3 Ways Millennials Are Changing Commercial Real Estate
Introduction

Trend #1: The urbanizing of the suburbs

Trend #2: Millennials want offices that fit their work style

Trend #3: Millennials embrace e-commerce
Millennials. Everywhere you turn, someone has an opinion on them. Some say they’re lazy, entitled losers. Others say they’re tech-savvy, socially conscious, and hard-working. Putting the generational stereotypes aside for a moment, let’s look at the facts.

- **Millennials are anyone born between 1980 and 2000. As of 2017, that puts their age range between 17-37.**

- **At 92 million strong, they’re the largest generation in American history. In the U.S. alone, they have roughly $200 billion in purchasing power, even though nearly 20% of them are 18 or younger.**

- **By 2020, they’ll make up about 50% of the working population. And even then, many of them won’t be out of college yet.**

And it’s not just that millennials are an economic and demographic powerhouse. They’re also different from every preceding generation since they’ve grown up with personal computers and smartphones. They’re used to a connected world in which information, goods, and services are readily available at the click of a button. This millennial mindset is shaping how tenants are looking for space and what they expect.

That’s why VTS has written this guide. We’re going to break down the three most important millennial trends and what they mean for commercial real estate.
Trend #1: The Urbanizing of the Suburbs

Millennials are well-known for their love of cities. The conventional wisdom says they crave the ability to “live, work, and play” in a single urban area. Easy access to public transportation, a variety of restaurants, and stellar nightlife makes cities irresistible to them.
Recent years have seen the millennial population explode in several U.S. cities. U.S. Census data shows large increases in metros located away from the coasts, with Charlotte, Houston and Austin experiencing the most growth in their millennial populations. Consequently, tech companies have also moved to the cities in search of young, educated talent. The number of high-tech jobs in Austin, for example, grew by 33% from 2013 to 2015 (according to a report by CBRE).

The millennial influx has changed the face of countless urban neighborhoods. Take somewhere like Manhattan’s East Village. It used to be known as a gritty, somewhat unsafe neighborhood. But now, thanks to gentrification, it’s one of the trendiest areas in New York.

In a city where the average rent for a studio is well over $2,000, young workers are going to live wherever they can find a deal, whether they’re computer scientists or starving artists. And to be fair, not all of this urban growth is fueled by millennials. Much of it also due to older empty nesters looking to downsize and have fun by moving to cities.

Top 10 U.S. metros: most millennials as a % of the total population (2014)

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<thead>
<tr>
<th>Rank</th>
<th>City, State</th>
<th>Millennial Population %</th>
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<tbody>
<tr>
<td>1</td>
<td>Austin, TX</td>
<td>17.5%</td>
</tr>
<tr>
<td>2</td>
<td>Salt Lake City, UT</td>
<td>16.3%</td>
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<tr>
<td>3</td>
<td>San Diego, CA</td>
<td>16.2%</td>
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<tr>
<td>4</td>
<td>Seattle, WA</td>
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<td>5</td>
<td>Denver, CO</td>
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<td>6</td>
<td>San Francisco, CA</td>
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<td>7</td>
<td>Washington DC</td>
<td>15.5%</td>
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<tr>
<td>8</td>
<td>Columbus, OH</td>
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<tr>
<td>9</td>
<td>Los Angeles, CA</td>
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<tr>
<td>10</td>
<td>Houston, TX</td>
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Source: Headlight Data based on data from U.S. Census Bureau
Several pieces of data have experts questioning the standard narrative of urban-focused millennials, leading them to believe that the millennial trend toward city living is more a function of age than actual preference. For instance, a survey by the Urban Land Institute shows that 60% of millennials expect to live in a detached single-family home within five years.

The drive to suburbanization is the same for millennials as it has been for other generations: marriage and kids. Although it is true that millennials are putting off marriage and family until later in life, that doesn’t mean they are putting it off indefinitely. According to a 2013 Gallup poll, 75% of millennials still plan to get married, which will likely prompt a suburban exodus. Other experts think that since the 2008 recession, a big portion of millennials have only lived in cities because they have no other choice—that’s where all the jobs are.

Plus, while millennials make up a huge percentage of the population in many cities, when you look at all millennials living in the U.S., only about 30% of them actually live in these urban areas. And migration statistics show that more of them are actually moving out of the cities and into the suburbs than vice versa.
So if millennials like the suburbs, what does it mean for commercial real estate owners?

For one thing, it means that suburban offices can make a comeback, but only if they give millennials the flexibility and collaborative capabilities they crave at work. Creative, modern office spaces are already following millennials from the cities to the suburbs, whether they’re moving from L.A. to Orange County, San Francisco to across the Bay, or Manhattan to the outer boroughs.

Retail owners, on the other hand, are keeping an eye on suburban downtowns that are starting to resemble cities more and more. There are huge opportunities for retailers in suburban towns that can provide millennials the urban feel they love—denser groupings of businesses, luxury condos, and beautiful communal spaces.

While lots of millennials will live their entire adult lives in cities (just as many baby boomers and Gen Xers have before them), CRE owners are starting to account for the fact that plenty of them will settle down in the suburbs.
Trend #2: Millennials Want Offices That Fit Their Work Style

While millennials might not be all that different from previous generations in their affinity for the 'burbs, they have drastically different preferences that office owners need to account for. So, what exactly do millennials expect from their place of work?
Millennials have never known professional life without the internet. They’re used to a world where everyone from their peers to their competitors are just a text, email, or Instagram post away.

But it’s not even just those basic technologies. Millennials also expect access to tools that eliminate menial tasks, help them work faster, and make it easy to communicate. Think of all the hot new SaaS tools (like VTS) that have cropped up in recent years. Chat apps, file sharing tools, and project management software are relatively new, but to millennials, they’re the status quo.
Technology has also made it easier for millennials to collaborate, leading them to embrace asynchronous work. Think of it as collaboration in non-real time.

Imagine working on a sales presentation with multiple stakeholders in different places. With today’s tools, the marketing director in New York can create the deck and share it with their team using a tool like Google Docs. The head of sales, who’s working from home, can add a few slides later that day. Then, the CEO traveling in London can put on the finishing touches a few hours later.

In the old days, all three parties would’ve had to find time to get on a conference call together, but technology allows them to easily keep in touch and collaborate on documents. It’s much more efficient.

Office owners need to make sure their buildings have the connectivity required to keep up with the ever-growing demand for technology. Consider services like WiredScore, that let you show potential tenants that your building’s internet is up to snuff.
Collaborative, creative spaces

Even within the office itself, collaboration is still important. Millennials are working in pods, having impromptu meetings on the stairs, hanging out at team lunch, and brainstorming in huddle rooms. They’re not interested in cubicles. They want an environment where all employees are easily able to contribute. It’s not just about helping everyone feel essential. Millennials know that better, more creative ideas flow forth when teams work together.

This trend has also spurred the rise of coworking spaces. These shared offices allow millennial workers to tap into the talents of the brightest folks from other companies, not just their own. That’s why even big companies like KPMG and General Electric have rented coworking spaces.

The bottom line is that successful landlords are attracting millennials with office spaces that allow for flexibility. And not only do they have the right designs, but they’re also working with brokers on how to describe those designs the right way during tours with potential tenants. This partnership enables brokers to show off their office’s collaborative environments, make helpful suggestions for space use, and offer recommendations for customizable furniture and interior design.
**Offices that feel like home**

Millennials sure do work a lot of hours for a group often derided as lazy. They just structure their time differently than previous generations.

It all started when the traditional 9-5 became the 8-6. Soon, it became the 24/7 as the work day adapted to globalization and technology. Early birds are in the office from 7am-6pm, night owls are there from 11am-10pm, and none of them bat an eye at 3am emails. To millennials, work-life balance isn’t so much about keeping those two worlds even, but more about seamlessly integrating them.
Office owners need to adjust to the new trend. The most desirable workspaces are starting to look more like living environments. Offices are outfitted with gyms, resource libraries, and game rooms. They have kitchens with cabinets full of cereal and a beer fridge next to the regular fridge. Some offices have even gone so far as to install green walls to improve air quality.

Top office owners are also investing in new smart building technology. There are now several apps that can let your building track when people are in the building and regulate temperature and other functions accordingly. Not only does it save money and help the environment, it also creates a much better experience for tenants. Imagine you’re staying late at the office trying to finish up a key project and the heat cuts out. You’d be upset. Smart building tech can help owners prevent that situation and make sure tenants are always comfortable.

The perfect millennial office has great technology, collaborative spaces, and all the comforts of home. That’s what landlords need to provide to make sure their offices stay in high demand.
Trend #3: Millennials Embrace E-commerce

E-commerce has changed the way we evaluate products and the way companies deliver them to us. That means the rise of this new channel is having huge effects on retail and industrial real estate. As the most tech-savvy generation, millennials have naturally been a key part of this trend.

As millennials grow older and their purchasing power continues to grow, they’ll only have more of an impact on e-commerce, and therefore on retail and industrial real estate.
Many pundits have claimed e-commerce would lead to the rapid demise of brick and mortar retail. But, so far, that actually hasn’t been the case. Today, e-commerce accounts for 8.1% of the $4.8 trillion in yearly U.S. retail sales. Yes, that number is growing quickly and will continue to do so, but retailers and shopping center owners still need to pay attention to trends in brick-and-mortar to ensure the performance of their assets.

One reason retail will survive, and why 75% of millennials’ purchases still happen in physical stores, is that brick-and-mortar offers an experiential element they simply can’t get online. When it comes to products like clothes, millennials want to pick things up, see them in person, and try them on before they commit to buying. Some e-commerce companies, like Bonobos, are even opening up physical locations to accommodate this behavior.

But that’s just table stakes. In order to stay relevant long-term, retail owners need to work with tenants to ensure their stores offer unique experiences that e-commerce can’t replace.
Embracing tech instead of competing with it
Mall owner Taubman Centers has tried some off-the-wall tech ideas to provide shopping center visitors a better experience. COO William Taubman has tried loyalty apps that reward customers the more they buy from a specific mall, which provides a clear incentive for shoppers to keep coming back. He’s also installed cameras that can pick up visitors’ license plates and guide them back to their cars via the app if they get lost. Even customers who never end up using that feature would be excited to know it’s there—it’s undeniably cool and shows shoppers that the mall is going out of its way to provide a great experience.

Adding experiential elements
Experiential retail is all about giving customers stuff to do inside the store besides browse products, since they can already do that online. It can be as simple as a movie theater in a mall or an augmented reality dressing room in a clothing store. Those kinds of features keep customers engaged and make them want to stay at your store for longer. Some retailers are also partnering with other businesses and letting them set up kiosks in their own stores. If your store has rotating kiosks with alternate products, the curiosity of what’s to come gives customers a reason to return.

Blending online with brick-and-mortar
Technology leaders can drive business efficiency, simplify their IT landscape, and ensure critical enterprise information is being protected and accurately maintained via a centralized leasing management system.
Millennials and e-commerce make for a bright future for industrial

Q1 2017 was yet another period of resounding strength for leasing activity in the industrial sector, with unmatched demand from tenants. Most of that demand for industrial space was driven by the growth of e-commerce.
This is great news for industrial owners. But what can they do to ensure that they get the absolute most out of this e-commerce boom?

- **Tailor your spaces for e-commerce**
  For one, they need to make sure their spaces are tailored for e-commerce. For instance, industrial sites for online fulfillment need taller ceiling heights, between 36 and 40 feet, about eight feet above what used to be the standard. Part of the reason for the higher ceilings is that the column spacing is wider apart, creating more room for products. Unlike traditional retailers, online stores keep more products in smaller quantities that need to be individually chosen by workers.

- **Choose the right tenant**
  Warehouse owners also need to understand what kinds of e-commerce companies are viable tenants for them based on asset location. As the world’s biggest online retailer, Amazon leases warehouses near most major cities so it can offer shorter delivery times to more customers. But smaller e-commerce operations need to settle for space toward the middle of the country so that they can offer solid delivery times to the highest possible number of customers.

- **Choose the right technology**
  Another thing owners need to do is keep an eye out for technology to make their industrial spaces smarter. The Internet of Things is on its way. Soon, all the important parts of your warehouses will be talking to each other and optimizing performance. Experts have proposed ideas like wearables that guide workers to the correct part of the warehouse, smart glasses that give workers information about products they look at in real-time, and robotic carts that can pick up specific items and take them where they’re needed. Owners won’t be able to make all of these changes on their own. They need to find forward-thinking tenants and work in partnership with them to build the future.
Millennial trends will define commercial real estate for years to come

Millennials are already a huge portion of the tenant base, and they’ll only become a higher percentage as they age. Every commercial real estate professional needs to be able to read the trends, understand what millennials want, and figure out how to provide it in order to be successful in the long term.