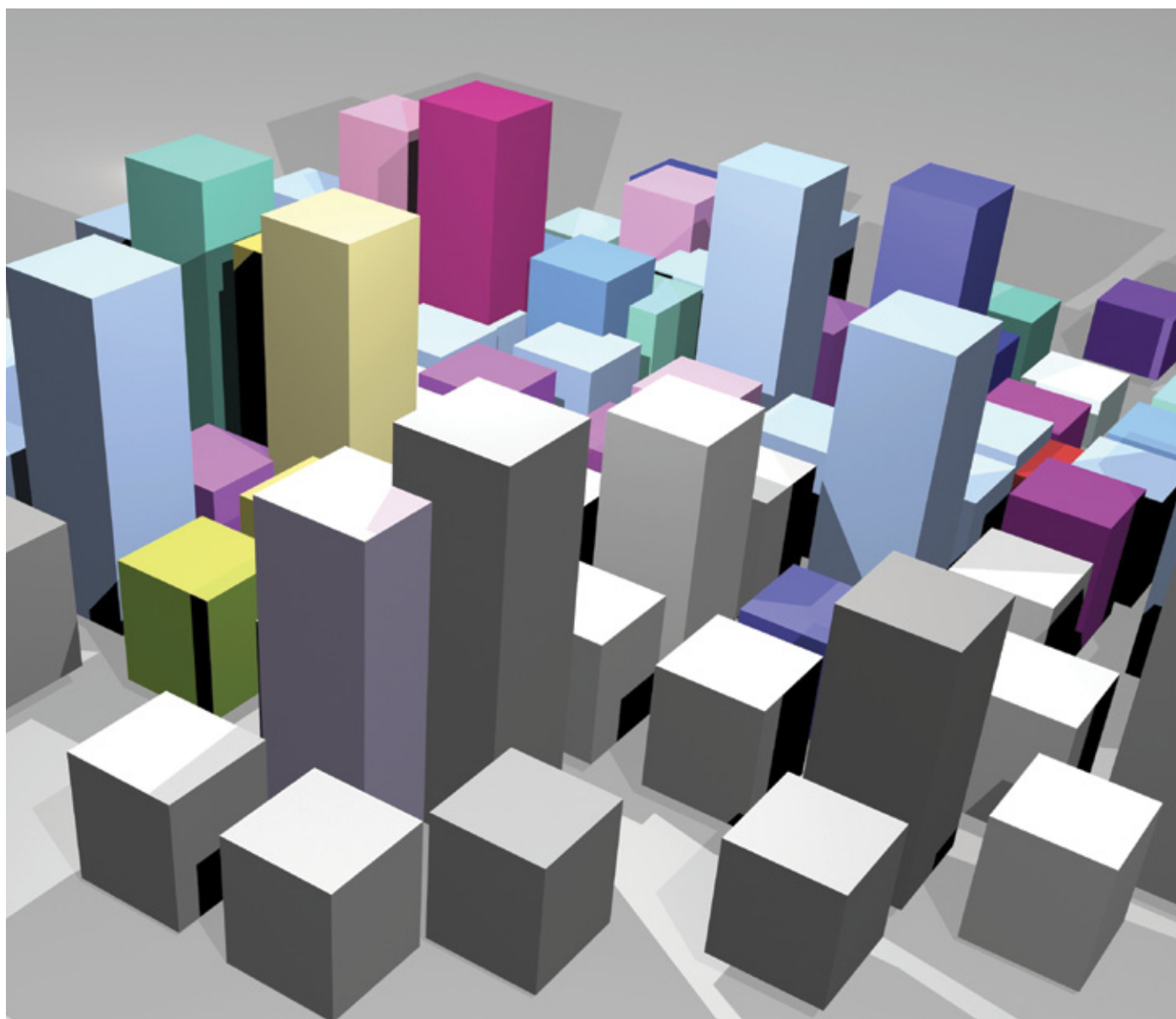


MEGATRENDS

IN EUROPEAN REAL ESTATE

ISSUE 1 2015



THE POWERS SHAPING REAL ESTATE IN 2025 AND BEYOND

What space
will we need
in the future?

MEGATRENDS

in European real estate

As people's habits change in the future,
the nature of the space they need also changes

The next decade will see dramatic changes in how and where we live and work. Can the real-estate industry satisfy the needs arising from those changes?

This is the first in a series of publications looking at the Megatrends facing Europe over the next decade, and how the real-estate industry might respond. This first issue examines the macro challenges that our industry will have to adapt to. We have identified four key areas of change that will shape the demand for and location of all types of real estate. These challenges are economic, technological, societal and behavioural. Some are continuations of long-term trends, and others show the potential to be the disruptors of the next decade.

The next four editions of this series will delve into more detail around the challenges facing each of the key real-estate sectors, and how our industry might and should respond to these changes. ■

“Based on what we know today and what we hope to achieve tomorrow, we try to anticipate how people will live, work and have fun in 10 years and beyond” ■



Unemployment in Europe
to drop from 10.6%
to 8% in 2025



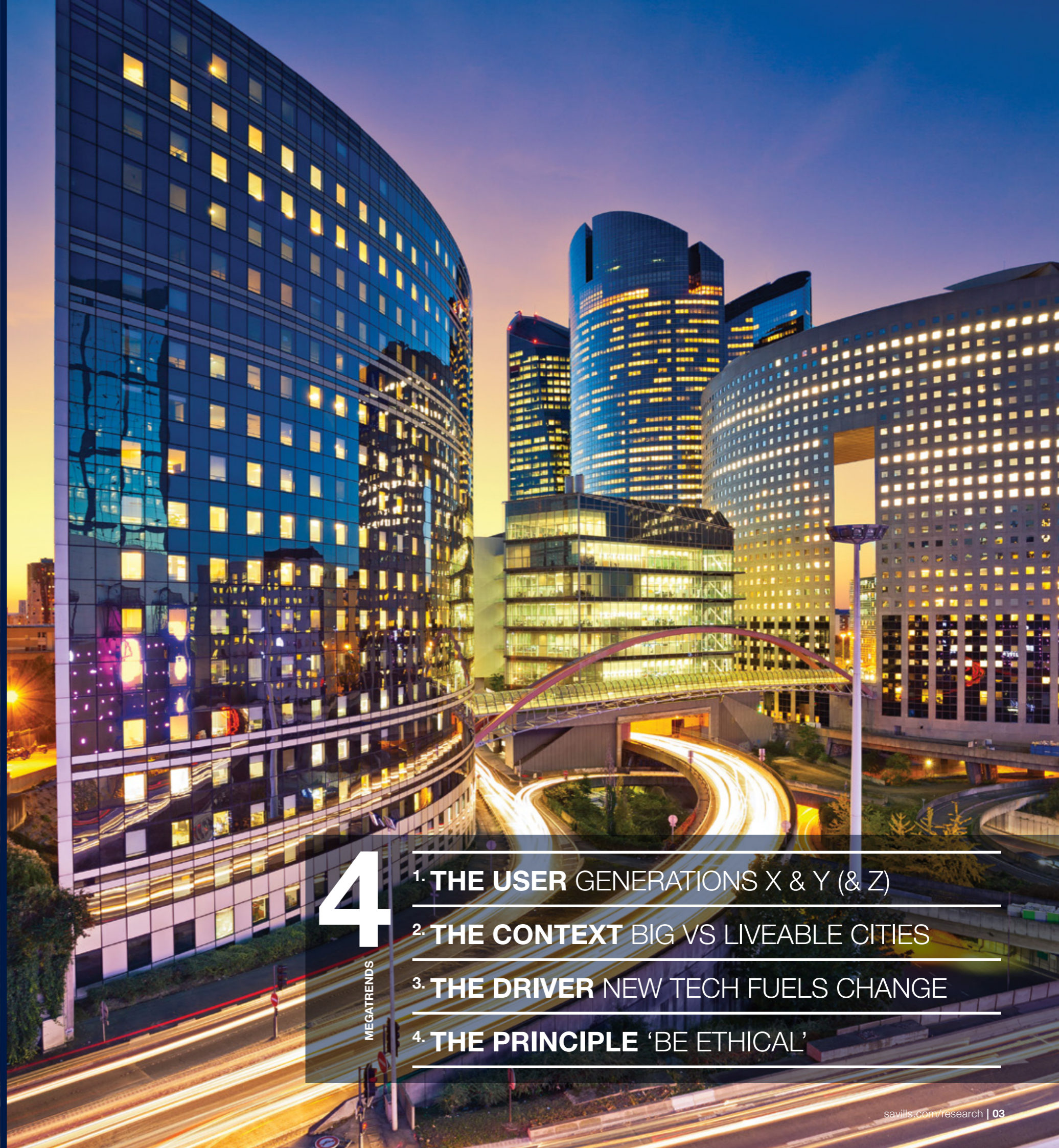
Share of population over
65 in Europe to rise from
18.2% to 23.9% in 2030



Retail sales in Europe
set to increase by 20%
in 2025



82% of population in
Europe will live in urban
areas in 2050



4

MEGATRENDS

1. **THE USER** GENERATIONS X & Y (& Z)
2. **THE CONTEXT** BIG VS LIVEABLE CITIES
3. **THE DRIVER** NEW TECH FUELS CHANGE
4. **THE PRINCIPLE** 'BE ETHICAL'

The user Generations X & Y (& Z)

The future demand for housing and commercial property in Europe will be determined by the dominant X and the dynamic Y generations

Generations Y (Millennials, aged 21-34 today), Z (born after 2000) and Generation X (tomorrow's ageing population, aged 35-49 today) are the generations that will shape lifestyle patterns in the next 10 years – generations with different backgrounds and all technologically savvy, but with different priorities and motives.

Millennials and upcoming Z Generation have been using technology and the internet since early childhood, are used to easy and free access to a wide choice

“ From 'baby boom' to 'grandparent boom': 1.6 elderly people for every youngster by 2030 ”

of services and are open to sharing information and goods, but are also conscious of ethical living. Generation X has broadly embraced the flexibility and convenience offered by technology, but remains attached to ownership and status.

The future demand for housing and commercial property in Europe will be determined by the growth of the population, the age structure and the employment conditions in Europe.

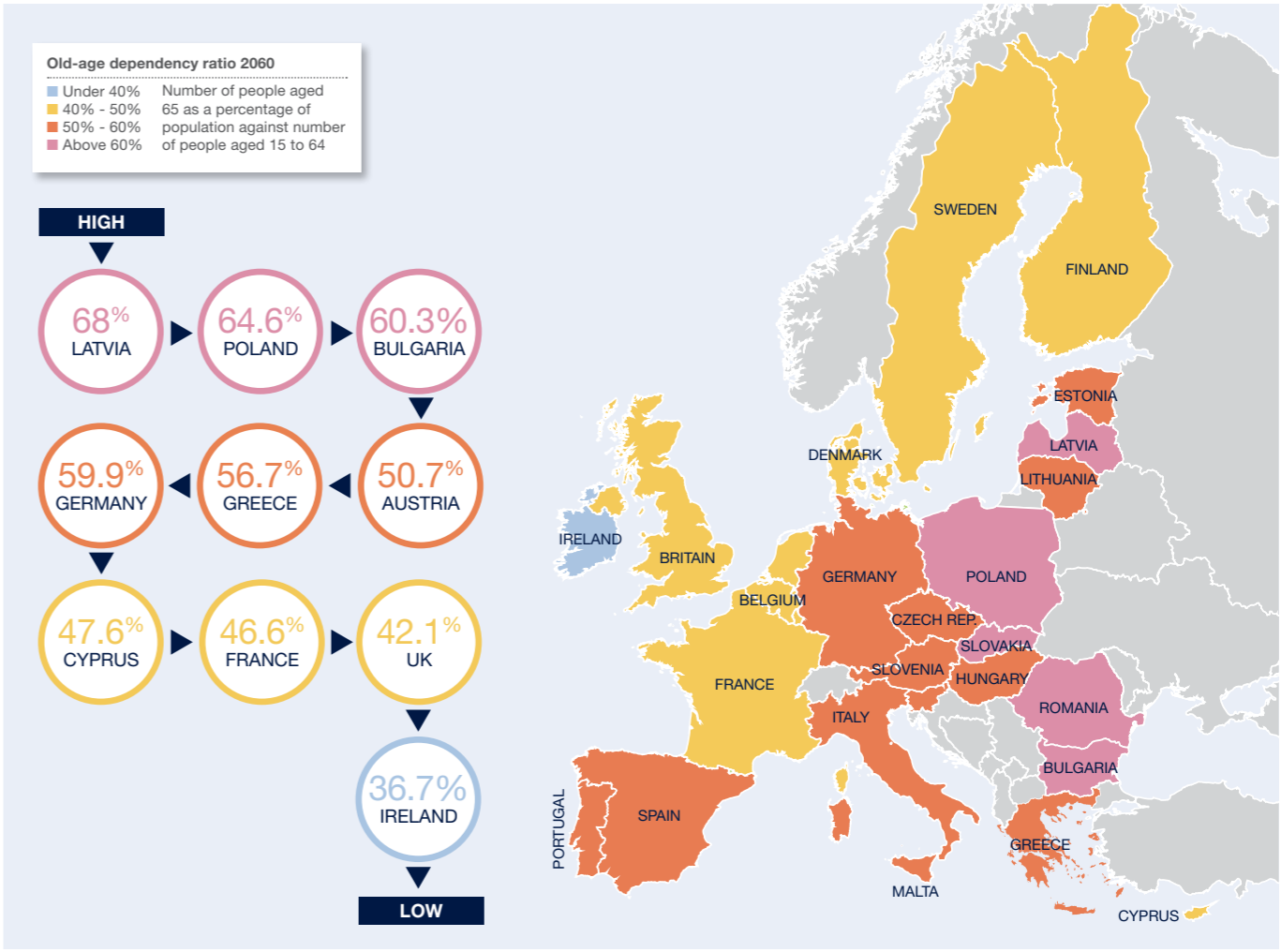
According to Eurostat there are about 3.5 economically active people for every retired person in Europe and this ratio is expected to drop to about 2.5 by 2030. The share of the ageing population over 65 is forecast to rise from 18.2% to 23.9% over the same period. In this heterogeneous population, both younger and older people

will need to work longer, but also in different ways (flexible hours, crowdsourcing, telecommuting), and older people will need more support in terms of social care.

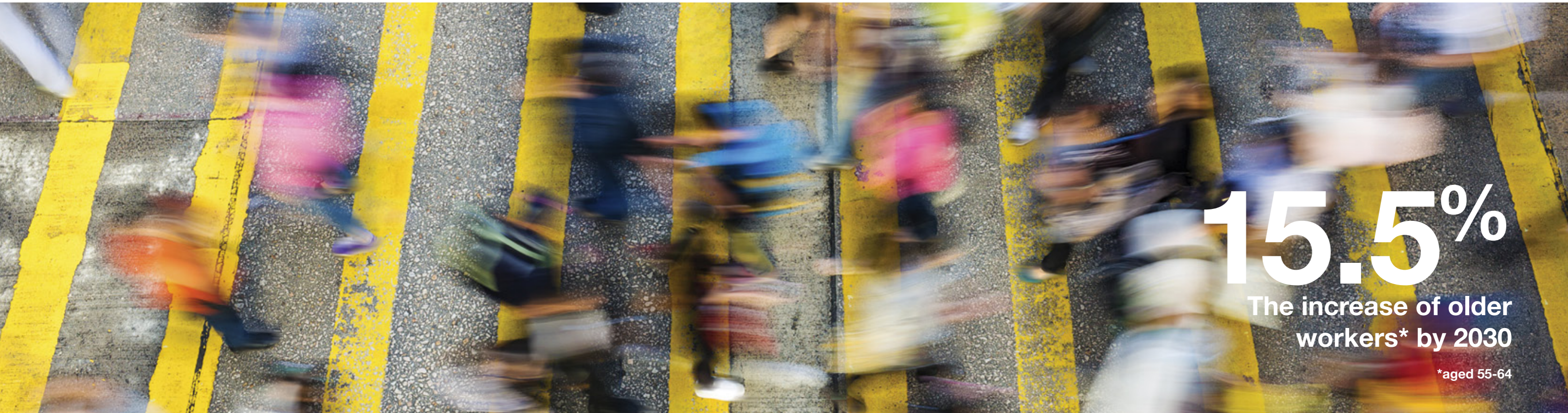
Additionally, in a post financial crisis, high computerisation era, it is also likely to have higher youth unemployment and lower disposable incomes. Nevertheless, the overall unemployment in the EU27 region is forecast to drop from 10.6% today to 8% in 2025 and retail sales to grow by 20%.

The rising number of smaller households, the need for affordable housing and assisted living, the demand for flexible working space and the requirement for convenience and accessibility of publicly used buildings are only some of the factors that could potentially affect the property market. ■

FIG 1. Rising share of ageing population: From 18.2% today to 23.9% by 2030



Source: Eurostat



15.5%

The increase of older workers* by 2030

*aged 55-64

The context

Big vs liveable cities

Where will the smart citizens choose to live in the future, and what will make the big cities of tomorrow successful?

In 1950, only 30% of the world population lived in urban areas. Now, the urban population is expected to reach 5 billion before 2030. This means that more than 60% of the humanity will live in cities.

Europe is one of the most urbanised continents in the world. Today, nearly 73% of the European population lives in urban areas and this share is predicted by the United Nations to reach 82% in 2050. The majority of this population is expected to concentrate in and around Big Cities following the global trend of urbanisation. The smart citizens of the smart cities of the future will be well connected, well informed, demanding high-quality, round-the-clock services. Capital cities, where

most of the national public bodies are concentrated, will grow even faster. As successful cities attract an increasing number of people, the cost of prime urban real estate per sq m will continue to rise, creating a shortage of affordable housing which in turn will push people further out of the city centres.

An implication of rising property costs due to urbanisation is the shift of the Generations Y and Z towards satellite and small to medium cities, where they can have a more affordable life without giving up urban lifestyle and cultural amenities. Attractive secondary cities for the young generations are the ones offering quality of life and employment opportunities as well as affordable housing and sustainable living.

Sustainable urbanisation is key to the success of cities of all sizes. Providing structures, amenities, functionality and connectivity aimed at a balanced distribution of urban growth will attract and retain people, creating opportunities for economic development.

The successful big cities of tomorrow will be attractive for both people and businesses, generating a rising demand for high-quality residential and commercial space. In Europe the cities that are predicted by Oxford Economics to see the largest increases in population are London, Paris, Madrid, Munich and Stockholm, while Moscow and St Petersburg will be among the five largest cities. ■

82%
of the European
population will live in
urban areas in 2050

FIG 2: Cities to see the biggest increase in population by 2030



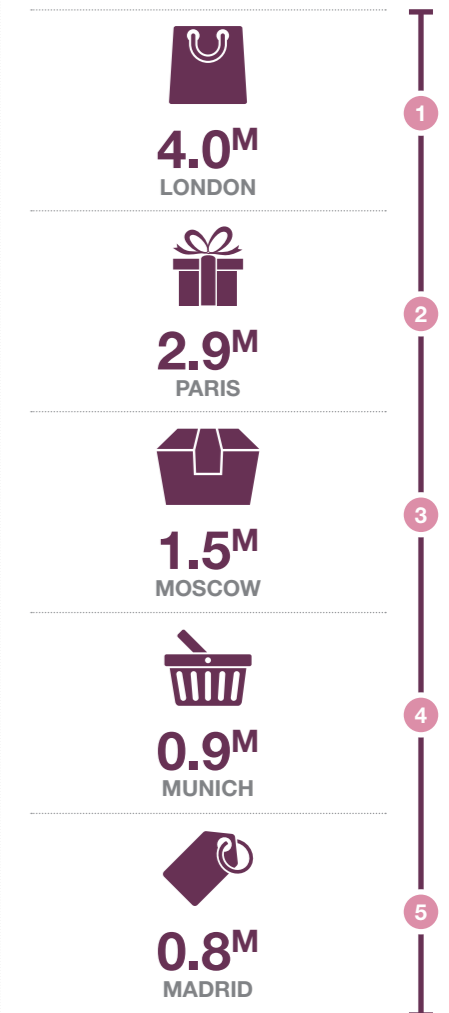
Source: Oxford Economics

FIG 4: Countries with highest share of urban population in 2050 (>80%)

Country	Urban population
Switzerland	81%
Russian Fed	81%
Hungary	82%
Bulgaria	83%
Germany	83%
Greece	86%
Spain	86%
France	86%
Norway	87%
UK	89%
Finland	89%
Sweden	90%
Denmark	92%
Luxembourg	94%
Netherlands	96%
Malta	97%
Belgium	99%

Source: United Nations

FIG 3: The biggest consumer cities in 2030 Number of high-income households



Source: Oxford Economics

FIG 5: Cities with strongest employment growth in Innovation* sectors 2015-25 (*Information & Communication, Professional, scientific & technical services)

Country	% change
Oslo	4%
Vienna	7%
Brussels	8%
Paris	10%
Copenhagen	10%
Stockholm	11%
Berlin	12%
Munich	12%
Prague	12%
Budapest	12%
Milan	12%
Zurich	14%
Helsinki	14%
Rome	14%
Amsterdam	15%
Lisbon	15%
Warsaw	18%
Barcelona	20%
Athens	20%
London	22%
Madrid	22%
Dublin	24%

Source: Oxford Economics

Technology will facilitate work, health and education improvements

The driver

New tech fuels change

The smart technologies of the future will change the way we live our lives, but will they also alter the way we use physical space?

Artificial intelligence, automation, robotics, 3D printing and other technologies are shaping the future in high-speed and unpredictable ways.

It is still debatable whether the innovations of the future will have a positive or a negative impact on society. On the one hand new technologies facilitate our lives, but on the other they displace middle-level jobs, leading to increasing structural unemployment and income inequality. The optimists argue that, historically, technological evolution has created new jobs and industries as much as it has destroyed some of the older ones.

The affinity of the Y and Z generations with technology determines their expectations, their lifestyle and the way they relate to space. The most accessible technology, the 'Internet of things' together with the booming use of mobile technology enable

connectivity, contact, communication, comfort, choice and collaboration. In Europe, internet penetration exceeded 70% and mobile use penetration exceeded 60% in 2014, and continue to grow (www.internetworldstats.com/ and Communications Committee).

Information technology and the digital world reshape the real one and re-define work, mobility, communication, retailing and distribution, as users achieve more by moving less.

Big data gathered via sensors, surveys, mapping and other sources will enable the policy makers and urban planners to analyse and share the information, leading to more efficient, more manageable, 'smarter' cities.

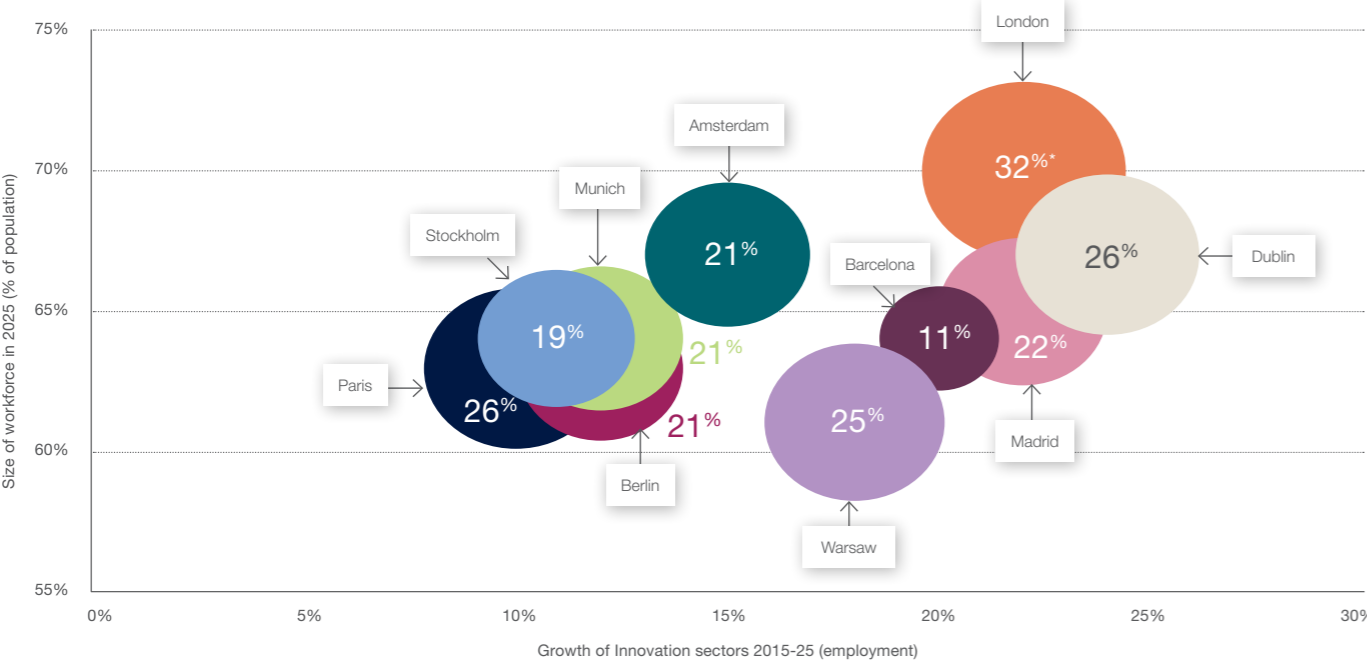
Our industry is trying to adapt and pre-empt the changes that new technologies

bring to people's habits and lifestyle. It is not clear yet if technology will lead to a dramatic reduction in the need for physical space or will change the way space is used.

Geography remains important and people continue to cluster in hubs of like-minded people. Cities with a spirit of innovation are likely to attract young talent and become hubs of communication, collaboration and knowledge.

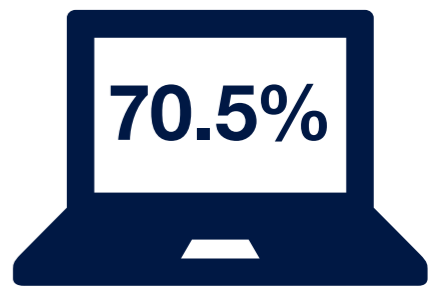
The large European capitals of London, Paris, Berlin, Munich, Amsterdam, Vienna are established centres of innovation, while smaller secondary cities also compete for this title. Last year the European Commission awarded Barcelona the title of European Capital of Innovation (iCapital) ahead of Grenoble and Groningen for 'introducing the use of new technologies to bring the city closer to citizens'. ■

FIG 6: Share of Innovation in the Economy in 2025
Information & Communication, Professional, scientific & technical services in the total economic output



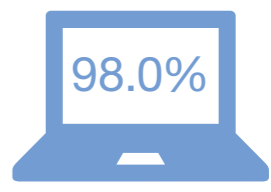
Source: Oxford Economics
*Size of bubble: Size of Innovation sectors (% of total output)

FIG 7: Internet Stats and Facebook Usage in Europe

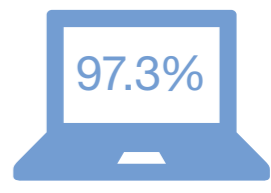


TOTAL EUROPE

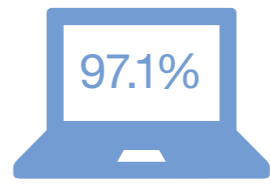
TOP FIVE



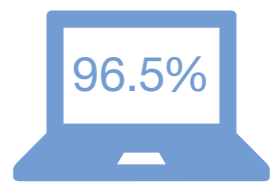
1. LUXEMBOURG



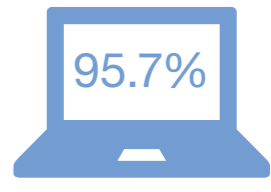
2. DENMARK



3. FINLAND



4. ICELAND



5. NETHERLANDS

Source: www.internetworldstats.com

70%
percentage of internet penetration across Europe in 2014

Making the world a better place to live is a key driver of real estate activity in the future

The principle 'Be ethical'

Under the pressure of rising urbanisation, the need for sustainable planning policies and green buildings is strong

The Millennials have been raised in an era when the 'Go green' motto was high on the agenda. They were taught from an early age to 'Reduce, Reuse and Recycle' and they learned to be concerned about sustainability for the planet, therefore creating an eco-friendly generation.

People from this generation feel that it is their responsibility to make the world a better place. They are more likely to choose to live in smart cities where they can cycle to work or use public transport. They may choose to work for companies that demonstrate corporate responsibility and have green values. They prefer to consume responsibly made products and they will try to use sustainable technologies.

Corporate and Social Responsibility (CSR) is high on the agenda of the Millennials when choosing their employers, or when shopping for food, fashion and other goods. As a result, brands who want to capture this dynamic consumer group must realise that CSR is not just about satisfying a regulatory prerequisite, it is also about understanding the values of consumers.

“The Millennials form an eco-friendly generation that is likely to opt for a 'low-impact' lifestyle”

The property industry has as much corporate and social responsibility as other sectors and, under the pressure of rising urbanisation, the need for sustainable planning policies and green buildings is getting stronger.

According to the latest World Green Building Trends* green building is growing across the globe. In Europe about 60% of the new planned commercial developments have been planned to comply with to green building standards. According to the survey, consumer demand and branding are expected to be the key drivers of green building activity in the future. ■

*McGraw-Hill Construction, in partnership with United Technologies and in association with US and World Green Building Council

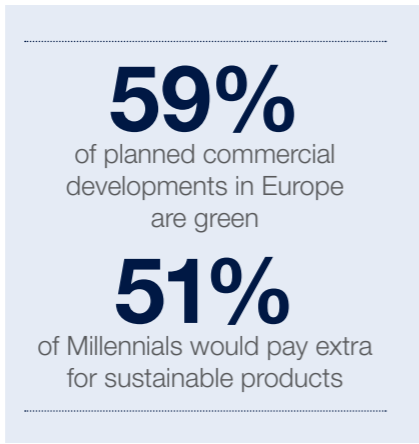
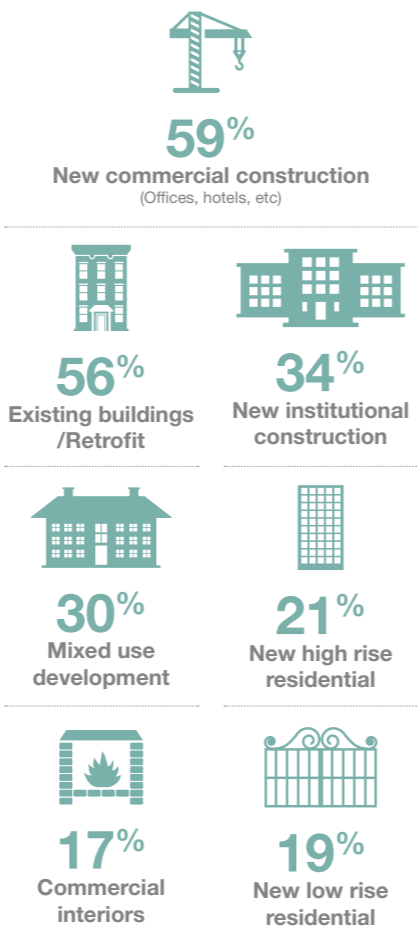


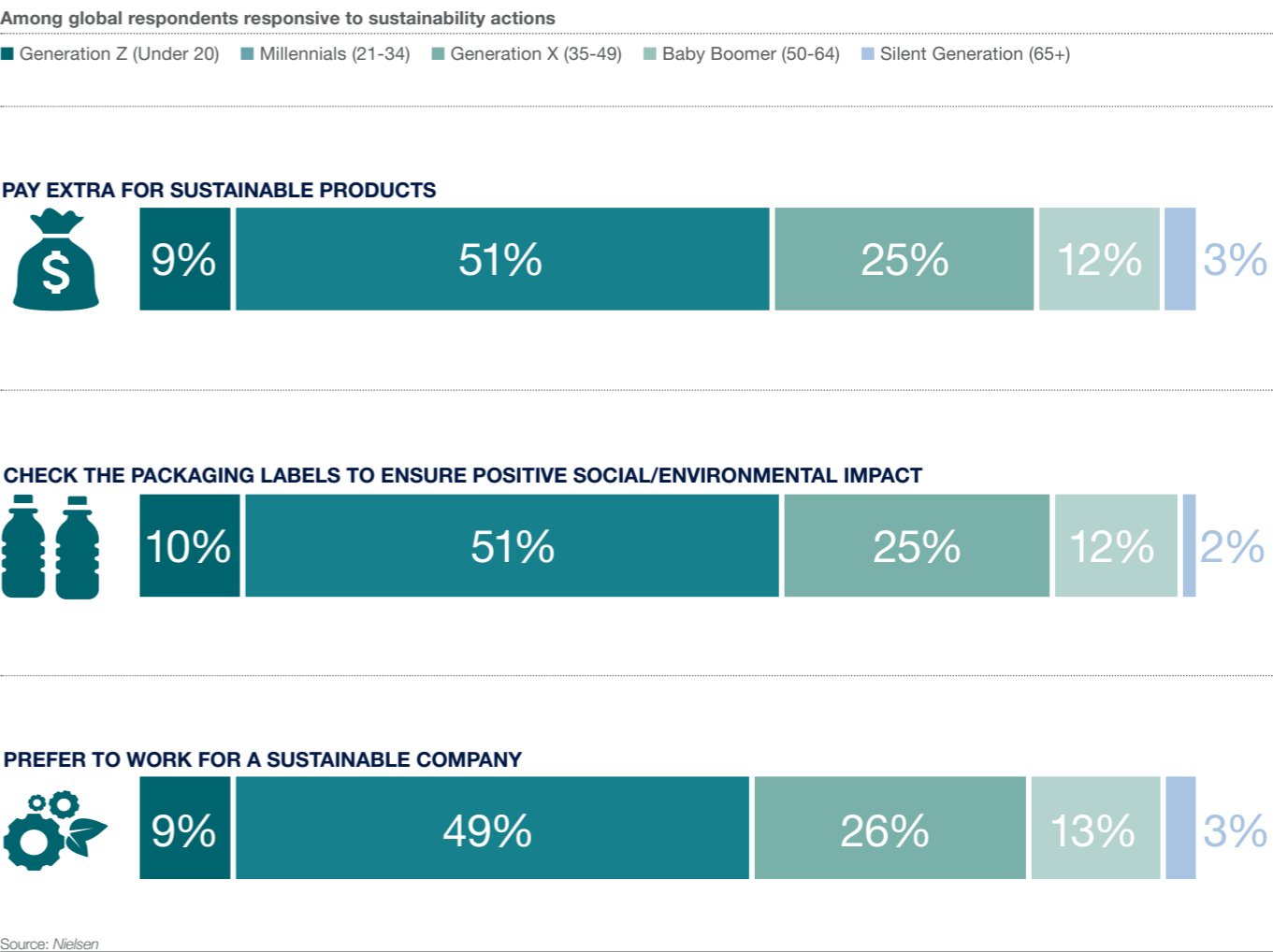
FIG 8: Planned green building activity per sector in Europe 2012-2015



Source: McGraw-Hill Construction



FIG 9: Responsible youth Young generations place high importance on sustainability



MEGATRENDS

in real estate

How will people live, work and have fun in 10 years and beyond? And what space will they need?

■ **By 2025 the role and function of bricks and mortar will be multiple:** it will need to facilitate communication and connectivity, to enhance innovation and exchange of ideas, to offer convenience and protection, to be adjustable and flexible, to be smart and sustainable.

■ By 2050 82% of the European population will live in big cities. The most innovative cities will attract the best people.

■ Big cities will become smarter cities with the use of Big data.

■ Millennials will be an important target consumer group. By 2025 they will constitute 47% of the workforce compared to 33% today.

■ There will be only 2.5 economically active people for every retired person compared to 3.5 today.

■ Unemployment will fall from 10.6% to 8% and retail sales will grow by 20%.

■ The number of older workers (55-64) is also expected to increase by 15.5% in the period 2010-2030

■ Older people will live and work longer and more flexibly through the use of new technologies.

Telecommuting will increase, together with the need for high quality, flexible working space.

■ The number of single households will increase by over 25% on average. The need for affordable housing will rise.

■ Technology improvements and higher computer literacy will facilitate work, health, education and social interaction.

■ Younger people will reject products, brands, companies and cities that do not fit in with their values and ethos.

■ Retail will need to satisfy both the need for convenience and locality as well as for experience and interaction. ■



The key driver of demand for space in any sector is the user's habits and preferences and the socio-economic context. Therefore, in this first paper of MEGATRENDS in real estate, we have attempted to describe the profile of users up to 2025 and beyond, the characteristics of the places where they will live, work and have fun, the impact of the technological revolution on their lives and the key principles behind their choices.

In the following issues we will discuss in more detail the attitudes of these users to living, working, shopping and leisure and the impact of their evolving and changing habits on the key real estate sectors: Retail, Offices, Residential, Logistics & Distribution and Leisure.

Savills Research team:
please contact us for
further information



Eri Mitsostergiou
European Research
+40 (0) 728 205 626
emitso@savills.com



Lydia Brissy
European Research
+33 (0) 1 44 51 73 88
lbrissy@savills.com



Alice Marwick
European Research
+44 (0) 20 7016 3833
amarwick@savills.com



Mat Oakley
EMEA Research
+44 (0) 20 7409 8781
moakley@savills.com

SAVILLS PLC: Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.