Commercial Real Estate in 2030

Central Issue of the Paper

In “Technology, Innovation, and Disruption,” Jack Silbey and Filippo Rean highlight challenges for commercial real estate. As recent innovation in other industries has proceeded at a rapid pace, little has changed in the commercial real estate industry. The holding period for real estate is very long compared to other alternative asset classes, yet there is now a heightened pace of obsolescence. The industry is being disrupted. Commercial real estate is feeling the impact of innovation from exogenous industries and must adapt.

Approach Employed by Paper

A collaboration between Nuveen and MIPIM, the authors share their thoughts on topics prevalent at a recent MIPIM conference. The theme of the international property event was “Mapping World Urbanity” and discussions centered on technological disruption and the need for the industry to innovate.

The authors first identify three major reasons for change: disruption in adjacent industries, such as Tesla and Uber in transportation, 2) emergence of PropTech startups, offering property technology to increase operating efficiencies, and Big Tech (Google, Amazon and Alibaba) creeping into commercial real estate, and 3) optimizing UX - user experiences online.

Next the authors discuss several challenges facing the industry. For example, understanding what people want from real estate is a challenge particularly in retail and office. The technology driven shift must recognize that constant connectivity has changed the work-life balance into work as a lifestyle. Notably, the industry’s tendency toward resisting change will require new skill sets and mindsets. This is because to not change would be more expensive than the costs involved in adapting and innovating. Trying to envision “Tomorrow’s World” is difficult but necessary for choosing the right opportunities.
Findings of the Paper

Ultimately, to adapt, the commercial real estate industry must digitize. The authors outline several opportunities to digitize organized around three themes: data, smart buildings and digital platforms.

The commercial real estate industry has long neglected the value of data. Aggregated data had been just sufficient to create benchmarks, and the lack of transparency had been credited with the industry’s success. That is changing so that more “hard data” is becoming available (rents, yields, vacancies.) More interestingly, soft or alternative data generated from the Internet of Things (IoT) and platforms like Yelp can provide valuable information on city dynamics.

IoT data can also be used in smart buildings and PropTech. It can help analyze space utilization, for example in office buildings, and detect temperature, humidity and air quality. The return on investment for implementing smart technologies for energy efficiency can be almost immediate.

Digital platforms such as Zillow have advanced in the area of retail real estate, but far less so in other areas of real estate. In commercial real estate, Excel spreadsheet analysis and Microsoft Outlook are still the norms for analysis and communication. That will change rapidly.

Looking forward to 2030, there will be fewer silos and more collaboration. There will be a strong focus on UX, an appreciation for big data, more asset management expertise and strategic thinking.