Millennial consumers: what you need to know to reach them

Millennials want to be “in the know.” Content is king in reaching this audience.

Price-sensitive millennials look for value, special deals and e-coupons.

The more things stay the same, the less millennials will be interested – use change and innovation to engage them.
Many millennials have stated that if they go into the store and realize they forgot their paper coupon, they will walk out without buying anything.
Millennials
How are millennials impacting different commercial real estate sectors?

RETAIL
1. Who are they?
Demographic/economic factors
Millennials, the generational cohort between ages 18 and 34, total about 80 million Americans and spend approximately $600 billion annually. By 2020, they are expected to be responsible for as much as $1.4 trillion in spending per year, representing 30 percent of total retail sales. It is not surprising that retailers, marketers and brands are doing all they can to court them and win their spending.

Income
Millennials’ household income is widely varied. Fully 23 percent earn less than $25,000 per year, but another 24 percent over $75,000 per year. While 69 percent of Millennials rent or own their own home, another 24 percent live at home with their parents.

According to the Bureau of Labor Statistics, the unemployment rate among 18 to 34 year olds in 2011 was 12 percent – three percentage points higher than it was for the total population during the same time period. Given that many Millennials remain unemployed or under-employed, they put a great emphasis on price and value.

Characteristics
What exactly defines the millennial generation? Well, they’re confident, goal-oriented and very optimistic. They also tend to be very group-oriented, highly dependent on their peers and great with collaboration. Millennials also tend to carry a sense of entitlement – every milestone of their lives having been punctuated with celebrations, trophies and praise. As a result, they are often impatient and demanding shoppers who want what they want when they want it.

Not surprisingly (as a generation that has always been surrounded by technology), they are practically connected to their mobile devices with an umbilical cord. They use their phones for connecting with friends and family, for social media, as cameras, as sound systems, as entertainment, and – yes – as shopping tools.

A few key facts about Millennials:
• They want to be “in the know”
  Share valuable content and give them the ability to pass along to others. Keep them updated on new trends, merchandise and specials.
• They want to participate
  Central to engaging this generation is inviting their feedback and participation and responding to it by putting their suggestions into action. This builds authenticity.
• They crave authenticity
  Millennials want to believe in the companies they patronize. Be accessible and transparent.
• Friends are a tremendous influence
  Give them the ability to involve feedback from their friends before making a purchase. Encourage reviews and brand evangelizing.
• They use different types of media simultaneously
  Moving from the website, to your store to mobile should be a seamless process. Promote interconnectivity.
• Instant gratification is a priority
  Make plans to refresh merchandise, content and promotions regularly. Stale content is a turnoff.
• They want to make a difference
  This generation wants to be valued. They also prioritize environmental sustainability. Companies that promote sustainability will win their respect – and business.
2. It’s all about the benjamins
Price priority
Research has shown Millennials are highly price sensitive; cost remains one of the biggest purchase considerations. They habitually use mobile devices to compare prices while shopping in stores and tend to favor value-oriented retailers like dollar stores, second-hand stores, drug stores and off-price retailers.

Because millennials are all about the best deals, they are more heavily influenced by a range of money-saving opportunities than the average shopper. For instance, 38 percent of millennials are influenced by signs or displays in the store (compared to 28 percent of all shoppers). More than half of millennials are influenced by shopper loyalty discounts, versus 40 percent of the general population.

Center and store types that millennials visit every month

<table>
<thead>
<tr>
<th>Center Type</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Neighborhood business districts</td>
<td>50%</td>
</tr>
<tr>
<td>Chain apparel stores</td>
<td>55%</td>
</tr>
<tr>
<td>Big-box power centers</td>
<td>60%</td>
</tr>
<tr>
<td>Full-line department stores</td>
<td>65%</td>
</tr>
<tr>
<td>Enclosed malls</td>
<td>70%</td>
</tr>
<tr>
<td>Neighborhood and community centers</td>
<td>75%</td>
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<tr>
<td>Discount department stores</td>
<td>80%</td>
</tr>
<tr>
<td>Small city/town</td>
<td>85%</td>
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<tr>
<td>Downtown/near downtown</td>
<td>90%</td>
</tr>
<tr>
<td>Rural community</td>
<td>95%</td>
</tr>
<tr>
<td>City neighborhood, outside downtown</td>
<td>100%</td>
</tr>
</tbody>
</table>

Coupons... e-coupons
Millennials also love coupons and targeted promotions; 68 percent state that coupons from home influence their purchase decisions. This is especially true when these coupons are scannable via their mobile phones. Many millennials have stated that if they go into the store and realize they forgot their paper coupon, they will walk out without buying anything.
While they love to shop, Millennials purchase less frequently. According to the NPD study, the conversion rate—percentage of consumers who actually make a purchase—is lowest among millennials. They use much of their shopping time to gather information and garner the best deals before making a purchase. So, while seniors make purchases 72 percent of the time, millennials buy only 57 percent of the time.

### 3. Plugged into the matrix

#### Use of tech and need for information

Not surprisingly, Millennials are much more likely than other cohort to be influenced by technology. Smartphone applications (millennials are 262 percent more likely to be influenced), mobile advertising (294 percent) and blogs and social networking sites (247 percent) will all play a part in driving millennial purchases. As such, apps with augmented reality for in-store shopping can make a huge impact on spending.

Once millennial shoppers arrive at a store, their phones continue to guide them as they read product recommendations, search apps for coupons, look up recipes, and receive personalized offers based on their purchase history.

#### Online vs. in-store

Despite their affinity for online shopping, millennials still prefer shopping in stores. More than 50 percent of Millennials go at least one a month to most retail sub-categories. The exceptions are lifestyle centers and outlets, neither of which garners much attention; the former because stores selection is typically geared towards older, more affluent consumers and the latter because they are typically more inconveniently located.

While lifestyle centers do not appeal as much to millennials right now, the right tenant mix can change this. Consider the following choices:

- a broader choice of eateries and specialty food stores
- apparel brands favored by Gen Y (such as J. Crew, Old Navy, Forever 21, H&M, Zara)

While most Millennials (82 percent) still prefer to buy in stores, they spend an inordinate amount of time browsing and researching products online. Forty-five percent of respondents spend at least one hour every day on retail-oriented sites. Fully half of millennials research products online and then buy in stores. Only 38 percent prefer to buy online either after doing in-store research, or bypassing the store altogether.

### 4. What they demand

#### Seamlessness

One of the most important things to remember is that millennials want an integrated, seamless shopping experience regardless of the channel. While they love to browse online, and gather information, they also find it important to touch and interact with products in person. What they expect is the same pricing and promotions offered online, as well as mobile coupon scanning capabilities.

#### Change and innovation

Perhaps nothing defines millennials quite as much as affinity to change. They gravitate towards new concepts, latest trends and innovative technology, so it is important to keep them engaged. Millennials respond best to fun, sensory experiences and a constantly refreshed environment and merchandise offering. Remember, they have grown up in an era where new technology can become obsolete in a matter of months when “the next big thing” is revealed.

#### Choices, choices, choices

Another important element in attracting millennials is giving them lots of choices. This is a generation of not only techies, but foodies – both eager to go out and try new restaurants as well as to create fun, tasty food at home.

#### Information at their fingertips

Millennials want to know. They want to be able to gather as much intelligence as possible regarding a product: lowest price, product reviews, product recommendations, how-to’s and special deals.

#### Walkable communities and green space

For both urban and suburban Gen-Yers, the ideal is to walk or bike to the market, drugstores, the gym, the ATM, coffeehouses and restaurants. Denser, pedestrian-friendly development will appeal to Gen Y.
Interactivity
Not surprisingly, millennials love gadgets, including in-store kiosks. This clearly demonstrates their hesitation toward spending on products that are not tried and true. A recent survey reveals that 40 percent of millennial shoppers are trying fewer new products today. But, millennials are 77 percent more likely to be influenced by in-store kiosks when making brand decisions versus the average shopper. In-store kiosks, after all, remove the element of the unknown—they give shoppers the opportunity to try a product without having to take a financial risk.

Top 10 things retailers/landlords can do to attract millennials

1. Place high–indexed store categories in areas with high concentration of millennials, namely cities or city perimeters. Store types to include are: discounters, wholesale, pharmacies, ethnic/organic groceries.

2. Encourage customers to pick up and/or return online orders at physical stores to attract additional sales and reduce mailing costs.

3. Design stores as showrooms with curated merchandise that is strategically displayed. Doing this will enable customers to have an elevated shopping experience similar to walking through a 3D, interactive catalog.

4. Incorporate green space into shopping centers and create a store layout that encourages browsing and “discovering” new stores and items.

5. Incorporate computer kiosks so shoppers can directly order out-of-stock sizes or colors (or items not carried in the stores at all) and have the goods sent to their homes.

6. Stock stores with the latest gadgetry: mobile coupon scanners, in-store kiosks, virtual walls and iPads for sales staff. This enables shoppers to have a seamless experience. Additionally, ensure that websites are mobile-optimized or, better yet, develop mobile apps to make it easier for millennials to pull reviews, additional information and special deals.

7. Refresh shopping centers with paint, lighting, green space and kiosks

8. Feature pop-up shops. Pop-up shops serve multiple purposes, not just filling vacant space but allowing for a sense of newness by constantly changing retail boutiques and merchandise.

9. Add special events/concerts/exhibits to keep the center in the customer’s mind as an entertainment destination.

10. Create a tenant mix that includes a wide array of restaurants as well as niche/organic groceries such as Trader Joe’s or Whole Foods.
INDUSTRIAL
e-commerce and its impact on industrial real estate
Omni-channel retailing, the seamless integration of traditional retailing with the efficiencies of industrial supply chain management, is here to stay with 7 of 10 retailers analyzing and defining their omni-channel strategy for 2015 to 2017 implementation. Such a model caters to the millennial generation, which utilizes technology to research future purchases before enjoying the in-store experience of shopping. Although this model is ever-evolving, one thing is for certain: Industrial distribution and fulfillment centers are a critical component to the formula.

An estimated 30 percent of U.S. industrial big-box demand has a correlation to e-commerce, and this will not abate anytime soon. Major retailers continue to open new fulfillment centers that offer access to the nation’s key population centers and infrastructure, and are opening smaller centers to enhance coverage in secondary markets.

Many retailers are also partitioning their warehouses to accommodate multiple operations. Carters.com, for instance, occupies a 1.0 million-square-foot facility in Braselton, GA, which is divided into thirds for their:
- a) Wholesale operations (goods are shipping to a big-box retailer);
- b) Brand name stores (inventory replenishment); and c) fulfillment operations. Configurations and material handling equipment vary across the thirds.

Future projections
The rate of internet penetration in the U.S. is high at 81.0 percent and there were 253.4 million internet users in 2012 – 183.8 million of which are estimated to be online shoppers. This means 59 percent of the country’s population shops online; millennials, a generation raised on technology, comprise the majority. By 2020, they will account for 30 percent of retail sales.

OFFICE
For the past two decades, how we thought about real estate and office space did not change dramatically. The last time we saw a significant shift in dynamics was in the early 1990s when the flight to the ‘burbs escalated, creating cities and edge cities overnight and even shifting tenant and investor focus in many ways from the suburbs to even the exurbs.

Millennials are primarily impacting workplace geography
After 20-some years, things are changing and changing dramatically. Millennials are highly educated with an emphasis on technology, digital connections and flexibility. This generation’s preferences are likely to reinforce the evolution of the office as a destination, a meeting place for sharing ideas.

The more profound shifts (notably the end of the corner office concept and the decline in cubicle sales) are being driven by the evolution of the office from a place dedicated to individual tasks to a meeting place for a diverse group of people to gather, share and collaborate. Offices are becoming places where people with common goals, but diverse sets of skills, meet to generate new ideas.

This paradigm shift has been spurred by structural economic changes, changes in technology and demographic shifts. This is changing how we work, where we work and the spaces in which we work, and increasing the role of real estate in helping tenants achieve their business objectives. This is especially true in tech and innovation-based industries where firms are aggressively competing for talent.

Causing the office as we know it to change
Top ten office tools and trends that will disappear in the next five years*

1. The corner office
2. Fax Machines
3. The Rolex
4. Tape recorders – Sony sold its last cassette tape recorder in 1965 and discontinued its line at the end of 2012.
5. Desk phones
6. Desktop computers
7. Formal business attire
8. Standard working hours
9. Cubicles – Sales of cubicle furniture have dropped from 37 percent of all office furniture in 2000 to 26 percent in 2010.
10. USB thumb drives – Mobile computing now allows people to access files anywhere they go. The iPad doesn’t even have a USB port.

*at least that’s what people think now.
Millenials’ desire for urban living and a migration back into urban cores will boost corporate preferences for urban office space or office space with urban characteristics. Essentially the migration trends in many major markets are the reverse of what drove the suburbanization of the office market in the late 20th century. The population growth of the areas around the top-tier office space demonstrates the demand for centrally located living. The preference to live near work, in mixed-use environments, is high and increasing and leading to premium rents in these locations. This is fueling apartment development that will further accelerate population growth near many downtowns.

Downtown office locations are preferred by young, talented, tech-savvy entrants to the workforce. In response to this major tenants such as United Airlines, Google and BP (Chicago suburbs to downtown), UBS (Stamford to NYC) and Roche (NJ to NYC), and Nektar and Fox Interactive Media (San Francisco), among others, have relocated to CBDs.

No, the suburbs are not dead, but suburban locations off transit, off amenities and off center will likely be more challenged in the 10 years ahead than they have been in the 10 years past. Some suburbs will adapt to this shift in demand, particularly those that provide a mix of uses, and are walkable and transit-accessible; suburban town centers, as they are known, are attracting tenants and delivering strong investment performance.

This includes areas such as Greenwich in Fairfield County, CT, and Kendall Square and Harvard Square in Cambridge, and non-transit served walkable areas like Reston Town Center in Northern Virginia and Newport Center in Orange County. Even in markets like Dallas and Houston, mixed-use walkable developments are showing strong demand from tenants, as shown in the table below.

**Millennials value flexibility and collaboration**

Current office market trends do not mark the end of office as a major focus for millennials, yet they help return real estate to its founding principles: location and space. This shift means that a suburban office building that is inaccessible by transit and lacks nearby amenities will be increasingly challenged to maintain occupancy and grow rents. Well-located buildings need to offer spaces that suit the needs of today’s tenants and talent.

In urban settings, older office buildings that do not meet tenant needs are being converted to apartments or hotels where younger employees tend to live. This trend is most apparent in downtowns, especially downtown Manhattan, increasingly in Chicago and Los Angeles and emerging in markets like Philadelphia, Minneapolis and Baltimore. These conversions create a more vibrant, mixed-use environment, which is a boost to the remaining office buildings. Suburban office buildings are infrequently converted and, instead, these buildings put downward pressure on rents.

Office buildings matching millennials’ preferences will remain in high demand. As always this will lead to high occupancy and rising rents. New stock will also be needed and construction of state of the art

<table>
<thead>
<tr>
<th>Market</th>
<th>Town Center</th>
<th>Town Center vacancy</th>
<th>Market vacancy</th>
<th>Rent premium in Town Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston Suburbs</td>
<td>Kendall Square (Cambridge)</td>
<td>3.4%</td>
<td>16.2%</td>
<td>133.6%</td>
</tr>
<tr>
<td>Fairfield County (CT)</td>
<td>Greenwich Train Station</td>
<td>13.4%</td>
<td>19.2%</td>
<td>148.1%</td>
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<tr>
<td>Northern Virginia</td>
<td>Reston Town Center</td>
<td>7.6%</td>
<td>15.6%</td>
<td>24.0%</td>
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<tr>
<td>Orange County</td>
<td>Newport Center</td>
<td>9.5%</td>
<td>17.8%</td>
<td>20.0%</td>
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<tr>
<td>Dallas</td>
<td>Legacy</td>
<td>6.1%</td>
<td>22.1%</td>
<td>23.5%</td>
</tr>
<tr>
<td>Suburban Houston</td>
<td>City Centre</td>
<td>9.0%</td>
<td>13.1%</td>
<td>13.1%</td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle Research
buildings is expected to accelerate before justified on overall market fundamentals. And office market analysis will focus on specific segments of the market. Thoughtful and nimble investors who adapt to this environment should find attractive investment opportunities and may retain talent better than those who do not.

HOTELS
For hotels, millennials are a growing demographic and hotel companies are taking note. One could argue that a traditional full service hotel caters to baby boomers, and younger consumers often seek a more hip product. Here’s what hotel brands are offering to meet the wants of millennials:

• New lobby concepts, such as a more open lobby with a bar and lounge (even at select service hotels)
• A grab and go food concept, community tables, lots of seating with power outlets
• Free wifi throughout

Boutique “lifestyle” brands
The past few years have seen a barrage of lifestyle concepts announced, which either take form of newly constructed hotels such as Starwood’s aloft brand or somewhat more upscale hotels such as Thompson Hotels. This has a big impact on real estate because such lifestyle hotels are often converted from older buildings in cities that previously did not have a hotel use.

Almost all large hotel companies have announced new lifestyle brands and this is morphing into an actual brand category so it seems to be more than just a fad. From a real estate perspective, investors are anxious to see whether a lifestyle positioning can add more to the bottom line (and thus more value) than a traditional hotel.

MULTIFAMILY
Generation Y experienced the largest increase in homeownership during the housing swell and have in-turn experienced a considerable decline (58.0 percent) in median household net worth in recent years; 13.3 percent of Gen Y homeowners reverted back to renting following the financial crisis. This depletion of the younger generation’s assets, combined with tight residential lending requirements and the altered perception of homeownership across the U.S., will keep many in the renter pool for the foreseeable future, even as owning a home continues to become increasingly affordable.

The millennial influence has been changing the multifamily landscape as owners and developers are building and altering apartment buildings to cater to the demographic. Developers are building smaller units, even micro-apartments, and offering unit and building amenities that cater to their interests and technology-driven lifestyles.

Demographic trends uncover top counties for millennial renter demand into 2017

<table>
<thead>
<tr>
<th>County</th>
<th>State</th>
<th>Market</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>VA</td>
<td>DC</td>
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<td>B</td>
<td>CO</td>
<td>Denver</td>
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<td>C</td>
<td>TX</td>
<td>Austin</td>
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<td>D</td>
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<td>Raleigh-Durham</td>
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<td>E</td>
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<td>LA</td>
<td>New Orleans</td>
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<td>H</td>
<td>TX</td>
<td>Killeen-Temple</td>
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<td>N</td>
<td>OR</td>
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<td>O</td>
<td>NJ</td>
<td>Northern New Jersey</td>
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<td>P</td>
<td>MO</td>
<td>Fort Leonard Wood</td>
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<tr>
<td>Q</td>
<td>TX</td>
<td>Killeen-Temple</td>
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<td>R</td>
<td>KS</td>
<td>Manhattan, KS</td>
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<tr>
<td>S</td>
<td>NY</td>
<td>New York (Brooklyn)</td>
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<tr>
<td>T</td>
<td>VA</td>
<td>Richmond</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, Jones Lang LaSalle Research

Echo boomers and empty nesters will significantly impact U.S. apartment occupancy through 2020

<table>
<thead>
<tr>
<th>Renter population</th>
<th>2012-2020 U.S. Renter Population Growth by Age Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total # of new renters from 2012 - 2020</td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, Jones Lang LaSalle Research
Fully half of millennials research products online and then buy in stores. Only 38 percent prefer to buy online either after doing in-store research, or bypassing the store altogether.
About Jones Lang LaSalle

Jones Lang LaSalle (NYSE:JLL) is a professional services and investment management firm offering specialized real estate services to clients seeking increased value by owning, occupying and investing in real estate. With annual revenue of $3.9 billion, Jones Lang LaSalle operates in 70 countries from more than 1,000 locations worldwide. On behalf of its clients, the firm provides management and real estate outsourcing services to a property portfolio of 2.6 billion square feet and completed $63 billion in sales, acquisitions and finance transactions in 2012. Its investment management business, LaSalle Investment Management, has $46.7 billion of real estate assets under management. For further information, visit www.jll.com.

About Jones Lang LaSalle Research

Jones Lang LaSalle’s research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today’s commercial real estate dynamics and identify tomorrow’s challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

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