



# 5 Forces Re-Shaping the Real Estate Industry Today & Tomorrow

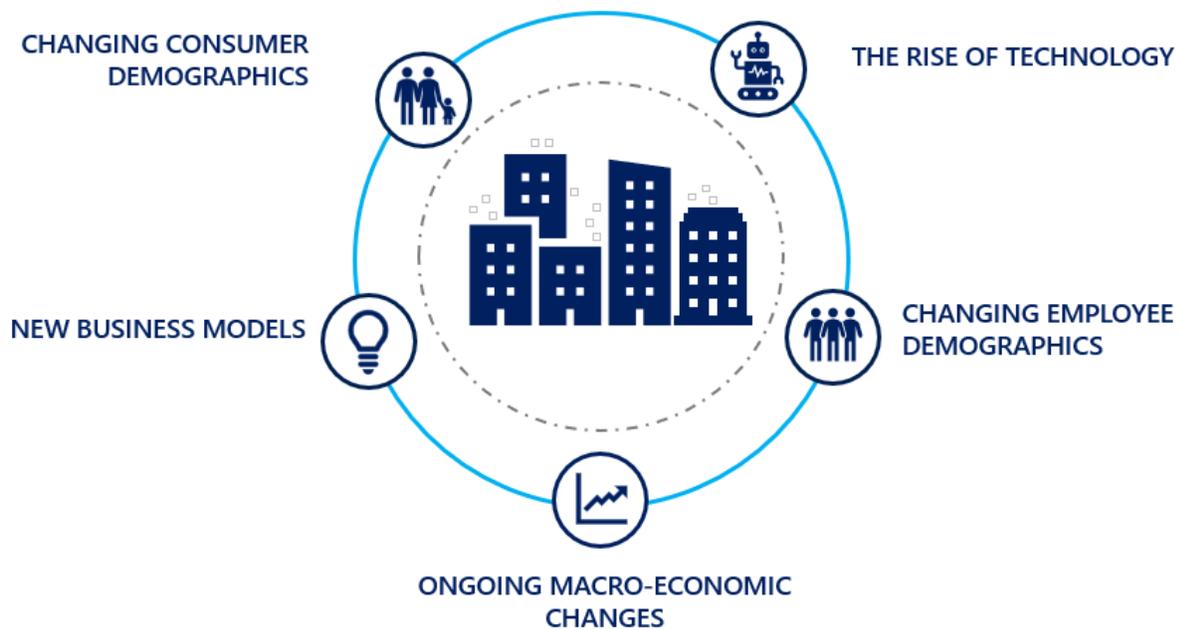
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## The real estate industry is undergoing transformational change driven by a number of key forces and unprecedented technological advancements.

This transformational change presents both a challenge and an opportunity for firms large and small across the global real estate industry. In this paper, we explore the key forces driving transformational change in the industry both today and tomorrow and consider some of the strategies for how real estate firms can reimagine their businesses to survive and thrive in the midst of this increasingly changing and competitive industry landscape.



Title: Major Forces Shaping Change in the Real Estate Industry

## 1. Changing Consumer Demographics

“45% of mortgages will be accounted for by millennials in 2019,”

Realtor.com Housing 2019 Forecast



Globally we are experiencing a significant demographic shift with the rise of millennials and Generation Z (Gen Z.) Both generations are already having a considerable impact on the way we think about things from shopping and work to brands and the environment. Not only does their perspective differ significantly from generations of yesteryear but they are driving change on an unprecedented scale. In 2019, Gen Z will surpass Millennials as the largest generation comprising 32 percent of the global population of 7.7 billion people, nudging slightly ahead of millennials, who will account for a 31.5 percent share<sup>i</sup>. In the U.S. alone, there are 65 million Gen Z'ers and by 2020, Gen Z will account for 40 percent of all consumers in the U.S.<sup>ii</sup>. In a recent report by the Ellie Mae Millennial Tracker, 89% of mortgage loans made to millennial borrowers in July 2018 were for new home purchases<sup>iii</sup>. That's up by a huge margin from the year prior. In addition, Inc. Magazine noted in 2017 that 66% of millennials plan to buy a home in the next 5 years. We're entering the third year of that which means millennials have more purchasing power than ever. But what relevance does this have for buying a new home – assuming buying a property vs. renting or co-sharing is even on the agenda that is?

For brokerage firms and agents in particular this can sometimes mean a different approach is needed when selling a new home. Often with Millennials there is parent involvement meaning brokers/agents will need to cater to two sets of buyers during the buying process. Similarly, real estate agents need to be more adept at utilizing social media as a key touchpoint for buyers across the purchasing journey. Given the amount of research younger generations undertake online having high-quality photography and videos of the local community, local amenities and similar can make a big difference.<sup>iv</sup> Technology that enables agents, brokers, property management firms and similar to have the right details at their fingertips and thus engage buyers and tenants on their terms and in the channel of their choice will be pivotal for future success.

## 2. The Rise of Technology

“If you do stick to working with spreadsheets, you are not going to go bust over night, but it will be death by a thousand cuts”

PwC, Global Emerging Trends in Real Estate 2018 Report



Technology is everywhere we look and its impact on society has been nothing less than profound. Despite the proliferation of technology across virtually every facet of our lives, the real estate industry has been somewhat of a laggard when it comes to its adoption (particularly when compared to other industries such as retail.) However, that has slowly been changing and 2018 marked, to some extent, a tipping point with 53% of commercial real estate firms reporting directly investing in at least one type of PropTech firm according to a survey from Altus Group<sup>v</sup>. Although some of this investment is coming via venture capital, active investment is also coming from more traditional real estate companies showing a shift in thinking as more firms realize the true scale and impact of technology in the industry. Not surprisingly, CB Insights projected that real estate tech investment would top \$5 billion in 2018, up significantly from \$1.3 billion invested in 2014<sup>vi</sup>. As Mihir Shah, co-CEO of JLL Spark recently commented “we are seeing companies that typically went through long RFPs showing interest in piloting new products to see which ones are viable. This helps them prove [return on investment] faster and helps the winners grow faster.<sup>viii</sup>” Tenants, employees and consumers alike are all also crying out for more connected, seamless and meaningful engagements with real estate firms as demographic changes, housing affordability and population density put increasing pressure on them. So what does the future hold for technology and how should it be best adopted in our industry?

We expect to see the very culture of many firms transforming to a point where technology is a part of their DNA. Given the vast amounts of transactional and operating data generated every day, solutions that can provide valuable data-fueled insights to property owners & managers, brokers and agents will be high in demand as companies look to realize much needed operational savings, gain a better view of their end-to-end business (vs. the current siloed view) as well as offer more meaningful experiences to employees, tenants and buyers alike. Whilst there has been a fear that technology will replace human beings, we firmly believe that technology will simply empower real estate workers to be more productive and enable them to provide even more of a meaningful human touch to buyer, tenant and customer interactions.

### 3. New Business Models

“Where value resides in the real estate sector, it will shift to new or hybrid models of existing and new players who manage to harness data as a competitive operational advantage and create entirely new revenue opportunities that leverage the scale of their portfolios.”

PwC, Global Emerging Trends in Real Estate 2018 Report



Uber, Lyft and Netflix are all recent examples of companies that have disrupted their respective (and arguably rather traditional) industries. One of the key factors in their success has been the concept of ‘disintermediation’ or cutting out the middleman. Uber and Lyft connect passengers with drivers but own no vehicles. Netflix owns one of the largest selections of films and TV series but owns no cinemas. And in the global real estate industry disintermediation models are increasingly disrupting established business models and helping companies create greater operational efficiencies. 77% of executives indicated that the sharing economy is having the greatest impact on their business (EX: Airbnb), followed by co-working at 66% (EX: WeWork) and e-commerce at 61% (EX: Amazon.) Not only that, 61% of commercial real estate executives indicated their firms are using or already trying out online lending places, with 23% using them in a significant way<sup>viii</sup>. But let’s not forget some of the technology powering these new business models such as the cloud. Cloud computing has significantly changed the ability to make sense of large amounts of data and make decision made on actionable insights. On top of this is the ability to leverage the power or artificial intelligence (AI) to predict behaviors and enable companies to make adjustments ahead of time. Beyond this Blockchain technology particularly in the areas of payment processing and transaction security has the potential to shape the way in which parts of the industry are managed in a different fashion.

## 4. Changing Employee Demographics

Whilst we so often hear about the impact of changing demographics from a consumer perspective an arguably larger and more profound one is happening in the workplace. An increasing number of millennials and Gen Z'ers are not just entering the workforce but also taking up management positions across every sector of the market and with the very oldest millennials aged just 37 years old, many have decades left at work. Combined with Gen Z'ers who are to become the largest demographic during 2019 it means paradigmatic shifts in how people work, where they work and the expectations they have regarding everything from their office & collaboration spaces to technology and much more. 43% of employed Americans now spend a portion of their time working from home and flexible schedules are also becoming commonplace.<sup>ix</sup> For real estate firms it means going head-to-head with other sectors when recruiting (and retaining) new talent, it means creating new types of workspaces to cater to the needs (and expectations) of a younger workforce and embracing technology that is as easy-to-use and powerful as the apps on an average smartphone.

## 5. Macro-economic trends

Macro-economic trends have always and will continue to influence the real estate market on a number of fronts. Looking ahead volatility caused by trade tensions, Brexit or the actions of central banks are the forces most likely to impact the industry together with changes in legislation (particularly those of a fiscal nature.) The key takeaways for real estate firms are:

- Ensure that processes and solutions are in place that will enable the business to scale up or down according to the state of the market
- Ensure that there is opportunity to continually optimize operations and streamlines process to drive cost savings and productivity gains when the market is tough
- Ensure that there is strong in-built transparency and compliance across your value chain



## Reimagine your real estate business today

With years of real estate industry experience, talented professionals, and innovative technology, Domain 6 delivers digital transformation solutions for the real estate industry. The team at Domain 6 has been working with and supporting technology selection and adoption in the real estate industry for over 20 years. We deliver a wealth of knowledge and best practices, we invest in a collaborative culture and we welcome partnerships to ensure that we deliver the best talent for the right job. In April 2019, Domain 6 was awarded the prestigious “20 Most Promising PropTech Solution Providers – 2019” award by CIO Review. We have successfully deployed Microsoft technology for over 100 customers and would love to help your business as well.

For more information visit [www.domain6inc.com](http://www.domain6inc.com) or call +1 425 578 1918



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## References

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- <sup>viii</sup> <https://www.altusgroup.com/wp-content/uploads/2019/01/CRE-Innovation-Report-2019.pdf>
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