



THE REINVENTION OF THE DISTRICT

The existing ecosystem between human – work – real estate is undergoing a fundamental change. Driven by artificial intelligence and mobile technology, space and cultural constraints of the industrialization period are becoming more and more obsolete. The focus moves to humans who demand a future world that meets their expectations. Corporates and real estate investment managers who ignore this change will run the risk of being left behind.

THE ECOSYSTEM HUMAN – WORK – REAL ESTATE SUBJECT TO TRANSFORMATION

The components human, work and real estate form an ecosystem which is responsible for the design of our living environments, but also for the way we live. Based on this "MAI-ecosystem" the first human settlements were created. The trigger event of these early evolved districts have always been impulses with "pull effect", for example a marketplace or place of prayer, which have been increasingly surrounded by urban structures. Districts with a grown "diversity" enabled the entire supply of their residents.

Only at the beginning of the industrial age entire megacities started to grow up. All at once, people were forced to go to the locations where the technology, machines or commodities have been located (to secure their living). Buildings were built according to their functionalities as machine house, factory building, office or for residential purposes. This is how today's "district monotony" of centrally concentrated metropolitan regions arose, which shape our cultural landscape today. Possible examples are High-cost locations such as in city or district centers and relieving locations with less quality requirements such as production, back office or "class-specific" residential towns.

Artificial intelligence and mobile technology are tremendously changing our familiar ecosystem. Nowadays we can work wherever we want. Even the traditional industrial production is subject to this change. All linear activities will be taken over by machines. At the same time, new tasks will arise which cannot solely be performed by artificial intelligence. Especially dynamic processes and interactive tasks will require humanistic abilities.



Fig. 1: Human Experience | TME

THE HUMAN IN FOCUS

This results in the present state that the focus is turning to humans, their 300,000-year-old genetics, humanistic abilities and the "human experience". We require more and more flexibility, both in terms of location and time, work-life integration, as well as the provision of mobile working devices. We want to decide independently when, where and how we carry out the work.

We form activity modules integrating activities in our daily work routine that were previously defined as leisure time. Activity modules with individual and specific space and service requirements.

The present requirements, however, conflict with the existing "district monotony". We no longer want to work in monocultural office cities without any urban infrastructure. Similarly, we no longer want to live in monocultural residential cities. We feel most comfortable in a diverse environment with a balanced economic and social mix. This natural form of social competence is deeply anchored in humans and is considered responsible for the survival of our species.

Another human characteristic that differentiates humans from other living beings is the "human experience". Only humans act and decide based on experiences. That is why experience-based products also prevail over practical ones.

Entire industries, such as the tourism sector, are based on this principle. The use of the "pull effect" allows an experience to acquire potential consumers to a specific place of consumption. The "human experience" is responsible for progress and development and is the reason why we feel attracted to districts, a place where we can experience "diversity of districts" as an urban lifestyle.

THE REINVENTION OF THE DISTRICT AS A LOGICAL CONCLUSION



Fig. 2: Werksviertel Munich | source heller & partner, press photos

We venture the theory that human beings and humanity will emerge as winners from the digitization mega-trend. The prerequisite for this victory will be a radical rethinking and the willingness to let go of the patterns of industrialization behavior. There are numerous companies that adhered to "the old" patterns of behavior and as a result have been disrupted. Future oriented corporations focus on people and create a corporate culture that is oriented towards humanity and diversity. In this way, they



White Paper

create the prerequisites for allowing and using "swarm intelligence". They design an integrated working environment (IWE) that enables the requested activity modules. And at this point of time, we are talking about the reinvention of the district, including "district diversity", which in sum enables a complete supply of human requirements.

THE DISTRICT AS HOME OF CORPORATES

Many corporations, including world market leaders, have written their success stories under the conditions of industrialization at locations being home base of their founders. Under the framework conditions of digitalization and the associated change in the "MAI-ecosystem", these corporations have to reinvent themselves in order to be able to survive. The increasing number of dynamic processes paired with a decrease of linear activities asks for a more diversified expertise in the future. The companies will focus on their core competencies and make use of external experts for more extensive tasks.

In order to enable spatial proximity for intellectual exchange between internal and external experts, a combination of exclusively used corporate areas and open spaces for external experts is required. We call this development "blurring boundaries", i.e. a fluent boundary between internals and externals.



Fig. 3: Werksviertel Munich, overview future | source heller & partner

Even if co-working providers already offer functional solutions to this problem, corporates may lose their own corporate culture when engaging with such platforms. That is why the first corporates are beginning to create diverse districts at their core locations. In this model, the corporate provides the "pull effect" to attract required experts. The hereby resulting "district diversity" enables "blurring boundaries" and the urban lifestyle that professionals do demand. As an example, Siemens AG is implementing this approach with "Siemensstadt 2.0" and is developing various types of districts in

Berlin and Erlangen. Furthermore, Adidas AG has already engaged in districts with the Adidas Campus and is attracting international talents to Herzogenaurach with the "World of Sports".



Fig. 4: Adidas Campus Herzogenaurach | source Adidas Medien

THE DISTRICT AS AN ASSET CLASS

For real estate investment managers, the reinvention of the district is an opportunity and a challenge both at the same time: the opportunity to occupy a new asset class that is not yet exposed to a highly competitive environment and not yet associated with the risk of a real estate bubble. Large-volume investments required for districts reduce investment pressure effectively. At the same time, the current number of potential competitors is limited.

The real estate investment management companies also have the required expertise for different asset classes that are integrated in a diverse district.

Additionally, developer expertise is demanded and indispensable for the joint development of neighborhood areas. In contrast, the corporate can guarantee a basic occupancy rate and the "pull effect" complying with its core competencies.

From a sustainability point of view, a district can be operated in a very environment friendly manner, e.g. by purchasing climate-neutral electricity. Trends such as "urban farming", "urban living" or a climate-neutral district mobility concept"



Fig. 5: Carlswerk Cologne | source BEOS AG

and other direct services can also be implemented in a profitable way.

Nevertheless, the challenges are much more complex. There is only a small number of comparative figures that enable a serious risk verification. It is also necessary to break existing silo structures, as the relevant asset classes such as office, residential, retail, gastronomy, light industry or care are not to be considered individually, but in the context of the district.

A major challenge is the operating model. Success-relevant "district diversity" can only be achieved if the operation of the district and the associated services are coordinated with each other. This also includes pay-per-use concepts for areas, services and facilities. The real estate investment managers must decide whether to outsource the operations, jointly engage within the brackets of a partner model or even take over the operations themselves.

CONCLUSION

The change in the "MAI-ecosystem" will radically transform our existing cityscape. The reinvention of the district has already begun. Examples such as the Werksviertel in Munich, the Carlswerk in Cologne or the Adidas Campus in Herzogenaurach show the immense potential of districts. On the one hand corporates may to attract the talents needed while generating maximum space and cost flexibility. On the other hand real estate investment managers can enter the platform economy as an investor and operator of a new asset class!

Author

Jörn König is architect and Managing Partner of TME Associates. He is responsible for the group's human resources strategy as CHRO. For more than 15 years he has been dealing with the topic of working environments and the future of work. In his consulting segment "integrated working environment" (IWE), he summarizes the concerns of the working environment under the aspects of people, work and real estate and describes the "MAI-ecosystem" as the basis for changes in the real estate industry.

TME Associates | Office Munich
Giselastraße 12 | 80802 Munich
www.tme-associates.com