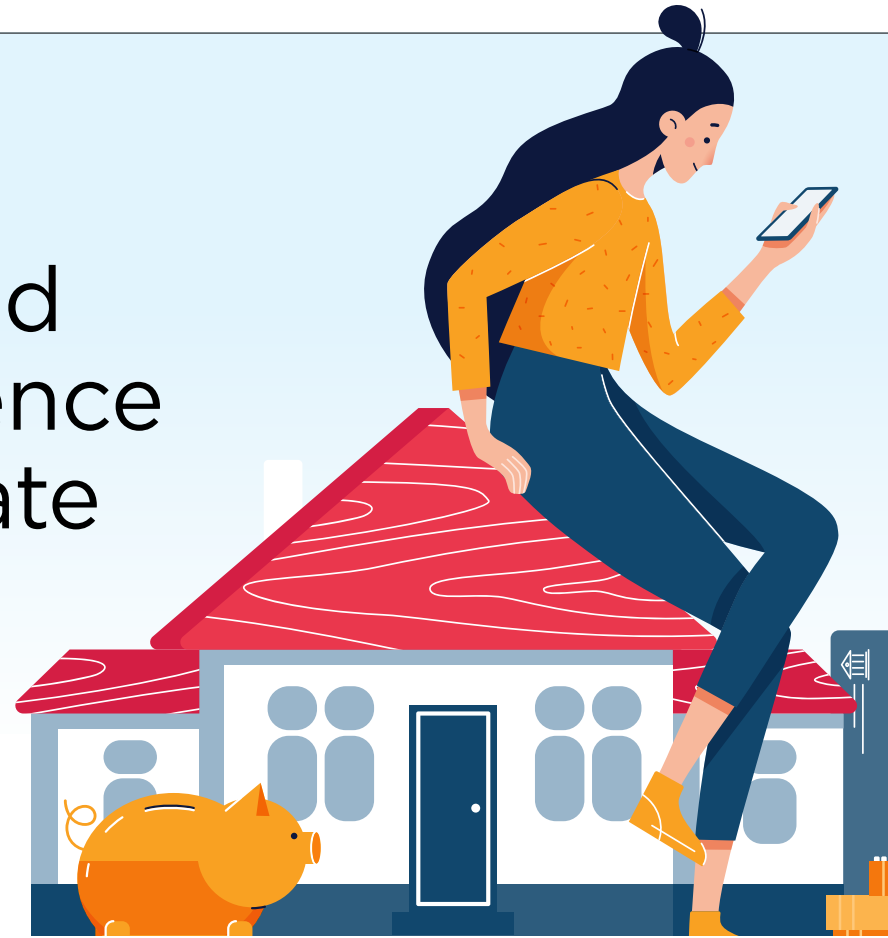


CHANGE AGENTS

Millennial and Gen Z Influence on Real Estate

Identifying what the next generation will want from their real estate has long been the silver bullet of property investing. To get it right, one needs to not only have an asset that caters to these evolving preferences, but also to be positioned to do so at precisely the right time.



There have been numerous pieces written about what the rising influence of the Millennial cohort (and Gen Zs behind them) would mean for the world around us – and yet, the general result of these efforts has been largely superficial. A quick search for “Millennial influence on the workplace”, for example, will yield results falling into one of two categories: those pieces focused on company’s efforts to recruit these cohorts via enhanced lifestyle offerings like free gym memberships, in-office snacks, beer taps, and nap pods, and those highlighting the group’s inclination for flexibility and purpose.

That’s not to say the conclusions have yielded nothing; rather, they suggest that the function of all forms of real estate must continue to evolve. But now, with several decades of data on Millennial and Gen Z perspectives and habits and with both groups entering pivotal periods of their lives in the coming decade, we’re ready to take the conversation on their impact one step further, connecting the dots between who they are, what we know, and why it matters for investors in commercial real estate.

WHO THEY ARE

Although the focus of this piece is the impact of a strengthening Millennial/ Gen Z influence on the various corners of the commercial real estate universe, it’s useful to place them in the appropriate generational context to better isolate changes in attitudes and values over time.



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MILLENNIALS & GEN Z OUTNUMBER GEN X & BABY BOOMERS NEARLY 2:1.

WHY IT MATTERS

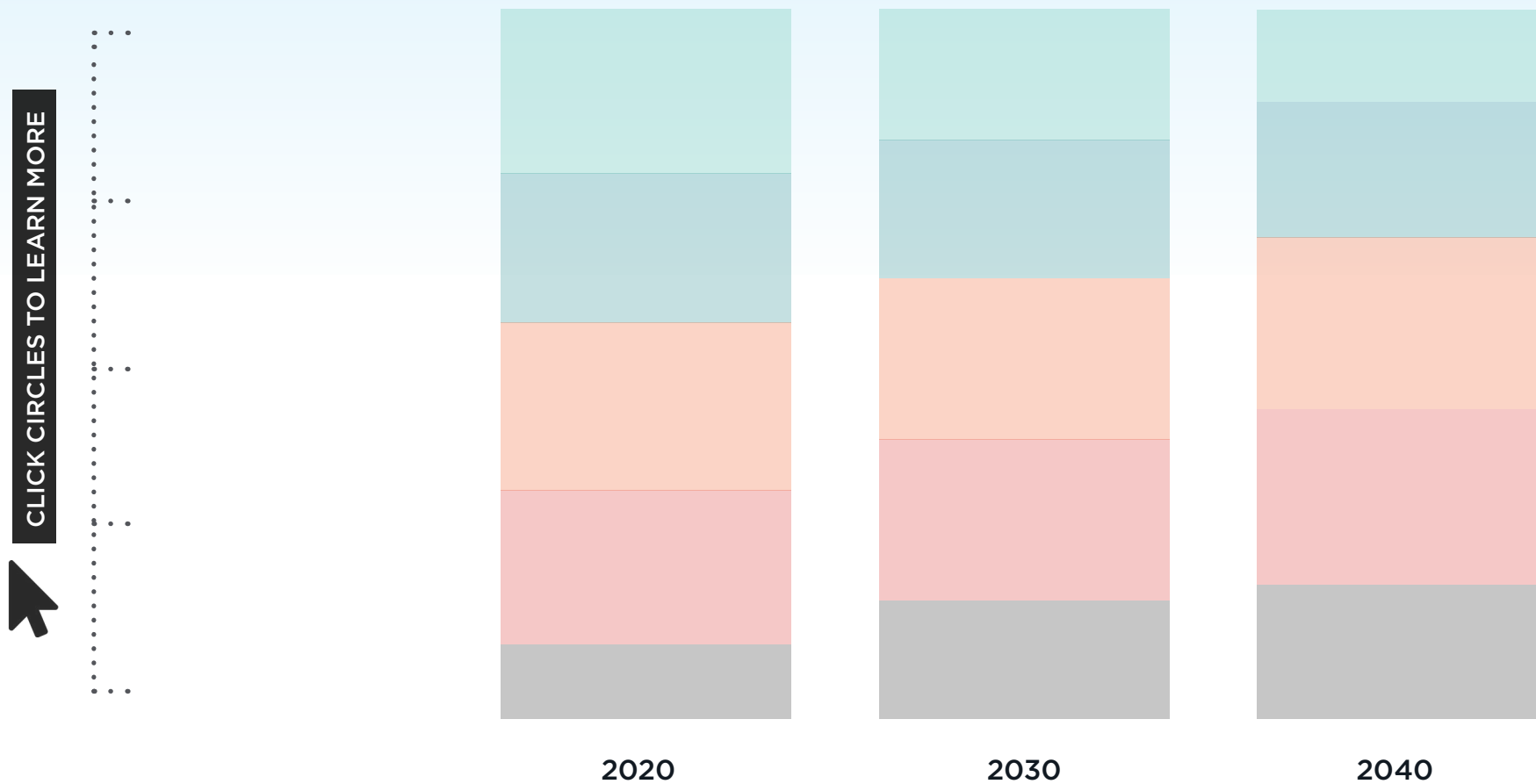
Even though Millennials overtook Baby Boomers as the largest generation in the workforce in 2016, their relevance, particularly as it relates to altering office demand patterns, is only beginning.

While companies have sought to cater to the Millennial worker given their outsized share of the labor force, decisions surrounding the type and location of the physical office has continued to be dominated by leaders from prior generations. And although certain companies who rely heavily on tech-savvy younger workers have taken their lead when it comes to embracing lower-cost metros and flexible work arrangements out of necessity, many more “traditional” office-using industries have continued to anchor their approach to one most aligned with existing Baby Boomer leadership.

But the next generation of leaders has already started to take the mantle as Millennials step into more senior roles. As of 2020, Millennials made up roughly 8.9 million of the roughly 27 million people employed in management, business and financial operations positions.² And with 30% held by those aged 55 and older, there will be too big a gap to fill exclusively by Gen Xers as more Baby Boomers retire, suggesting a pivotal transition that will drive corporate decision making over the next 5-10 years.

²) Bureau of Labor Statistics, Labor Force Statistics from Current Population Survey, data as of 2020.

PROJECTED POPULATION BY GENERATION, 2020-2040F



GEN Z AND MILLENNIALS: WHAT WE KNOW AND WHAT IT SUGGESTS

While preferences naturally evolve as people age, meaningful geopolitical, economic and social events during a cohort's lifetime underpin deeply held generational values that are hard to shake. These influences and values provide a solid starting point to **connect the dots** to future CRE implications.



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WHAT WE KNOW

WHAT IT SUGGESTS



MORE TO EXPLORE...



KEY TAKEAWAYS

- 1 A **generational handover** in the C-Suite between Baby Boomers and Millennials in the coming years will mark a shift in corporate ethos and see values at the forefront of physical space decisions, **benefitting properties that make communities better**.
- 2 **Two early-career recessions** have created deep earnings scarring for Millennials and Gen Z, which has **delayed the purchase of starter homes**. Ownership-adjacent strategies like single-family rentals allow renters to **try before they buy**. These cohorts may buy fewer homes in their lifetime than prior generations as a result.
- 3 **Millennial leaders**, with Gen Z behind them, **will lean on technology even more** as a tool for bettering work-life balance. We expect this to translate to **greater nomadic workforce mobility between cities and time zones**.
- 4 Previously **“Amazon-proof”** goods and services are prime for **mobile disruption**, which could leave behind a wake of underutilized space for repositioning.



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This newsletter contains forward-looking statements within the meaning of federal securities laws. Forward-looking statements are statements that do not represent historical facts and are based on our beliefs, assumptions made by us, and information currently available to us. Forward-looking statements in this newsletter are based on our current expectations as of the date of this newsletter, which could change or not materialize as expected. Actual results may differ materially due to a variety of uncertainties and risk factors. Except as required by law, ARA assumes no obligation to update any such forward-looking statements.

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