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Strategic Innovation, Tech Priorities, and Human Capital in Real Estate Investment Management

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Strategic Innovation, Tech Priorities, and Human Capital in Real Estate Investment Management



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Once considered an asset-driven space, the real estate investment management (REIM) sector has begun to embrace strategic innovation and technology to enhance operations and deliver high returns. As the REIM institutional landscape evolves, the resulting disorder impacts public and corporate pension funds, endowments, foundations, REITs, developers, real estate operating companies, and industry service providers in the real estate investment community.

Ferguson Partners interviewed CEOs from several of the world's largest real estate investors and global leaders in property management, leasing, and valuation to discuss their thoughts regarding the interplay of strategic innovation, technology, and human capital in the REIM space.¹

Digital Transformation

Real estate is among the largest alternative asset classes in the world, with an estimated value expected to reach \$14 trillion by 2023.² Strategic innovation, technology priorities, and human capital in the REIM space are at an inflection point. Before the COVID-19 pandemic, there was a fundamental dislocation of the real estate investment landscape in which real estate investment managers were too big to be agile or too small to adapt swiftly. During the pandemic, technology demands for many have increased, and late adopters face a threat posed by tech-savvy new market entrants. Industry leaders agree that digital transformation is critical for businesses to remain competitive and relevant.

Virtual Connectivity

Although systems and capacities have been tested during the pandemic, for the most part, business continuity has been seamless. Digital models and checks and balances have been scaled in real time. Nevertheless, industry leaders agree that long term, operating remotely at 100%

productivity is unsustainable. Full-blown transformation was required of everyone in just eight weeks. Leaders agree on the need for a hybrid business model that applies virtual capabilities to streamline operations and achieve business growth. The lessons learned from the pandemic are that new digital models for core functions will be implemented, and the use of digital technologies to complete transactions will advance on a previously unimagined basis and at an accelerated rate. Digital technologies are removing barriers to entry, and proprietary data and advanced analytics strategies remain the essential drivers of innovation agendas.

Digital Agility

Digital agility means investing ambitiously in tech and becoming more digitally focused and nimble to gain a competitive advantage, mitigate risk, and increase operational efficiencies—the three pillars of strategic change. Data and digital agility are crucial accelerants in each pillar. Refocusing digital efforts to meet changing customer expectations is the essence of digital agility. Real estate is inherently transacted face-to-face, and operating real estate properties requires a physical presence in the built environment. Today, the ability to acquire and utilize new digital tools is essential. However, COVID-19 reinforced the notion that the human element remains integral but with a high degree of digital intelligence. While the businesses of several of those interviewed are well down the path to digital agility and their business models are advanced and scaling, the goal is to be more progressive, focusing on new customer behaviors and needs and on predicting demand patterns.

1. The 14 companies interviewed have an average of \$70.9 billion in assets under management and an average of 2,139 full-time employees.

2. Alicia McElhane, "Report: Alternative Investment Industry Will Hit \$14 Trillion by 2023," *Institutional Investor*, Oct. 19, 2018.

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Linda J. Isaacson, Ferguson Partners

Data as the Key Driver

Collecting and analyzing data in real time across the entire investment life cycle are critical to accelerate growth. Data models must be constructed to include the extraordinary scope of the entire REIM sector, including underwriting, property accounting, fund accounting, fund performance, property performance, and valuations.

Many real estate investment managers run businesses valued in the billions of dollars via the cloud while their data remains siloed. Investment managers must be able to use technology to harness and organize data in meaningful ways, optimizing their portfolio strategies, investment decisions, and insights into leasing velocity, rent growth, capital raising, and more. They leverage artificial intelligence (AI) to identify cities of the future to invest in, and some have partnered with or invested in technology providers using AI to establish newer and better investment vehicles. Investment managers engage with augmented analytics and machine learning, robotic process automation, virtual reality, augmented reality, and operational and geospatial intelligence to deliver on their data strategies. Data is influencing their micro decisions, not just high-level trends.

Real estate investment managers are huge consumers of structured and unstructured data, purchasers of third-party data, and generators of significant amounts of client data. Leveraging nontraditional data sets is a significant focus too. Some examples are using hyper location and financial data to predict whether a tenant will stay or go or whether a firm is growing or shrinking and then aggregating data across a global portfolio to drive asset management decisions. The biggest challenges remain data governance and the capture, synthesis, and utilization of internal data.

The industry leaders surveyed are focused on leveraging the scope and scale of their analytics portfolios.

With multimillion-dollar budgets to build algorithms and data models, they must invest in getting ahead of the curve in how they present data to their clients. Clients require different delivery systems, such as bespoke investor portals. They already access their data through a seamless customer-facing portal, drilling down to street views overlaid with demographic data, transportation links, and more.

The real estate investment managers that are further ahead in their data journey unsurprisingly are also the leaders in innovation and digital agility. There is no quick answer regarding whether data is the key driver for real estate industry transformation.

Evolution of Research

How will investment markets be structured in the future and how will investment themes change? Investors want predictive guidance on opportunities and risks in investment management. Furthermore, key leading indicators in the future will include epidemiological, health, and financial data that may impact global portfolios and structural workforce shifts in real time. Data must be synergized as an integral aspect of the investment process. The research mandate is to look creatively for data sets and correlations, analyze research results, and produce insights that can be used to make better investment decisions.

A data and analytics chief of research should lead cloud-based data collection platforms to enable smarter research. Building a winning portfolio requires having the ability to rapidly deploy capital and leverage investment opportunities, scaling across asset classes and regions. Real-time, data-driven knowledge is necessary to achieve operational excellence and outstanding returns and to determine and execute an effective strategy.

Leveraging Data and Technology to Innovate

Evolution is the common theme in leveraging data and technology to innovate new business models. Compelled by market pressure to generate higher net returns to investors, the industry is proactively and swiftly creating new business models that utilize technology. Investor-level tech innovation is among the best places to begin, especially with investors' demands for more tech-savvy communications, service, reporting, and capital raising. Staying competitive and relevant will require acquisition of real estate investment managers with outstanding data analytics competencies. Technology will also set in motion more strategic mergers and acquisitions.

Opportunities and Challenges in Real Estate Investment Management

The inability of general partners and limited partners to get information in a readily consumable way remains a significant concern. The REIM industry lacks a coordinated approach regarding data. Further, dissimilar end users are at different stages of development from a technological perspective. Data transparency is a challenge in investment management, but the banking and trading sectors seem to have figured it out. The ability to effectively provide clients with digestible data and actionable investment plans will be key differentiators for success.

Real estate investment managers face a challenging environment. Notwithstanding the pandemic as an accelerating force, institutional investors in commercial real estate are experiencing higher risk and competition, limited growth, and reduced profitability because of the potential threat of trade tariffs, a flattening yield curve, a global economic slowdown, and other factors. Commonly accepted and widely adopted industry standards, data definitions, and governance are still foundational, but developing data and technological innovation to manage risks and investment complexities more effectively is imperative.

Portfolio management and the investment process may prove especially challenging for REIM technological innovation. Automated reporting and capital raising are relatively straightforward. Finding a way to improve investment decisions in real time is critical—blending AI and human intelligence. Real estate investment managers must also hone their skills in predicting trends.

Real estate investment managers are under intense pressure to allocate resources to technological innovation while continuing to manage investment returns and remain cost effective. Data is impacting the entire REIM sector and the industry is at a crossroads. Investment managers need to determine whether to contain costs in the short term by reallocating investment in technology or increase their capital deployment in innovation while optimizing investor returns. Using diverse operational and transactional data to create on-demand analytical views and increase customer value is the ultimate differentiator.

Leadership's Role in Accelerating Technology Investment

Leveraging technology to improve performance and achieve operational excellence must be led at the C-suite level. Innovation and technology has to become ingrained in an organization's DNA, not be just a back-office function. The business culture must embrace the importance of tech and data.

Several real estate investment managers Ferguson Partners interviewed have chief innovation officers with the vision and authority needed to propel organization-wide change; they mandate integration of innovation in their firms' day-to-day operations. Other critical roles are the chief data officer and chief technology officer (CTO), still missing in several of the interviewed organizations. CTOs have vastly different competencies and the much-needed ability to select and build out the tech infrastructure required to carry out a CEO's vision to improve and innovate products for customers.

Despite pressure to accelerate investment in technology, many companies still have an assortment of legacy systems and need to support and upgrade technology. Globally, artificial intelligence and machine learning are aspirational. It is necessary to look beyond the property industry to recruit and aggregate critical talent, which includes data scientists and technologists. The most meaningful way to bring about organizational change is through a combination of technology and people to create a truly digitized culture.

Connecting Venture Capital and "PropTech" in the Innovation Ecosystem

Institutional investment managers in commercial real estate are taking a multipronged approach

to connecting to the innovation ecosystem. Their strategies include creating innovation labs, establishing corporate venture capital, deploying capital as a limited partner in a venture capital (VC) fund, investing directly using beta emerging technologies directly in their portfolios, and even launching internal teams dedicated to technological disruption.

Although partnering with a venture capital firm is an obvious first step for real estate investment managers to connect to the “proptech” ecosystem, it is not good enough. Internalizing technology and capabilities—owning an innovation strategy—is the way to the future and necessary to remain competitive. Many real estate investment managers are investing in technologies and concepts directly. There is keen interest in adopting real estate–related emerging technologies at the asset level. However, as fund management and investor servicing are priorities, many are not adapting as quickly as they would like.

Companies Ferguson Partners interviewed are investing more in infrastructure to implement technology for their asset and portfolio managers. While several have deployed capital with proptech VC firms, they are incrementally pushing more deeply and directly into the start-up world. Entering the “VC club” is costly and may not pan out. With billions in capital, viable platforms, and a desire to collaborate strategically with other industry players, the REIM industry is well positioned to go it alone.

Bombarded by technology and innovation investment requests, real estate investment managers are large enough to make an impact. To their credit, the industry leaders surveyed know that the best area for innovation is data intelligence, an asset they already possess. Each appreciates the importance of being able to effectively categorize, analyze, and utilize data for the greatest impact. These leaders are focused on capturing data and using it to be better investors, improve performance, and increase returns.

Human Capital in the Innovation Equation

The environment will force real estate investment managers to innovate. Ultimately, everyone will need to be data savvy, yet incorporating technology into the standard approach is not enough. Bringing tech folks into real



estate to work collaboratively with investment managers will transform the industry and create an exciting new model. Private equity companies got it right, bringing in next-level data analytics, tech talent, and innovators from outside their industry to work collaboratively with existing teams. As a result, the private equity sector has developed an innovation model far ahead of that of the real estate sector.

Key Takeaways

Real estate investment managers have data assets and domain expertise. Now they must focus on acquiring and utilizing a combination of human talent and technology to accelerate implementation of strategies to drive analytics and innovation, optimize service, and achieve sustainable competitive advantage. Going forward, it will all be about vision and execution. Organizations should assess their digital talent needs, fast-track digital “upskilling” of their entire workforce, and accelerate application of advanced analytics across the full investment management value chain to provide a rich, real-time view of opportunities. Leading with a data-driven culture, vision, and strategy and making data-backed decisions are the future for institutional and real estate investment managers. ■

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In a globally connected, data-driven world, the difference between keeping up with the competition and outpacing it is talent. Technology is the platform, but human expertise and ingenuity is the driver. With our deep understanding of what's ahead, we can streamline your path to innovation.

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