

The Real Estate Quandary: Future-Proofing the Cities of Tomorrow

Developing in-demand commercial properties requires vision and long-term investment. But the need to be nimble in the wake of swift and far-reaching changes can make survival in the real estate marketplace appear daunting.

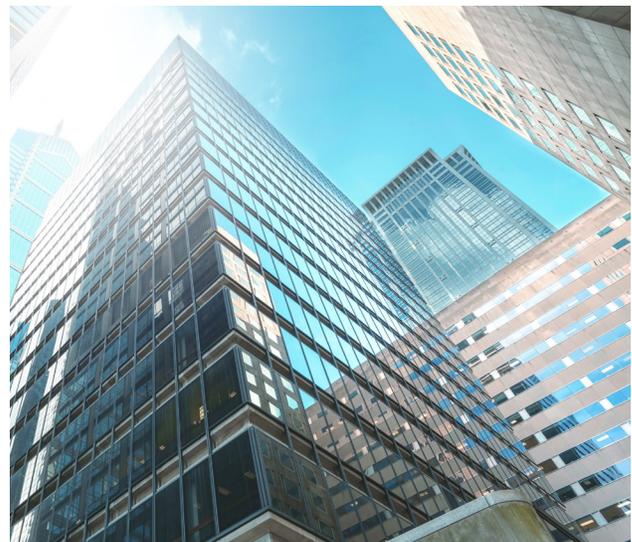
Today's business climate is ripe with rapidly evolving risks, making it difficult for any organization to keep pace with disruption. To remain competitive, commercial real estate (CRE) organizations across the retail, office, multifamily, and hospitality sectors must stay ahead of the many trends affecting their industry, be aware of the risks posed by various disruptions, and put in place a strategy for either embracing and managing emerging risks or avoiding them as best as they can.

A New Reality

As tech-savvy millennials grow up and settle into adulthood, they are becoming more influential in our society and their numbers are swelling. [According to US Census Data](#), millennials — born between 1982 and 2000 — have outnumbered baby boomers, which has historically been the largest generation.

And the technology that millennials are so dependent on is also becoming increasingly pervasive. Its prominence in today's world is obvious; it's inescapable.

The increasing number of tech-dependent millennials working, making major spending decisions, and establishing cultural norms, coupled with the ever-increasing prominence of technology, is revolutionizing how and where people live,



work, and play. The marriage of these two phenomena is driving many of the disruptive trends currently affecting CRE, including:

- **E-commerce:** While technology has, of course, made e-commerce possible, it is millennials' reliance on technology and their preference to shop online that has helped elevate e-commerce from a shopping alternative to a way of life. In 2017, e-commerce accounted for around \$2.3 trillion in sales, and those numbers are expected to get close to \$4.9 trillion in 2021, according to [an eMarketer report](#).
- **The sharing economy:** Technological advances, along with tech-savvy, tech-trusting millennials, have helped launch the sharing economy, through which peers acquire, provide, or share access to goods and services via community-based online platforms. An [estimated 56.5 million adults](#) will be

using such services by 2021, and, according to the [Brookings Institution](#), the sharing economy will be worth an estimated \$335 billion by 2025.

- **Smart buildings:** The global smart building market is projected to be valued at \$42.6 billion by 2024, [according to Allied Research](#). Millennials have accelerated the rise of smart buildings by demanding to inhabit buildings that meet their data needs and desire for flexible office designs and the ability to work from home or with others. Mass adoption of cloud-based technology has also had an impact: More than 60% of enterprises will have moved to the cloud by 2019, according to [Microsoft Azure](#).

This is just the tip of the iceberg. A whole host of other disruptive trends are looming, including some less influenced by technology and changing demographics. Natural disasters, active shootings and terrorism, geopolitical instability, and pandemic outbreaks are also influencing how CRE space is used, leased, and managed, creating new and unforeseen risks along the way.



DISRUPTING DISRUPTION

Organizations that stay ahead of emerging trends and risks should be better suited to thrive in the CRE marketplace. To do this, however, they should focus on adopting the following tools and processes:

1. **Engage in data analysis:** Organizations should invest in risk management technology — or work with service providers with the appropriate analytics tools — to leverage claims, exposure, and placement data pertinent to their industry, size, geography, and products. This can allow them to more effectively conduct holistic, forward-looking planning, explore risk financing options, and determine optimal risk financing structures and risk mitigation investments.
2. **Leverage risk committees:** Effective risk committees build perspectives around strategic risks with the goal of mitigating them while taking advantage of market opportunities. Establish or lead your organization's cross-functional risk committee to further strategic discussions about the emerging trends and risks affecting the real estate market.
3. **Constantly analyze risk:** Enterprise risk management (ERM) is a structured, consistent, and continuous risk management process applied across an entire organization, enabling it to better understand and address material risks. Implementing ERM can facilitate better capital resource

allocation decisions, increase operational efficiency, and enhance a company's risk control efforts.

4. **Select appropriate insurance coverage:** Engaging the right insurers to obtain appropriate coverage for a fair price might be challenging. However, with guidance from CRE specialists within the insurance industry, real estate organizations can better understand which carriers can deliver the appropriate scope of coverage for their risks, what underwriters look for when assessing real estate risks, and how to access broad, flexible, or blended coverage when it is needed.
5. **Review contracts closely:** Complex risks can generate complicated contracts. Because real estate organizations rely heavily on third-party vendors, their contracts can become an entangled web that hides unexpected liabilities. Additionally, real estate owners are being held to higher levels of responsibility than before. Having contracts reviewed by specialists who understand both real estate and insurance is critical to managing risk.

By deploying these tools and adhering to these processes, CRE organizations can more effectively put in place strategies for either embracing and managing emerging risks or avoiding them as best as possible.

An Interrelated Web of Risks

The many trends disrupting the CRE industry are translating into widely varied, yet interconnected risks. This means real estate professionals can't solve for one challenge without solving for the other, or risk creating additional perils.

For instance, one major risk afflicting commercial properties is vacancies. In response to many of the aforementioned disruptive trends, tenants are leasing less space. Open concept design, telecommuting options, and fewer onsite servers are allowing office tenants to shrink their footprints. Retail tenants are shuttering stores to focus on e-commerce. And sharing economy rentals are competing with hospitality and multifamily assets.

As such, real estate professionals are being challenged to innovate to keep their properties occupied. Some are skirting e-commerce by replacing retail tenants with those that provide experiences, ranging from rock climbing to virtual skydiving. Others are embracing the shared economy by leasing shared office space to independent contractors, instead of large, traditional organizations. And some are even putting industrial buildings in urban centers to solve the e-commerce delivery storage crisis.

But risks abound. While technology and consumer preferences are changing fast, the long-term nature of real estate development means that any investments in "innovative" design concepts could quickly become outdated. This underlines the need for companies to keep up with technology developments and select the right investments.

These challenges are compounded by age-old risks that must still be taken into consideration, even in an age of innovation. Security breakdowns are a prime example; organizations that shift their design theory to accommodate new trends must also consider changing their security policies and philosophies.

For example, while communal work spaces are ideal for millennials who want to collaborate, they may offer fewer escape options in the event of an active shooter situation. Similarly, smart buildings have created ample conveniences for hotel guests, like keyless room entry, while also creating opportunities for security breaches, like hackers shutting down critical building systems for ransom or perpetrators compromising guests' privacy.

All this is perhaps leading to more liability than ever before for real estate organizations, their properties, and tenants. But embracing technological shifts and keeping up with ever-changing innovations can help create future-proof commercial spaces. After all, while risk lurks behind every opportunity, opportunity lies behind every risk.

4 DISRUPTIONS AFFECTING COMMERCIAL REAL ESTATE



SMART HOMES

While tech-friendly buildings attract millennial renters, they also open the door to cyber risks that can shut down critical building systems, risking loss and exposure of data and danger to residents. Building developers and owners should assess and analyze these risks, secure and insure their properties, and finally respond appropriately in case of a breach.



ACTIVE SHOOTER THREATS

There is increasing alarm among real estate and hospitality businesses about active shooter scenarios, especially as shopping malls and properties with multiple tenants have been frequent targets. This also raises security concerns regarding open spaces within retail and office properties. Organizations should take a look at their security measures and determine whether these need to be altered.



E-COMMERCE BOOM

Technological advances like cloud computing are leading to businesses reducing their footprints as more people work remotely. Further, the internet boom is seeing more retailers closing locations and focusing on e-commerce. This trend is forcing owners to search for additional or alternative tenants.



SHARING ECONOMY

Companies in the hospitality and office industry are being challenged to change their business models according to current trends. Ride-sharing services, for example, can have a substantial effect on both retail and multifamily real estate. Developers must find ways to accommodate shoppers or tenants who arrive and depart the premises using these services, including potentially repositioning and restructuring traditional parking. Forward-thinking developers are seeking ways to change transportation patterns, keeping mobility shifts in mind as they plan new properties.

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