



OAK INVESTMENT MANAGEMENT GROUP



JANUARY (2) 2018

Demographics and Real Estate

The world and the commercial apparatus that underpin it does not drum like a methodical, monotonous machine. There is a tempo and a cadence to events, that create cycles, that affect the world profoundly. For example, the events of the Second World War had a dramatic demographic impact in of itself, but the cessation of hostilities had an even longer lasting impact. Western Allied countries experienced quite a pronounced baby boom the effects of which are still being felt today.

Little appreciated at the time, the 1960s and 1970s saw outsized growth rates and now – more acutely noticed – the 2010s and 2020s will see restrained growth rates as these same people become too old to work. Some structural factors have made matters even worse. This generation embedded certain privileges and benefits being part of the workforce that now seem no longer affordable.

There are, of course, counter-trends. The most prominent of these is the power of technology and its replicating or organising principle to use the labour that is available, more effectively. Another important counter-trend is increased worker participation beyond the age that the baby boomers became accustomed to.

The value and quantity of real estate closely tracks the demographic trends of a country, or the segment of a society that it serves. Countries with a precipitous collapse or exponential boom in population will require less or more real estate. The dismantling of manufacturing and the creation of a new tech services sector requires different types of real estate. The fact, for example, that millennials want to live in the city in their 20s and baby boomers want to return to the cities in their old age requires pre-existing real estate to be re-purposed. Reading demographics correctly is absolutely critical to getting real estate investment right.

The right product, in the right place, at the right time and at a profitable price is greatly aided by population growth. If this is against you there is an incredible challenge to overcome. Broadly speaking, the continent of Europe (southern to a greater extent than northern) is entering a period of sustained downward pressure on populations which will make it important to navigate the value of real estate wisely.

For example, even in shrinking Europe urbanisation will be a prevailing demographic trend. Technology and accompanying social *mores* will allow more flexible working which in turn will put an even greater emphasis on transport links as well as catchment areas for office as well as residential real estate. Critically, therefore, changing demographics will enhance the rewards for getting it right as well as getting it wrong both in real estate development as well as real estate investment.

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