

How innovation is reshaping Europe's urban environment

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Trends: Global shifts in Europe

In today's rapidly evolving world, no company can afford to sit on its laurels. The steady cascade of innovation compels leaders across industries to question their ways of working, and real estate is no exception. Technological advances, demographic shifts, and new business models all require developers and property management companies to reassess their approaches to serving customers and society at large. To remain competitive, European players must keep pace with the broader global industry.

Our research identifies six cross-business trends that affect real estate in general, and European real estate in particular (Exhibit 1). These trends concern emerging needs and either diminishing or increasing demands for services. Changes in family makeup and the continued "drift" of people from rural to urban areas have consequences for property markets and asset localization. The emergence of the sharing economy is placing high value on cost reduction and seamless social interactions, while the elderly population continues to rise. At the same time, new mobility behaviors and advances in real estate development and construction demand better structures and spaces.

Exhibit 1: Six trends affecting Europe's real estate industry

NOT EXHAUSTIVE

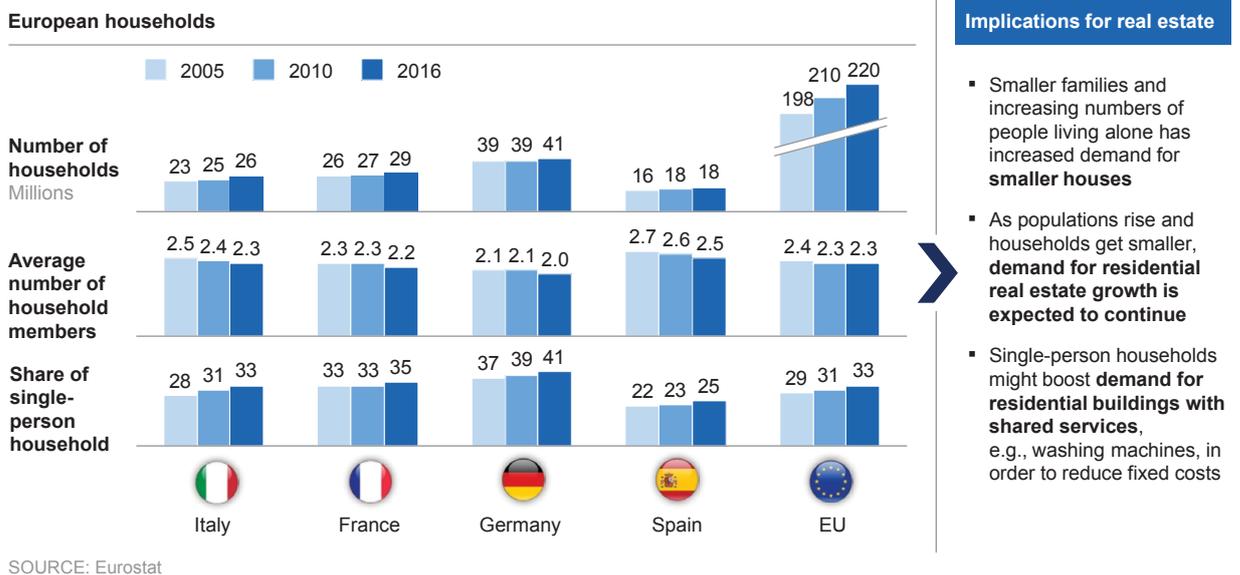
		Potential implications for real estate
I	Household size reduction	<ul style="list-style-type: none"> Residential unit size might decrease as fewer people live within a single household Higher numbers of single-person households might increase the need for shared services within residential buildings in order to share fixed costs
II	Increasing urbanization	<ul style="list-style-type: none"> Investments in assets commonly located in peripheral areas will shift toward cities (e.g. logistics) Neglected neighborhoods might be revamped to increase residential spaces within cities
III	Rise of sharing economy	<ul style="list-style-type: none"> Rising interest in shared services creates a sense of community in urban centers while sharing costs across consumers Co-working as a form of office cost sharing is becoming more common for large, structured companies as they embrace flexibility
IV	Aging population	<ul style="list-style-type: none"> Increasing demand for health care facilities, particularly for the elderly Rising opportunities for alternative, tailored housing solutions
V	Intermodal transportation	<ul style="list-style-type: none"> Increasing use of public transportation will lead to a need for hubs and high-density connection stations where most services will concentrate Train usage is expected to rise, prompting an increase in the time passengers spend in stations and hubs and an associated increase in retail and consumer services offered in these spaces
VI	Internet of Things	<ul style="list-style-type: none"> Increased connectivity is creating a radical shift toward more technologically enabled spaces Smart home solutions are creating unprecedented connections between landlords, tenants, assets, and the outside world.

Households: Shrinking size but growing demand

European families are becoming smaller. While the overall population is increasing by 1 percent per year, the average number of household members is declining, including in countries that have historically had larger households such as Italy and Spain. At the same time, single-person households are becoming consistently more prevalent, reaching a share of 33 percent in 2016 compared with 29 percent in 2005. This phenomenon is taking off in countries such as Italy and Spain, while it is more consolidated in countries like Germany, where single-person households account for nearly 41 percent of total households (Exhibit 2).

Shrinking families could cause typical house dimensions to shrink as well, thus boosting demand for new kinds of apartments and services. Smaller families and more people living alone have increased the need for smaller houses, which is one reason demand for residential real estate will likely continue to grow as the population increases. The rise of single-person households might also affect people's expectations concerning residential buildings. Consequently, facilities with shared services will see increased demand as part of efforts to reduce fixed costs - for instance, apartment buildings with shared laundry machines.

Exhibit 2: Household size reduction might reduce house size, while increasing demand for apartments and shared services within residential buildings



Urbanization: Heeding the city's call

The major global trend toward urban expansion shows no sign of slowing. Over half the world's population now lives in cities, and European dwellers appear ahead of the curve, with the proportion of urban inhabitants reaching as high as 75 percent (from about 60 percent in the 1960s). Real estate investments are directly involved in this trend, as the growing number of city-dwellers causes more companies to relocate assets downtown that might otherwise exist in the suburbs. Meeting demands for faster delivery services, for example, will require logistics warehouses located closer to cities. Likewise, new elder care facilities within cities will allow aging populations to live closer to their families.

Urbanization could also have other relevant market implications. As city housing needs grow, developers could redevelop neglected areas into residential neighborhoods. Local governments could encourage mixed-use development in response to the desire for a sense of community that people moving to urban centers seek.

Sharing economy: Building new community models

Sharing economy platforms continue to grow, particularly in the fields of transportation and personal services. This growth might be driven by the ability of such services to lower costs while building community bonds through sharing cars, houses, or bicycles. These demands for reduced costs and an increased sense of community are widespread and have direct implications for real estate. At the same time, the disruptive models of sharing economy players pose new challenges to established operators, and incumbents must be prepared to adapt.

Aging society: Employing wealth to provide well-being

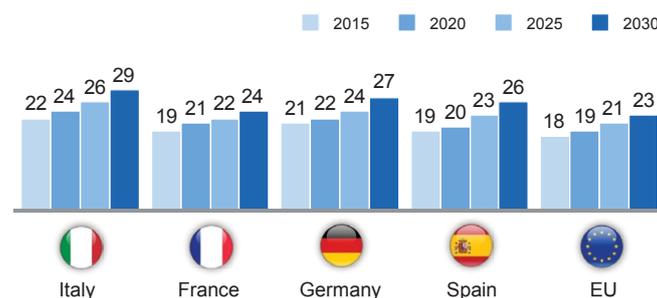
Europe's population will continue to age. In 2030, nearly the 23 percent of the population — approximately 170 million citizens — will be over 65 years old (up from 18 percent in 2015). Elderly people make up some of the most affluent age clusters in Europe. For instance, approximately 50 percent of the population aged 65 to 74 years has a net wealth that exceeds €166,400 (Exhibit 3).

These citizens are driving up demand for healthcare facilities and elderly care. An older society wants more accessible and efficient mobility, which creates new opportunities in the residential sector. Alternative housing solutions are becoming more common. One example involves accommodations tailored toward the specific needs of elderly residents, with smaller spaces and increased options for companionship.

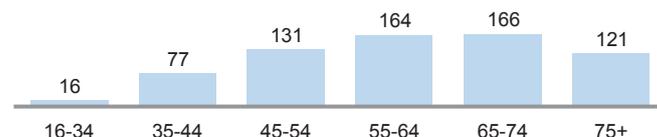
Exhibit 3: An aging and wealthy population is driving demand for new asset classes, such as elderly care facilities

Aging population

65+ population projection
Percent on total population



Median net wealth in Europe among age classes
2016, € '000



Implications for real estate

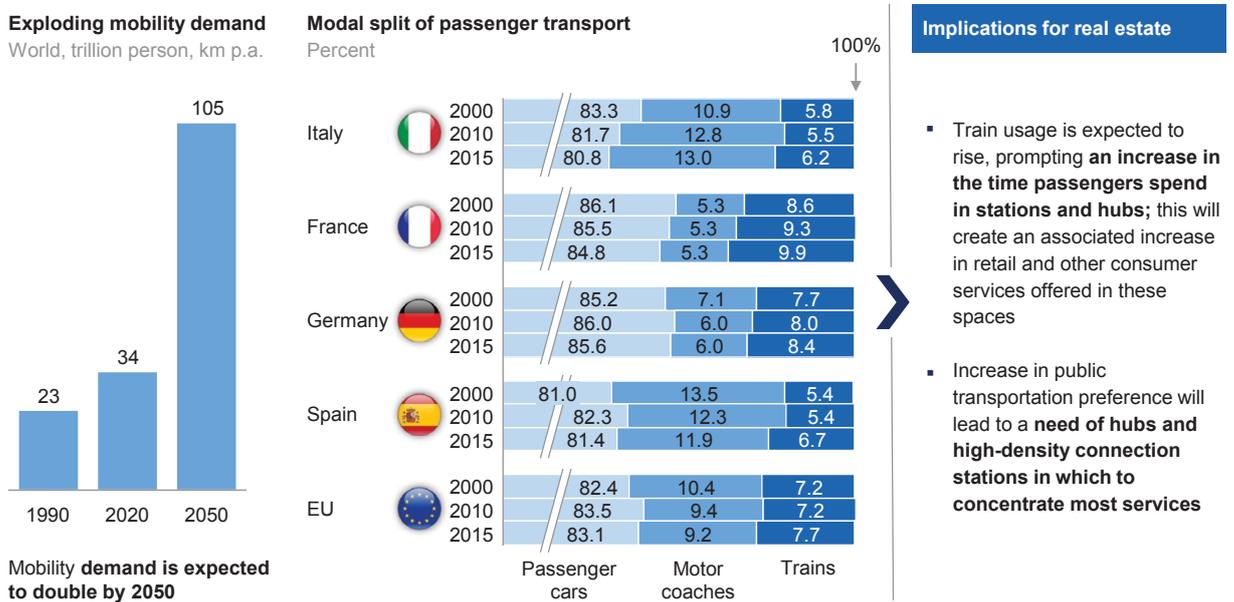
- Increasing demand for healthcare facilities, in particular **elderly care**
- Rising opportunity for **alternative housing solution**, e.g., student housing to combine elderly people's need of company and students' demand for lower rents for cheaper rents
- Need for accessible and efficient transportation

SOURCE: UN population projections, European Central Bank (2016) - "The Household Finance and Consumption Survey: results from the second wave"

Mobility: Changing transport modes

As part of this scenario, Europeans are slowly but steadily changing their habits. Despite passenger cars continuing to represent more than 80 percent of total passenger transport, car use slightly decreased in countries such as Italy (from 83 percent in 2000 to 81 percent in 2015) and France (from 86 percent in 2000 to 85 percent in 2015). Train usage has also started to register some sign of expansion, accounting for 7.7 percent of total passenger transport in 2015 (Exhibit 4).

Exhibit 4: The increase in mobility and shift of transport-mode mix will build the need for urban hub and connection stations



Internet of Things: Radical connectivity

McKinsey estimates that the Internet of Things (IoT)—the network of connected "smart" devices that communicate seamlessly over the Internet—will have a potential total economic impact of as much as \$11.1 trillion per year by 2025. To begin seizing this value, real estate providers are beginning to partner with utilities and domestic appliances providers to create a new type of building: connected smart homes. These solutions allow tenants to control systems at home, at work, and in everyday public spaces. For example, ongoing residential developments in Milan across social and luxury housing are centered on solutions that allow tenants to remotely monitor water consumption; control lights, shutters, and temperature from a panel; and answer the door from their smartphones.

Smart home solutions are not only changing the way real estate is developed, but also creating unprecedented connections between landlords, tenants, assets, and the outside world. For example, availability of digital assistants might change the way tenants shop, increasing the share of home delivery and requiring developers to create ad hoc spaces for delivery lockers.

At the same time, improved connectivity has already changed how workplaces look and function as remote or connected offices become increasingly common. Larger companies will start to move toward models with more flexibility and choice, formerly used predominantly by creative and freelance professionals. While this reduces office space and shifts their layouts toward more open or shared spaces, it also requires the development of new solutions, closer to residential areas, that offer high-quality connectivity and accessibility. UpTown Cascina Merlata, a social housing project in Milan, includes co-working spaces for its tenants.

What's next: New ideas rising

Socioeconomic changes trigger innovative thinking. Companies and entrepreneurs worldwide are trying out new formats to seize the opportunities that technological or social disruptions might create. As hubs of commerce, creativity, and density, big cities are the natural centers of these innovations. A large city's natural confluence of entrepreneurial ideas and global influences can draw energy from its fast-moving urban culture and dynamism, surfacing important future trends.

In order to offer a global overview on new business formats or the redeployment of past models, we collected examples of innovation from real estate segments around the world. These involve a wide variety of assets in the commercial, industrial, leisure, office, parking, residential, and tourism segments. This diverse set of examples reveals the extent to which real estate is adapting to a new fundamental drivers.

Flexibility: Customers seek new levels of flexibility

Several innovative formats concern the ever-increasing need for flexibility, in both retail and logistics. Companies are launching movable or temporary solutions for shops, hotels or houses in their efforts to chase a more demanding, mobile audience. For example, brands such as Coodo (Germany) and Koda (Estonia) rely on contemporary mobile housing, offering small concrete units that they transport from one place to another. In the hospitality industry, thanks to initiatives such as The Pop-Up Hotel (UK), Flexhotels (UK) or The Nomad Pop-Up Hotel (Portugal), travelers seeking accommodation can choose between tents and pop-up rooms, with luxury solutions comparable to those of traditional hotels. One extreme case involves retail: Moby Mart is a self-driving and automated shop prototype in Shanghai ready to move 24 hours a day upon request.

Today's on-demand culture is spurring age-old sectors to evolve. Take food service: Deliveroo Editions (UK) is testing portable kitchen-only restaurants that only make food for take-out or delivery. Featuring chefs from a variety of popular eateries, the units consist of portable metal facilities situated in parking lots or industrial buildings in areas the eateries don't typically serve.

Urban concentration needs are also affecting the logistics of real estate. In the US, Prologis repurposes old industrial premises with multi-story facilities in strategic locations that enable the fast deliveries required to meet new consumer consumption habits. Logistic businesses such as Make Space and Binstro (USA) aim to disrupt storage rental business models by offering more affordable services based on home pick-up and delivery.

Employee demands for greater work-life flexibility also provide real estate opportunities. Unsettled (USA) enables nomadic professionals to experiment with travel and co-working experiences worldwide for temporary periods.

Innovation close-ups

Transient hotels. The pop-up hotel typically takes the form of a specialized group of tents that companies can easily move to event venues and tourist spots (see Exhibit 5 for an example in the UK). Pavilions provide high-end camping experiences and are ideal for private or corporate celebrations. Developed by a company with more than 15 years of expertise in luxury property development, this temporary format meets the rising demand for flexibility and allows a higher revenue per square meter than common hotels.

Exhibit 5: Pop-up hotels

Project description			
Main driver:	Flexibility & Mobility	Owner:	The Pop Up Hotel
Asset type:	Leisure & Tourism	Project name:	The Pop Up Hotel
Location:	United Kingdom		

<ul style="list-style-type: none"> ▪ Popuphotel is a defragmented hotel that moves and pops up at events, for private or corporate events ▪ The company built upon 15 years' experience with luxury property development before launching this innovative and high-end camping experience in different locations in UK and across the world ▪ Similar examples across the world are: <ul style="list-style-type: none"> – The Nomad Pop-Up Hotel: daily, monthly, seasonal shops in attractive landscapes in Portugal – Flexotels (Short Stay Solutions) developed a variety of flexible accommodation facilities that can be placed at any location, any time

Reasons why: <ul style="list-style-type: none"> ▪ Meets demand for flexibility and mobility ▪ Being temporary, it offers exclusive experiences allowing for higher revenue per unit area than common hotels
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Co-working retreats. Unsettled, an American startup, claims to unite leisure and work as users discover new cities and cultures. They offer 30-day travel experiences worldwide, during which young people can experience both life and work environments. The programs equip users with tools they need to be comfortable and productive, but also with quality accommodations, dinner parties, and weekend adventures. A unique answer to the fast-growing need for mobility and exclusive experiences, it allows participants to interact with a global community of creative professionals and entrepreneurs.

Wellness: Chasing health and wellness

Other reimaged real estate assets, especially in the leisure and tourism field, speak to today's widespread pursuit of wellness. People's greater attention to well-being is fueling the success of several facilities where physical activity and personal care meet urban culture. Playgrounds and outdoor fitness equipment are popping up all around cities. Locations include rooftops with panoramic views such as SkyPark Arena, a new sports hub in Singapore. Several facilities specifically aim to accommodate affluent customers, taking the form of exclusive health clubs or high-end urban spas. Profitable business models include nationwide networks of training studios, such as CorePower Yoga (USA), with around 500 centers, or the Canadian chain Yyoga.

Experiences: Spending time purchasing memories

The search for unique visiting or purchasing experiences is likewise driving other innovative ideas in leisure, tourism, and commercial real estate. People looking for original experiences and unique social interactions can find brand new venues to satisfy their desire for newness and exclusivity. Some of these venues exploit the appeal of height and panoramas, such as temporary rooftop restaurants or the new generation of observation towers or platforms created by ThyssenKrupp in Rottweil. Hotel companies such as Center Parcs (Europe) provide a new type of holiday retreat set in "luxury" forest villages, designed

expressly for travelers seeking comfort in the wilderness instead of more rugged experiences. Other venues focus on exclusive entertainment, including exotic, event-only locations like La Lanterna in Rome, and upscale movie theaters that combine luxurious surroundings and chef-prepared cuisine, such as iPic's auditoriums in the US.

Entrepreneurs and operators are rethinking retail experiences as well. The choice of locations continue to evolve, such as the emergence of in-hotel malls. Other service enhancements include the 24/7 farmers' market in Montreal or stores with no check-out stations and thus no lines or staff, developed by Amazon Go.

Innovation close-ups

Hotel shopping malls. Based in Tokyo, the Imperial Arcade Hotel recently added a deluxe shopping arcade boasting 50 high-end shops offering jewels and pearls, Japanese hand-made porcelains, and traditional silk dresses. This hotel-cum-shopping mall offers visitors a rich selection of luxury experiences, including events and dedicated activities. By precisely targeting its customer base, Imperial Arcade Hotel can easily implement ad hoc marketing initiatives, and its luxury positioning generates higher revenues.

POPOS. POPOS, or privately-owned public open spaces, represent a new urban experience. These "pseudo-public spaces" are increasingly common in newly developed areas such as King's Cross in London or Porta Nuova in Milan. However, their success is causing debate about their legitimacy as well. For example, what are the guarantees for citizens in meeting places with non-transparent security and rules? In other cities such as San Francisco, they are part of a long-established custom, thanks to a law that allows existing buildings to open private roofs and terraces to the public.

Community: Building a sense of community

Many of these formats or business models are related to the creation of a sense of community—often a core demand expressed by people living in, or traveling to, big cities around the world. As a result, residential real estate is now rife with community-oriented offerings. Co-living buildings and networks are improving their quality by offering all-inclusive services, fine interior designs and attractive social events. Two relevant examples can be found in Collective Old Oak in London, the world's largest co-living facility, and US-based Ollie's set of micro-studios with hotel-style amenities.

Uncommon (US) follows the same strategy with students, offering above-average apartments and common spaces while promoting social connections. In the field of office real estate, professional networking is a valued offering for all co-working providers. For instance, it is not unusual for companies to offer multi-location memberships across the US, entirely managed by a single integrated system.

A sense of community feeling is increasingly permeating leisure and retail projects. Take the revival of old-school private clubs, where cohesion and exclusivity are key ingredients.

Combined with contemporary, cozy facilities specifically targeted to young professionals, many of these venues across North America and Europe offer members-only nights ideal for networking. Conversely, innovative retail spaces like “community malls,” with shopping venues that blend into cities and their neighborhoods the way The Commons (Thailand) does in Bangkok, point to the need for retail models to prioritize authenticity.

Innovation close-ups

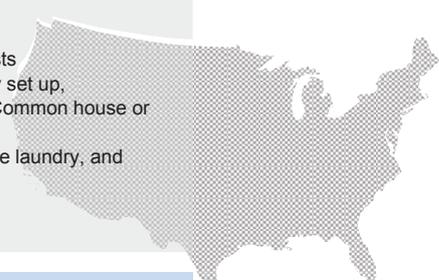
Shared housing. Common offers the possibility of easily finding particular accommodations in San Francisco, New York, Chicago, and Washington D.C. (Exhibit 6). This community seeks to become part of a co-living system while avoiding the annoyances of sharing. It offers 24/7 maintenance, free laundry, household supplies, as well as the option to move to another Common house or room with just one day’s notice. Membership provides access to a connected network across the country. Common thus provides a convenient way to find high-quality housing solutions for flexible uses, and is highly requested by frequent travelers.

Exhibit 6: Residential shared housing example

Project description	
Main driver:	Sense of community
Asset type:	Residential
Location:	United States
Owner:	Common Living
Project name:	Common



- The aim of Common is creating better living through **convenience and community**
- It **works through membership**. Common members meet new people, and save costs
- Common **removes the annoyances of co-living**, e.g. by offering gas and electricity set up, maintenance support within 24 hours, and the option possibility to move to another Common house or room with one day’s notice
- It **offers several amenities and services**, e.g. basic household supplies, free on-site laundry, and community events
- Today, it operates in **4 cities** with **~10 homes and 400+ members**



Key offering	▪ Meets increasing demand for high-end solutions at convenient prices and for flexible types of users (e.g. frequent travelers)
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Boutique communities. Population and urbanization trends serve as a backdrop for real estate changes associated with shifting demographics. One example is student housing. Run by a national leader in the field, Uncommon is a modern student housing format that offers high-standard living solutions. Buildings offer luxury apartments together with amenities (pools, gyms) and a boutique space open to public. Uncommon’s community targets the high-demand market composed of students seeking a more sophisticated way of life—a market niche that can support larger revenue streams per square-meter.

Other new housing ventures target aging, yet active populations. For example, Californian Rancho Mission Viejo's neighborhood for people over 55 years of age offers a residential community with events and amenities specifically tailored to mature inhabitants.

Increased population density in cities might find a solution in quick urban high-rise developments, such as the modular construction technologies used in New York for the four-week erection of Carmel Place's new housing project (USA). Other innovative housing formats include the many new hostels and apartments in Germany or the camping units designed by More Than Shelters.

Next generation co-working spaces. Proximity Space is a multi-location co-working space that seeks to bring networking opportunities among members to the next level. The same software manages all the facilities, allowing fully integrated services such as billing, online booking, and data reporting across the United States. Being a network of co-working spaces and not a single location, Proximity Space attempts to offer the flexibility traveling workers desire. It currently targets large corporations testing smart working methods.

Sustainability: Seeking sustainable services

Because real estate evolution naturally follows large-scale disruptions, global mega trends often inspire new ideas. Worldwide demand for sustainable services, for example, has prompted improvements on properties such as parking assets, with underground automated garages increasing offering services for bike storage or charging stations for electric vehicles, thus contributing to new, eco-friendly mobility.

Big changes ahead for real estate players

This analysis is not intended to be an exhaustive list of innovations; rather, we offer it as a set of diverse examples, from structural urban shifts to small-scale projects or pilots, to help industry leaders investigate the multifaceted future of real estate.

As a variety of complex trends play out, growing pressures are already placing new demands on rigid business models. As real estate functions become unified and new spaces blur the boundaries between retail and residential, public and private, and temporary and permanent assets, the traditional industry faces profound change. These new formats are either chasing or driving emerging demands. In many cases, real estate operators must not only manage properties; they also need to renew their relevance by offering full sets of innovative services that address professional or individual needs and desires, as well as the requirements of different communities.

In conclusion, today's urban trends don't simply concern quantity alone in the forms of population, GDP, growth or size. Instead, they anticipate the growing demand for quality-based solutions.

In fact, for many cities, the future is already here. Urban innovations once considered novel or trendy have gone mainstream as permanent and prevalent economic, social, cultural and philosophical trends. From companies and institutions to organizations and citizens, all will base their collective well-being on the density, diversity, and creativity emanating from cities around the world.

Overview: Focus on innovations		
Main driver	Asset class	Format
Flexibility 	Leisure & Tourism Leisure & Tourism Commercial Commercial Industrial / Logistics Industrial / Logistics Industrial / Logistics Office / Co-working Residential	Independent hotel/airport lounge Pop-up/transient hotels Autonomous driving retail Pop-up markets Storage by the bin Luggage storage shops Kitchen-only restaurants Co-working retreats Movable houses
Wellness 	Leisure & Tourism Leisure & Tourism Leisure & Tourism Leisure & Tourism Leisure & Tourism	University aquatic centers Yoga studios networks Urban fitness Rooftop sport facilities High-end urban spas
Visiting and purchasing experiences 	Leisure & Tourism Leisure & Tourism Leisure & Tourism Leisure & Tourism Leisure & Tourism Leisure & Tourism Commercial Commercial Commercial	New generation observation towers Temporary rooftop restaurants Forest hotels Upscale movie theatres Event-only spaces Privately-owned public open spaces 24/7 farmers' markets No checkout stores Hotel shopping malls
Sense of community 	Office / Co-working Office / Co-working Residential Residential Residential Leisure & Tourism Commercial Leisure & Tourism Leisure & Tourism	Next generation co-working spaces Private clubs for creative industries All-inclusive co-living Boutique student communities Shared housing DIY restaurants Community malls Dog-centric communities Private members' night clubs
Sustainability 	Parking Parking	Underground automated bike garages EV charging station networks

Actions for real estate players

These trends will significantly alter the real estate sector's prospects over the next five to seven years, particularly when combined with expected diminishing returns in urban areas (see McKinsey Global Institute, *Diminishing returns: Why investors may need to lower their expectations*, May 2016). Consequently, what do players in this industry such as landlords, developers, constructors, and investors have to do to ensure their continued success? We envision five main actions that companies can take:

- **Increase awareness and understanding of final customers or consumers.** Even when operating in business-to-business (B2B) industries, players should take proactive steps to increase their awareness and reactions to consumer behavior changes, who are ultimately the final customers.
- **Further evaluate deployed collaborations with different players.** The increased “mixed” use of real estate spaces is why today’s largely vertical players will collaborate more in the future, as they attempt to extract additional value and win a larger share of the pie. These companies will not only include investors and developers, but also broader infrastructure players such as concessionaires, transport operators, and others. Their ultimate goal will be providing the final customer with a seamless, end-to-end experience.
- **Maximize the use of technology.** Consider deploying high tech/digital technologies while making use of growing IoT opportunities that turn a place into a platform. For instance, sensors can collect analytics on asset conditions to streamline predictive maintenance, as well as create data streams that offer people additional services to orchestrate demand and find additional value. Voice-activated personal assistant tools can connect residents directly with nearby grocery stores with which asset owners can directly contract; and landlords might use digital communication tools to inform tenants of maintenance or other updates. Real estate developers and holders must consider how they might potentially orchestrate such offerings to consumers or tenants.
- **Establish partnerships with other sectors.** Today, most smart home solutions are driven by individual consumers purchasing individual solutions, such as digital assistants, smart thermostats, or connected washing machines. To fully deploy the potential of IoT in real estate, developers must establish strong partnerships with traditional utilities, security, appliance, and technology providers to introduce holistic and integrated solutions.
- **Embrace new ways of designing and building.** McKinsey research finds that a five- to tenfold increase in productivity would be possible if construction were to move to a manufacturing-like system of mass production with a much greater degree of standardization and modularization and the bulk of construction work taking place off site. In a McGraw-Hill survey, 6 percent of firms that used prefabrication and modularization reported a reduction in schedules, and 42 percent reported a reduction in costs of 6 percent or more.

One of the major hurdles to making a successful transition to greater use of modularization and prefabrication is that, unlike manufacturing, real estate development is often characterized by bespoke designs and unpredictable demand. Predictability of demand is vital if companies are going to invest in productivity-enhancing capacity and innovations because prefabricated elements tend to be more capital-intensive. MGI has found that an automated facility producing sufficient cement slabs and walls for 12,500 housing units could cost about \$40 million. Only an assured level of demand can justify such an investment.

- **Guarantee a top customer experience.** Considering the increasing consumer focus on quality-of-life issues and the greater amounts of time customers spend outside of their homes, new spaces should offer a distinctive customer experience for multiple segments and uses. We believe that the design and management of public spaces should reflect these considerations. Digital leaders in other industries—Amazon in retail, for example—have powerfully demonstrated the advantages of an integrated multi-platform approach to focusing on customer needs along the purchasing journey.

- **Develop new capabilities.** Given the depth of change facing the industry, companies also need to prepare themselves internally. That might mean an increased focus on parts of the value chain they may have outsourced or disregarded in the past. They will likely need to develop new capabilities such as data-driven market scouting, multi-asset class development skills, and legal and regulatory capabilities, while gaining better knowledge of public and private partnership opportunities.



The road ahead for real estate players will pass through multiple asset classes and require a broader set of relationships. Becoming a future real estate leader that satisfies the expectations of digital consumers is a formidable goal. Transformations are difficult, but fortunately, the tools for achieving the next-generation experience are in place, well understood, and more straightforward than many might think. Most importantly, the high-value customers of tomorrow will expect nothing less than a superior experience, seamlessly integrated into their multichannel engagement. In a global sector where good returns on multiple assets are prized, investors will look elsewhere if they do not find them in real estate.

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