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GLOBAL DEMOGRAPHIC SHIFTS: WHAT ARE THE IMPLICATIONS FOR REAL ESTATE?

As Generation Z comes of age and a growing global population embraces new ways of living and working, demand for real estate is changing and the mix of uses is becoming more fluid

In November 2022, the global population reached eight billion. This milestone was described by UN Secretary-General António Guterres as “an occasion to celebrate diversity and advancements while considering humanity’s shared responsibility for the planet”. In the same year, India, with 1.4 billion people, overtook China as the world’s most populous country.

Over the next 10 years, India’s population is set to be the fastest growing in the world, adding 100 million people. Meanwhile, China’s population is expected to tip into long-term decline, having fallen last year for the first time in 60 years.

India’s growing population will spur domestic and outbound demand in all sectors of its already burgeoning real estate market. “It is important to understand India from the viewpoint of rising urbanisation, as well as its changing age-group mix,” says Arvind Nandan, Managing Director of Research and Consultancy, at Savills India. “India’s urban population is growing rapidly, and is expected to pass 600

million people by 2030 – putting pressure on existing infrastructure and housing. The task ahead is not merely to improve infrastructure but also to add more towns and cities to the existing 4,400. In this respect, two key government initiatives, ‘Make in India’ and ‘Smart Cities Mission’, for manufacturing and urban development respectively, now gain unique significance.”

An ageing world

This epoch-defining shift is emblematic of wider demographic changes around the globe. The developed world is ageing, as are China and many countries in South America and the Middle East. This means the balance of population growth is shifting to Asia and Africa.

At the same time, Generation Z – those born between 1997 and 2012 – is coming of age and has become the largest generation on Earth.

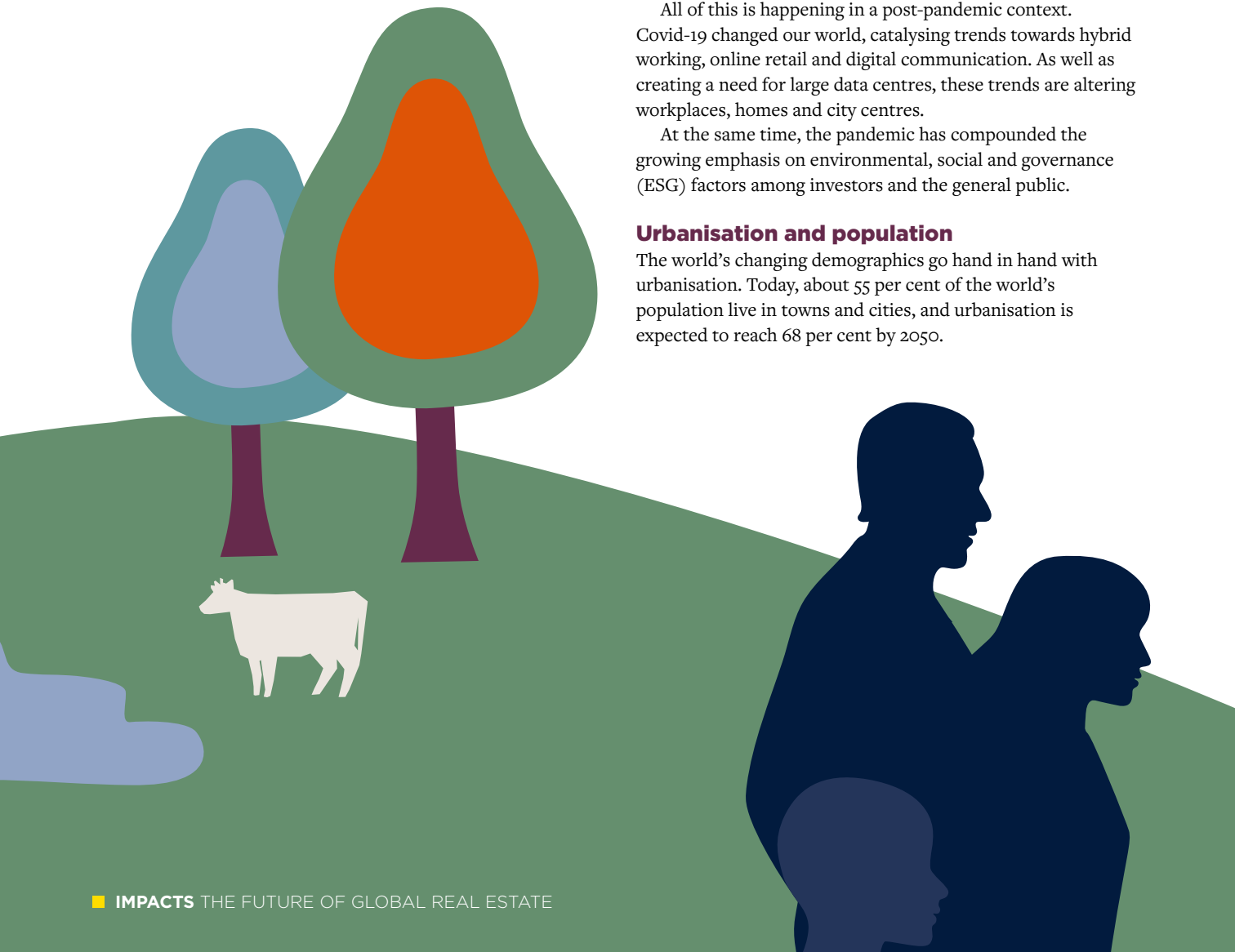
This has profound implications for real estate and cities. The most in-demand hubs are changing, as the mix of uses for real estate evolves and becomes more fluid.

All of this is happening in a post-pandemic context. Covid-19 changed our world, catalysing trends towards hybrid working, online retail and digital communication. As well as creating a need for large data centres, these trends are altering workplaces, homes and city centres.

At the same time, the pandemic has compounded the growing emphasis on environmental, social and governance (ESG) factors among investors and the general public.

Urbanisation and population

The world’s changing demographics go hand in hand with urbanisation. Today, about 55 per cent of the world’s population live in towns and cities, and urbanisation is expected to reach 68 per cent by 2050.



COVID-19 CHANGED OUR WORLD, CATALYSING TRENDS TOWARDS HYBRID WORKING, ONLINE RETAIL AND DIGITAL COMMUNICATION

This is a profound change – until 2009, more people lived in rural areas than urban ones – and one that must be carefully managed if we are to protect our imperilled planet. While occupying less than two per cent of the world's total land area, cities produce 80 per cent of gross domestic product but also 70 per cent of carbon emissions.

Much new and future urbanisation is occurring in developing markets. Nine countries will be responsible for half of population growth in the period to 2050 and only one of these, the US, is in the developed world. India, Nigeria, Pakistan, the Democratic Republic of Congo, Ethiopia, Tanzania, Indonesia and Egypt will lead the population growth that will drive urbanisation.

At the city level, however, demographics depend on much more than national population growth. One of the youngest cities in our analysis, Dubai – 54 per cent of whose population will be aged 15 to 39 by 2033 – is in the ageing Middle East.

Although China's population is in decline, the country has a number of youthful cities, notably the tech centres of Shenzhen (53 per cent aged 15-39) and Guangzhou (41 per cent).

The US will have both some of the oldest cities in the world in North Port and Fort Myers, and younger mid-sized cities, such as Austin and Denver. Like Bristol in the UK, which also ▶

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Demographic changes are transforming the housing sector across Europe. In the last two decades, the European population has grown by 34 million. At the same time, Europeans are having fewer children and starting families later in life, resulting in a lower birth rate and a 30% growth in single-person households. This has led to increased demand for smaller apartments. In response to this, our schemes combine more green spaces, high-end work-from-home amenities, integrated technology and a focus on ESG.

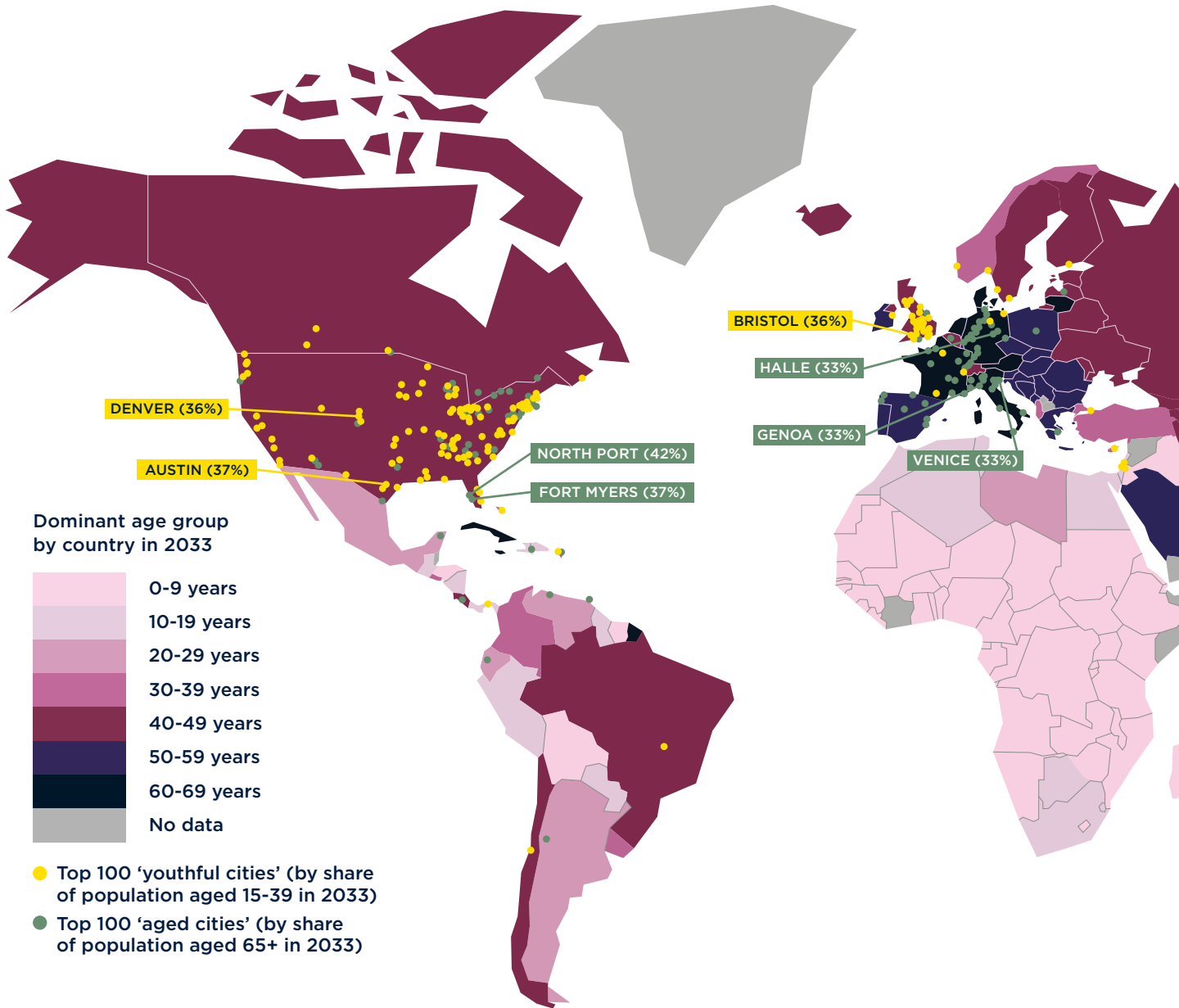
From a macroeconomic standpoint, while unemployment rates in Europe have reached a record low since 2008, the cost of buying a home has increased by 45% since 2013. In combination with the rising cost of living, it has meant the average age for a first-time buyer has shifted from 31 in 2013 to 34 today, further increasing the demand for rental products. As such, we are incorporating a substantial component of attainable housing, such as Il Trotto, a mixed-use scheme in a consolidated residential area in Milan.

Furthermore, Generation Z tends to prioritise travel, convenience and city living, with 1.2 million digital nomads in Europe today. Students, particularly internationals, are following suit, as academic enrolment is countercyclical and tends to increase during economic uncertainty. At the other end of the age spectrum, rental demand is also being driven by the senior population. Life expectancy has significantly increased, with people over 65 expected to account for 30% of the population in the next 25 years.

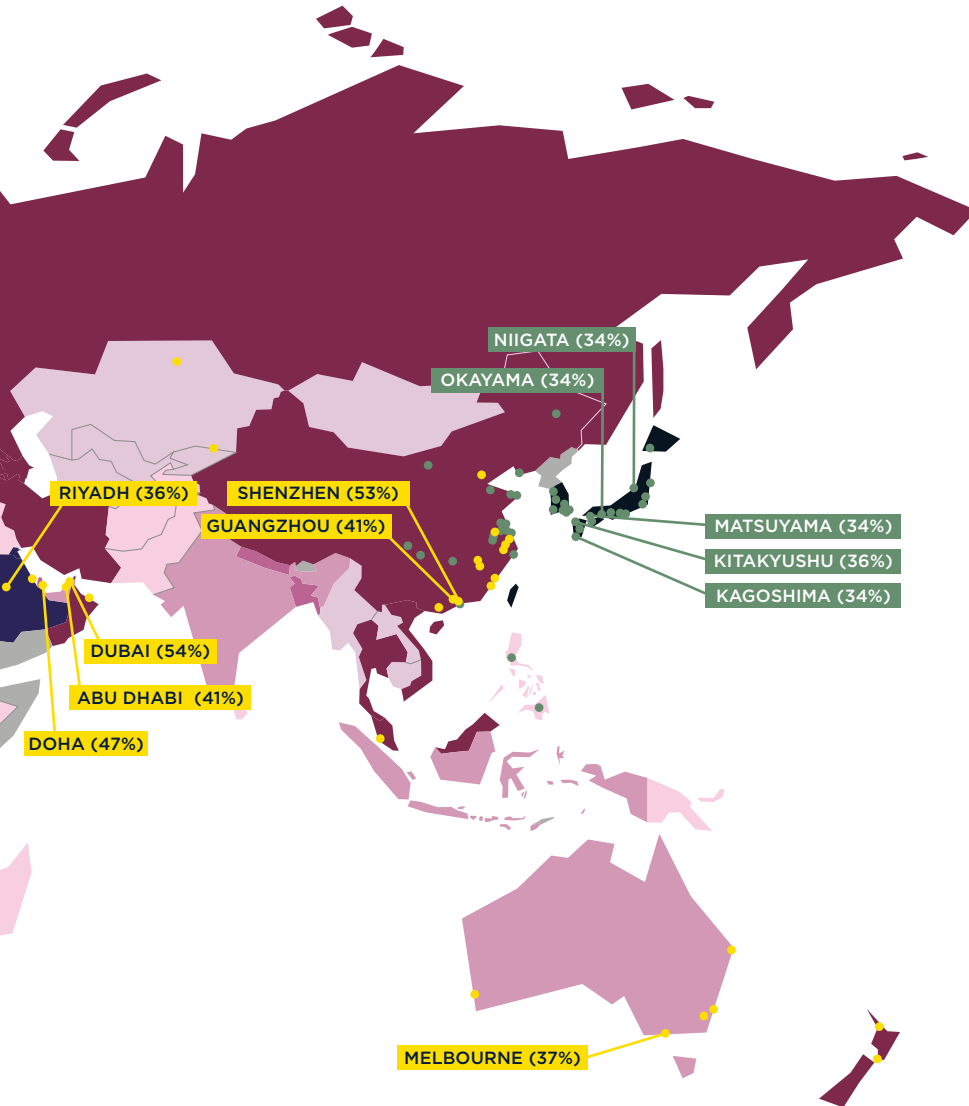
To continue to meet modern-day and future rental needs, we are proactively focused on investing, developing and managing intergenerational schemes across Europe, including student housing and hybrid forms of short- to medium-term stays.

GLOBAL DEMOGRAPHICS IN 2033

DOMINANT AGE GROUP AND TOP 'YOUTHFUL' AND 'AGED' CITIES BY SHARE OF POPULATION



GENERATION Z IS COMING OF AGE AND HAS BECOME THE LARGEST GENERATION ON EARTH



Source: Savills Research using Oxford Economics
Note: top 100 cities based on those forecast to have GDP per capita greater than \$25,000 in 2033. Selected top 100 cities labelled.

has a comparatively youthful profile, these smaller, vibrant cities attract younger populations through their strong knowledge economies and high quality of life ratings.

At the other end of the spectrum, some big, dynamic cities are sucking population away from smaller ones. In Japan, for example, the population of Tokyo continues to rise while those of smaller cities such as Kitakyushu and Kagoshima fall and age. As a result, the Japanese government is now offering parents Yen 1 million (\$7,500) per child to move out of Tokyo.

The digital generation

Generation Z, half of whom are now aged over 18 and beginning to enter the workplace, are driving many of these trends. This generation comprises the majority of the population in Africa. With their digital savviness, they are able to leapfrog the legacy infrastructure found in continents with older populations.

Generation Z are also more mobile than previous generations and less likely to be rooted in one national identity. In the European Union, nearly 13.9 per cent of those aged 14 and younger in 2019 were born in another member state, while 6.6 per cent were born outside the EU.

Many of these connected, global citizens want to study abroad, fuelling demand for student housing in the most popular education markets of the US, the UK and Australia, as well as rising international student hubs in mainland Europe and elsewhere.

Between 2000 and 2020, the number of international students in the world more than tripled from two million to 6.3 million. Post-pandemic, with the majority of Generation Z residing in developing markets, the numbers are likely to increase further, creating huge potential in this sector.

Drawn to cities and less inclined to drive a car out of concerns for the

GENERATION Z PRIZES THE SENSE OF COMMUNITY THAT COMES FROM BEING IN THE WORKPLACE

environment, Generation Z may provide the tipping point for 15-minute cities. To appeal to this cohort, property managers need to be environmentally aware and offer seamless app-based or online services that are personalised.

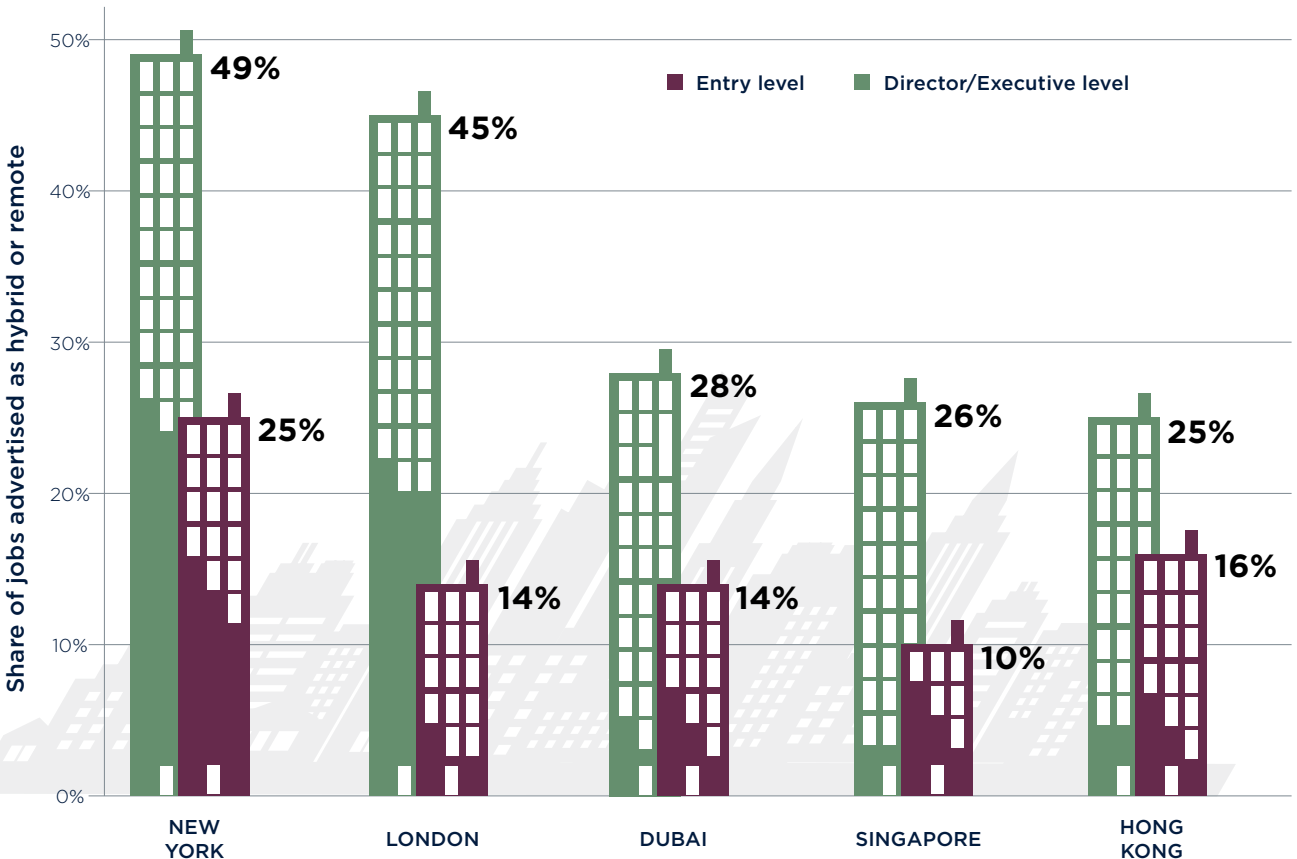
New working hybrid

Conflicting forces are at play in the workplace as well. Generation Z seeks a good work-life balance and employment with purpose, but that is not always within reach.

A 2023 Oliver Wyman survey of this generation in the UK and US found that 85 per cent prefer hybrid or remote working. However, Savills research shows such working arrangements are more typically offered for higher-level roles than entry-level jobs.

At the same time, Generation Z prizes the sense of community that comes from being in the workplace. That feeling has intensified since the pandemic, with almost 80 per cent of this age group appreciating the workplace community in 2022 compared with under 70 per cent in 2013, according to Leesman.

PROPORTION OF HYBRID OR REMOTE ROLES ADVERTISED BY SENIORITY



Source: Savills Research using LinkedIn

Starting their careers, Generation Z also benefits from learning and mentoring in the workplace – though, ironically, community is less important to the older generations who might provide that knowledge.

“It is the younger employees and those with fewer years in service where the workplace really contributes to their sense of belonging – through socialising and interacting with others and physically being in a space that provides them with a sense of identity,” says Kirsty Toye, Associate Director, Senior Workplace Strategist and Change Manager at KKS Savills. “Trainees and junior staff need to absorb knowledge by osmosis and have easy access to others for guidance, but the more experienced, older generations will often favour working in their study at home without the distractions of the office.”

Generation Z may think they want hybrid working, but older generations really do want it. This is not the only overlap between younger and older generations. Larger, older populations mean more single-person households. This creates a need for smaller homes – a trend compounded by younger households getting married and having children later.

Sometimes, however, there is a clash between the needs of different generations. “Sweden is facing a demographic change where the number of older residents in relation to younger ones is increasing rapidly,” says Maryrose David, Head of Research at Savills Sweden. “Furthermore, Sweden’s housing market has been stalled by the expense of moving and a lack of suitable housing for the elderly.”

Flexible rental models and new types of housing such as unassisted senior living can free up real estate for younger generations, while mitigating loneliness among the elderly. In 2007, Sweden introduced an investment subsidy for reconstruction and new construction of housing for the elderly, which has stimulated this sector.

Global demographic shifts mean it is important to involve all age groups in the workplace. Recent research from the IMF showed that labour force participation is rising fastest in countries with higher rates of working from home. This is especially important in ageing societies with shrinking workforces – flexible working can help keep older people in the workforce when they may have caring responsibilities for parents or grandchildren, or declining health.

Future trends

According to the WHO, healthy life expectancy, which rose from 58.3 in 2000 to 63.7 in 2019, is not keeping pace with total life expectancy, which rose from 66.8 to 73.4 over the same period.

The health and wellness sector is experiencing considerable growth and this will inform the real estate

market. Healthcare clinics are likely to become fixtures in the high street, and both public and private spaces will need to adapt to the needs of ageing populations. Technology can play a vital role in helping people to stay in their homes for longer if they wish, even if they are less fit, and in improving healthcare, senior care and senior living.

Extensive childcare may also boost labour market participation. Sweden established a childcare programme in the early 1970s to help parents combine parenthood and employment. Parents are entitled to 480 days of paid parental leave and children are entitled to childcare from their first birthday.

According to Statistics Sweden, there were 9,450 preschool units in Sweden in 2021. Around 86 per cent of children in Sweden between the ages of one and five were enrolled in preschool in 2021.

The world’s next billion people are going to be slower to arrive than the last. The global population took 12 years to grow from seven to eight billion, but it will take 14 years to reach nine billion. It’s a sign that the population growth rate is slowing, which is good for the planet, but poses a number of challenges that will be reflected in the real estate market.

The watchword will be flexibility. As the millennial and Z generations move further into positions of power, green cities and mobility will become standard.

At the same time, spending will shift to older age groups. In Japan, half of consumer spending already comes from those aged 60 and over.

Tomorrow’s older consumer will be digitally savvy and this will drive societal shifts. Online and hybrid retail will thrive, while digital and real-world experiences will become entwined and offices and homes less firmly demarcated.

As ever, it is the purpose of property to respond to these changing – and sometimes contradictory – trends in a way that satisfies our basic human needs for shelter, comfort and functionality. ■

