



Where does the real estate-technology transformation go from here? - by Blake Liggio

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As we cross the 30-day mark since the COVID-19 health crisis emerged in the U.S., the immediate impacts on the PropTech industry have crystallized. Real estate operations have been disrupted in fundamental ways, which disruptions have certainly caused acute pain for organizations in the near-term. However, in these changes there are long-term opportunities available for growth.

The PropTech movement has exploded over the last several years with the rate of growth increasing year-over-year. Record amounts of private capital have been targeted at investments in real estate innovation, partnerships between real estate operators and creative technology developers have accelerated, and most importantly, the value derived from the implementation of technologies by real estate operators has been tested and validated by the operators themselves.

As 2020 began, the real estate side of the PropTech equation was making significant progress around self-adoption of technological change. Industry trends had generally shifted from disruptive approaches by tech leaders who had identified business opportunities in real estate operational inefficiencies, to negotiated and welcome real estate-tech partnerships.

The COVID-19 Tipping Point

Though the health crisis has and will continue to temporarily slow momentum, when the economic environment stabilizes and rebounds, PropTech will emerge with explosive growth. The COVID-19 crisis has further exposed vulnerabilities and friction points in real estate, in some cases to a degree that will necessitate complete rebuilding of core business models. This is a time to reflect on key aspects of the PropTech industry's success in recent years and to recognize where real estate companies can capitalize on those proof of concept technology-driven models to rebuild for the future.

The following is an overview by property sector supporting the vision that PropTech industry growth will pick up pace with tailwinds when the crisis lifts:

Office

U.S. workers are predominantly working from home today and are adapting to working remotely with efficiency, and tenants will examine how much office space is needed for the future. Flexible office models, short-term leases and a variety of "space-as-a-service" offerings were already growing in popularity pre-crisis, which will further accelerate as employers will seek to limit employee-to-employee exposure, requiring less use of the physical space.

Industrial

Warehousing and logistics are segments that have thrived alongside the progression of e-commerce. COVID-19 consumer demands however, have exposed significant supply-chain vulnerabilities of key e-commerce driven retailers. There is both room for improvement for these existing players and opportunity for retailer diversification in the e-commerce channel. As retailers rebuild and expand with more online presence, fulfillment and last-mile delivery capabilities will involve more space utilization and development of industrial properties.

Lodging

Hotels have suffered record declines in occupancy rates and bookings due to COVID-19's impact, highlighted by social distancing and the rise in unemployment, causing the travel industry to halt.

Hotels will need to offer clean protocols in order to attract guests who will be concerned about health risks as travel will be viewed as a luxury rather than a necessity for the immediate future. Predictive maintenance and clean-energy systems, health and wellness standards, smart technologies with occupant sensors, and effective marketing around the associated technologies, will be key aspects

to guest experience.

Retail

Many non-essential business brick-and-mortar retailers have closed as a result of the pandemic. In order to maintain operations in this environment, these retailers have shifted weight to online operations in efforts to maintain revenues. The rise of retail e-commerce has caused significant declines in many retailer operations in the last decade and though some such retailers have survived until now, they have suffered from decreased market share. Now, customer traffic to physical stores is virtually zero. The consumer behaviors that are developing will have some permanent impact and retailers should forecast with this assumption and resume operations with either a mix of physical and online presence or a shift to an e-commerce focused model.

If retailers are perceptive to these trends, there is significant opportunity for the sector to emerge with more competitive balance opposite Amazon, which has showed significant supply-chain vulnerabilities. As a result of conditioning its customers to expect virtually immediate delivery of goods, and failing to deliver on its core promise in a crucial period, customers have turned elsewhere and many will form loyalties with other staple retailers, which have wisely and rapidly ramped-up tech-driven logistics capabilities in order to regain market share.

Residential

The residential market remains relatively stable. Homeowners and renters are staying in place during the current period of uncertainty, which may change based on the economic climate going forward. For residential transactions that are occurring, real estate brokerage firms are utilizing virtual touring technology rather than open house or other physical tours of properties for social distancing concerns, and these are technologies that will likely stick when the pandemic subsides. Smart home technologies are also in high demand.

Data Centers, Cell Towers & The 5G Network

Data centers and cell towers are low risk sectors during the pandemic because they have limited negative impact from social distancing. Real estate companies in this category have had high financial returns in recent years and therefore generally enter this challenging economic period with high liquidity and borrowing capacity. Providing the infrastructure to the now accelerated implementation of 5G will correlate to a positive impact on operations.

Conclusions

COVID-19 has put unprecedented stress on real estate operations. But the industry will recover and being forced into a rebuilding phase provides the opportunity for real estate leaders to reflect on how to re-position real estate business with strength for the future. The paths to technological change for real estate were paved in the last several years of the PropTech industry's accelerated growth and now is the time for full immersion. Much of this will be mandated by the technological demands

surfaced by the health crisis, but forward-looking real estate leaders will understand that tech adoption will position the business for sustainable long-term growth well beyond recovery from the pandemic.

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