# Commercial Real Estate Redefined
## How the nexus of technology advancements and consumer behavior will disrupt the industry

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Disruption is not a new phenomenon, yet it is a hot topic of discussion among executives and in every boardroom today. Many of these discussions center around the potential impact of technology on their business, and while this trend is also not new, nearly every traditional business is feeling the heat more than ever.

The convergence of multiple technologies, such as advanced cloud computing, mobile, social media, and analytics, is leading to fast-paced, big-bang disruptions in many industries (see Figure 1). For example, this convergence is enabling high-quality Internet enabled services such as advanced payment systems, Internet of Things, and geolocation services globally. Furthermore, small and large technology companies are leading the charge by constantly experimenting with product innovation. These companies use hackathons and other approaches to innovate products and services that have the potential to obliterate existing businesses. As a result, traditional value chains are being transformed with transfer of power to the consumer. The technology advancements are increasing global interconnectedness, data ubiquity and transparency, and speed of information access and exchange. As a result, disruption in one part of the ecosystem is rapidly spreading to the broader world.

Figure 1: A nexus of technology advancements and consumer behavior will disrupt the industry

Other evolving trends include rising urbanization and changing global consumption patterns. Urban population is expected to grow to 66 percent of the global population by 2050, compared to 54 percent and 30 percent in 2014 and 1950, respectively. This rising urbanization is redefining how and where people live, work, and play. Consumption patterns are tilting toward more customized goods and services. Some consumers are increasingly environmentally conscious, preferring to reuse and share goods rather than own and acquire new ones.

The nexus of technology advancements and consumer behavior changes has the potential to redefine urban planning and fundamentally change Commercial Real Estate (CRE) demand-supply dynamics and business models, including real estate usage, site location, development, design, valuations, leasing, and financing.

That said, as the disruptive trends evolve, regulators will likely have to develop policies and regulations to strike a balance between protecting public interest and enabling innovation.

As we move into 2016 and beyond, CRE executives will increasingly be challenged to evolve the business-as-usual, traditional sector services by four key macro trends that will result in significant disruption for the CRE industry over the next decade:

- Collaborative economy
- Disintermediation of brokerage and leasing
- War for talent
- The last mile

While there is no certainty about the extent of disruption in each of these trends, CRE companies will have to be agile and flexible in embracing technological innovations to keep pace with their new competitors and maintain their edge. Given this, we are now facing a critical time for change in the sector where businesses will either have to disrupt—or be disrupted. We all recognize that it is best to get out in front of the curve and be the disruptor.

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**The collaborative economy will reshape CRE demand and use (see Figure 2)**

Growth in the collaborative, or "sharing," economy is spilling over into CRE, creating a variety of new challenges for traditional players and incumbents, including the creation of excess capacity. Moving into next year, businesses will need to compete against the expansion of online marketplaces—which are quickly moving beyond travel rentals into the office sub-sector—and find innovative ways to fulfill the demand-based needs of tenants.

As a result, redefinitions of commercial space usage and fluid design will emerge, while dynamic revenue models simultaneously replace existing business models to allow for flexible-term leasing. For now though, CRE leaders can begin positioning themselves for future change by rethinking approaches to designing, developing, and redeveloping both new and existing spaces. We are moving from an ownership society to an access society, i.e. share and get what you need when you need it.

Figure 2: Collaborative economy is growing rapidly…

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## Technology will disintermediate brokerage and leasing

With the continued rise of direct-to-consumer CRE services—spurred onward by customer demand for data ubiquity and transparency—executives in the traditional brokerage and leasing space will find that disintermediation is the theme of the next decade (see Figure 3).

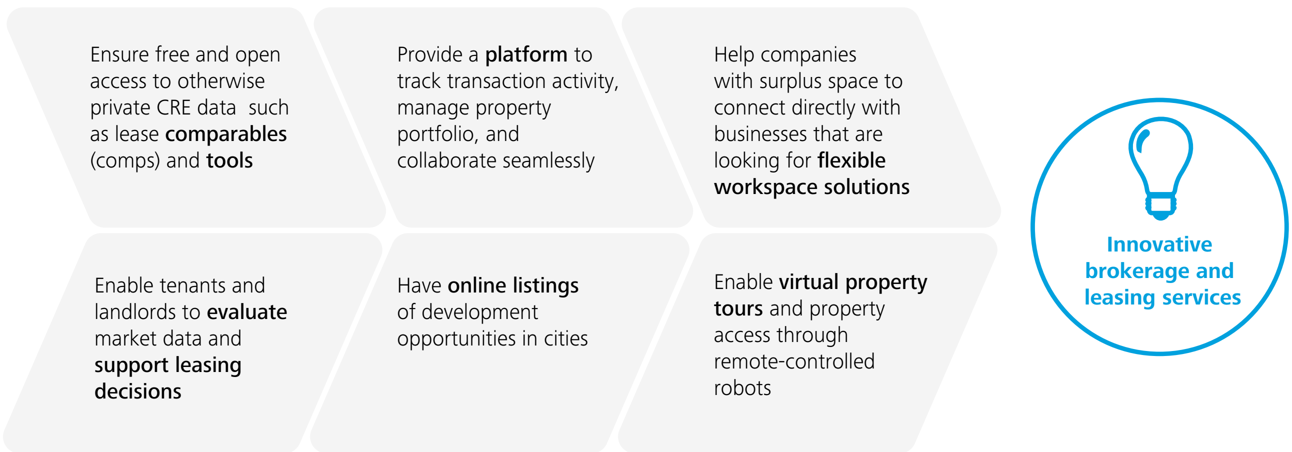
**Figure 3: Incumbents and new entrants are offering more technology-driven services**

1. Demand supply gaps can be met in real-time
2. Traditional model for selling and aggregating CRE information is getting inefficient and irrelevant
3. Increased data ubiquity and transparency will eliminate the competitive edge of proprietary data
4. Topline growth and margins of traditional players can potentially be under pressure

Improved access to market information and data will bring buyers and sellers of real estate, and lessors and lessees of real estate, closer together and increases the potential for broker-less transactions. In order to adapt to market demands and accommodate shifting tenant expectations, it will become critical for companies to develop new service models and non-brokerage revenue sources that push the envelope (see Figure 4). Many, for instance, will need to shift from regional to central client relationship management and build up their IT to harness the power of tools such as artificial intelligence and cognitive technologies to truly deliver the value clients demand.

Unlike the more tangible collaborative economy and technology trends discussed above, consumer preferences and talent are markedly different because they represent abstract market shifts. As a result, CRE executives must have an even deeper understanding of them in order to gauge how and to what extent they will disrupt their businesses. So as we look out into the next ten years, CRE executives should keep the following in mind:

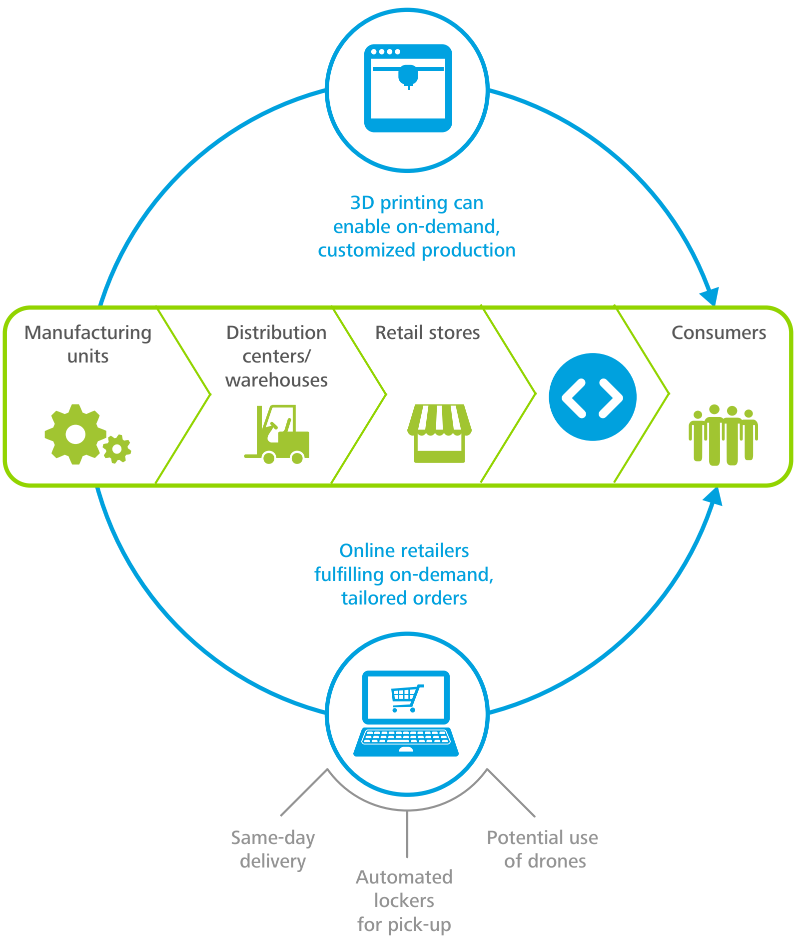
**Figure 4: New players are providing innovative service to landlords and tenants**



### Consumer preferences will blur the lines between retail and industrial properties

The on-demand and same-day delivery expectations consumers now crave, as well as technology innovations in areas like additive manufacturing, 3D printing, robotics, and virtual reality are already impacting the location and use of retail and industrial properties (see Figure 5).

Figure 5: Advanced technologies are helping create innovative last mile solutions….




Resulting on-demand retailing and manufacturing will continue to reduce inventory holding and demand for large warehouse spaces, while leading to the rise of inventory optimization technology. In response, CRE executives operating in retail and manufacturing should consider exploring smaller, local distribution centers and flexible store formats as a way to adjust and capitalize on shifting trends. Changes in transportation including self-driving or driverless cars and drones will have a major impact on the delivery of goods to the consumer.

### The war for talent will revolutionize demand for office and mixed-use properties

Big changes are on their way regarding where CRE is located and the way it is designed and used. The source? A growing talent gap and evolution in the talent marketplace. As the war for talent intensifies, office property owners will increasingly have to think about how talent dynamics factor into location-based decision making and development projects. Tangentially, the continued rise of a robust millennial workforce (see Figure 6) and its unique demands for a non-traditional employment experience will require companies to adopt mixed-use spaces that incorporate office, residence, and recreation options over stand-alone properties.

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Transportation Oriented Development (TOD) will become a CRE must in major cities, where the creation of compact, walkable, mixed-use communities will locate near high quality transportation. Remember: Millennials, who will comprise the vast majority of the workforce by 2030, prefer an open and flexible work culture that allows them to work anywhere, anytime—meaning properties will need to be developed to match their expectations of Live-Work-Play environments (see Figure 7).

In the face of these growing trends, there is vast potential for traditional CRE models to be turned upside down, meaning that executives need to understand now how to best prepare themselves for what comes next.

*For further information, download a copy of the Deloitte Center for Financial Services report, "Commercial real estate redefined: How the nexus of technology advancements and consumer behavior will disrupt the industry," available on Deloitte's website.*

Figure 6: Millennials have distinct work preferences


Figure 7: How can CRE players deal with the war for talent?