Real estate disruption: challenges and opportunities in a rapidly changing world

Technology + demographics + globalization

EY contends that there are three primary forces behind disruption: technology, demographics, and globalization. These forces are not new – they have been around for many years – but they evolve in successive waves, as well as interact with one another. These waves and interactions create new sources of disruption. Organizations of all types and across all industries find themselves facing disruption from these forces. Real estate is no exception.

The transformation of real estate

What’s important to keep in mind is that while disruption poses threats to traditional business models and value chains, there are also significant opportunities embedded in the changes taking place:

- **Technology** continues to have a tremendous impact on real estate. E-commerce has slowed in-store shopping, resulting in retail store closures. At the same time, new technologies such as virtual reality could transform physical stores into experiential showrooms, highlighting the continued need for retail real estate. The expansion of online shopping implies the need for more and more local distribution and warehouse facilities. Similarly, expected labor force displacement by robots will have a huge impact on the number and scale of needed manufacturing facilities. Widespread personal and industrial 3D printing impact could yield greater demand for local fabrication facilities, but simultaneously curtail demand for far-flung real estate as global supply chains shorten. The digitally enabled sharing economy provides another example of sector disruption. Digital platform company Airbnb entered the hospitality industry without owning any hotels, becoming a new competitive force and causing traditional lodging companies to re-examine their business models and physical footprints. As the value proposition of companies comes to reside increasingly in digital innovation, more data centers will be required – will changes like these be an opportunity to convert obsolete real estate forms for other uses?

- **Demographic shifts** and preferences, coupled with technological advances, will also affect real estate. Many societies, particularly in the West but also in Japan and China, face rapidly aging populations. As people age, their real estate preferences and needs change. In some markets, aging populations will spur the growth of lifestyle-focused communities and new forms of urban design. Elderly populations also drive greater demand for general and
specialized health care facilities. Real estate investment patterns are changing as pension funds and other wealth management vehicles seek asset classes with secure income streams to see older people through their retirements. Preferences for flexibility on the part of younger workers, enabled by technology to work anytime and anywhere, are already putting strain on class B and C office space as corporations reduce their real estate footprints, particularly with non-headquarter locations. Corporations are also exploring new office sharing models. At the same time, we see companies relocating their workforces from suburban locations back into class A buildings in urban centers in order to attract premier talent.

- With **globalization**, capital for real estate has increasingly made its way across borders, reaching record levels in recent years. While this phenomenon has introduced some level of volatility as markets respond to local events and conditions, global diversification of real estate portfolios also has helped to provide stabilization through diversification on the financing side, while allowing developers and builders to help global clients achieve their expansion strategies. One of the longer-term effects of globalization has been rapid urbanization. The expectation that population growth will see 2.5 billion urban people added to the planet between 2015 and 2050, with 90% of that growth happening in Asia and Africa, suggests massive construction demand in these parts of the world over the next several decades. At the same time, climate change and other forces create opportunities for new types of construction that are smart, green and resilient.

**The unique challenges of real estate**

All industries face disruptive forces. The unique dynamics of real estate make the challenge of disruption particularly steep. The planning, delivery and management of real property requires a long-term vision, which is difficult to establish in a rapidly changing world. The real estate sector is now in a position that will require its leaders to better anticipate the future state and consciously adopt new ideas, with success depending on the ability to proactively shape and drive future demand. With all of these changes, players in the real estate space clearly need to think differently, assessing both the weak and strong signals in the market that spell change, as well as making bets on future opportunities. As the world continues to evolve – driven by the waves and intersections of technology, demographics and globalization – business as usual is not an option.

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