Building Engines

Report

The Commercial Real Estate Tech Gap:

A Survey of Owners, Operators and the Opportunities to Align on Innovation & What's Important

Introduction

According to a GlobeSt.com article, in 2019, commercial real estate tech (CRE) investment doubled over the previous year, and 2020 was set for another 12 months of record-breaking tech spending. The overarching intent driving such investment by CRE owners and operators has been to discover more efficient ways to operate buildings, without sacrificing tenant engagement and satisfaction.

In particular, considerable time, money and effort has been spent automating back office processes with specialized systems for accounting, billing, accounts payable and the like. Similarly, front office technology solutions have emerged more recently, initially in the residential sector and then in CRE, to help property teams optimize the tenant experience for residents and visitors.

In the same GlobeSt.com article, Ashkán Zandieh, former chief intelligence officer at CREtech.com, says there are reasons for this focus on technology, citing net operating income (NOI) and return on investment (ROI) as two driving forces. "Today, the industry has the potential to benefit tremendously from technology, and is being pragmatic about it," he said. "For users of innovation in tech, everything has to come down to NOI or ROI, so the technology has to have some kind of financial benefit to it."

To better understand how CRE is modernizing through increased investment in technology, Building Engines fielded a national survey of more than 200 CRE owners and operators, and uncovered:

- What business challenges CRE owners and operators are facing that technology can address
- What are the expected benefits of investment in technology
- How owners and operators can both better leverage and benefit from technology

" For users of innovation in tech, everything has to come down to NOI or ROI"

- Ashkán Zandieh

Chief Intelligence Officer, CREtech.com

According to survey responses, **89% of owners and operators believe technology is shaping the CRE industry**, but many are struggling to manage various point solutions that are now littered across their technical ecosystems. For many owners and operating teams, point solutions are proving too narrow to satisfy their broad range of operational requirements. Because many of those point products have a closed technical architecture, they are not able to integrate with other solutions. This leaves many operating teams with a complex patchwork of systems that cannot be integrated into a cohesive ecosystem. As a result, property teams have more systems to manage yet are still struggling to deliver the desired outcomes.

> 89% of owners and operators believe technology is shaping the CRE Industry

Where to start in the tech journey

To address this challenge, owners and operators must standardize on modern, cloud-based systems with an open architecture that facilitates data flows between key systems. **In fact, more than 50% of the owners surveyed said their operations team expressed interest in implementing technology to modernize building operations functions**, seeing building operations as the foundation of the entire CRE ecosystem. Based on survey responses, **only 17% of operators feel their current building operations platform(s) meets their needs, while 84% believe if a building operations platform met all of their functional needs their business would improve.** This shows there's a desire and opportunity for a tech solution to fill this gap, and help owners and operators gain operational insight and better evaluate team performance and tenant satisfaction.

In the quest to find the right solution, key questions owners and operators must ask themselves include:

- Who will be using the tech solution and why?
- Do the benefits outweigh the cost?
- Which tech solutions deliver real value, and what's smoke and mirrors?
- Will this solution give my team the visibility and standardization they need?

A note on COVID-19

This survey was fielded prior to the COVID-19 outbreak in the U.S. While COVID-19 has transformed the commercial real estate industry, we believe the data in this report is still relevant and holds true independent of the pandemic. In fact, the findings are particularly relevant now more than ever as owners and operators navigate a new office environment and a phase of re-occupancy.

Read on to learn how the findings from Building Engines' survey can help inform your answers to those questions.

There is a need for 'better' tech—the market is open to and waiting for innovative solutions

CRE owners and operators recognize that technology will improve their net operating income (NOI), but they need and want better technology to help them increase revenue, deliver the best occupant experience and reduce their operating costs. The right suite of tech solutions will drastically improve these crucial aspects that drive a successful CRE business.

For both owners and operators, technology benefits several key areas, all of which map to what's needed to improve NOI:

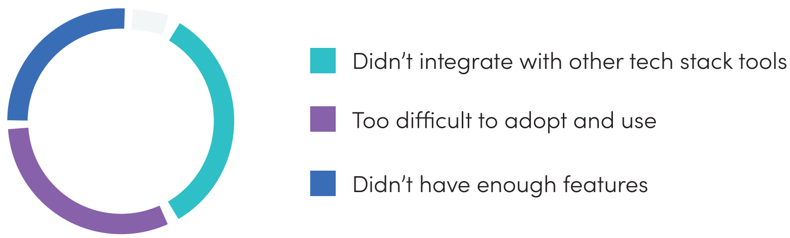
- **51% said it can streamline everyday operations tasks**
- **49% said it can help make decisions quicker**
- **48% said it can help more effectively respond to occupant needs**

Ninety-two percent of those surveyed believe technology will deliver advantages for business but, when asked specifically about building operations tools, **30% of operators thought their current solution only provided acceptable, or even poor, value.** Change is clearly needed and there is ample proof that the industry is ready for it—**half of those surveyed have had their operations teams express the need to update current tech solutions or implement tech to modernize building operations functions.**

Movement is happening, too. In the past two years:

- **41% said their organization had switched from one tech solution to another,** signaling owners and operators are willing to go through the effort of making a change if they can find the right solution
- **34% said their organization adopted a new tech solution,** suggesting tech adoption and implementation continue to be on the rise

The top reasons why an owner or operator stopped using a tech solution were 1. It didn't integrate with other tools in tech stack (33%); 2. It was too difficult for the team to adopt and use to its full potential (28%); 3. It didn't have enough features (25%).



Thirty-five percent of those surveyed compare building performance across a portfolio with a detailed report via a software platform while 32%* are still reviewing excel spreadsheets (or another document form).

* To be truly efficient, this number should be closer to ZERO

The CRE industry is ready to move away from manual processes and outdated systems, and for tech to do more for them. It's time to address what the industry wants in tangible, impactful ways.

NOI is all about increasing revenue streams and delivering the best occupant experience, and better operations solutions improve both areas. Owners and operators agree:

- 74% of those surveyed greatly or somewhat believe better operations solutions would improve the occupant experience
- 70% of those surveyed greatly or somewhat believe better operations solutions would improve their bottom line
- 81% of those surveyed greatly or somewhat believe that that a building operations platform that meets all functional needs would improve business

The good news? There are opportunities to fill this tech gap and for technology companies who are up for the challenge to deliver it.

A tech platform and a streamlined tech stack is important to CRE owners and operators—but what does that mean?

Tech blogger Jonathan Clarks in Forbes: *"Platforms are structures that allow multiple products to be built within the same technical framework. Companies invest in platforms in the hope that future products can be developed faster and cheaper, than if they built them stand-alone. Today it is much more important to think of a platform as a business framework. By this I mean a framework that allows multiple business models to be built and supported..."*

A true platform is a central hub of functionality and information. This concept should be important to CRE owners and operators because the tech solution that he or she selects should be able to ride the tides of CRE's evolutions as well as a company's ever-changing needs. You don't want to invest in something that won't be useful in a few years' time or requires several additional tools and technologies to make effective.

Eighty-three percent of those surveyed believe that processes would be streamlined if they only had a small set of tech platforms to manage main areas of business. And, 65% of those surveyed are practicing what they preach: using a streamlined arsenal of 1-3 tools in their current CRE tech stack.

But, what type of tools are they and are they covering all critical functions of the CRE business? There are three primary pillars and critical functions that matter to CRE owners and operators in their tech stack: leasing, accounting and building operations—so this maps to having one platform to cover each critical function.

Leasing

Focused on tenants, vacancy rates, rents, lease negotiations, etc.

Accounting

Focused on billing, AP, investor reporting, financial performance, etc.

Building Operations

Focused on asset management, tenant experience/engagement, engineering, maintenance, etc.

Getting more granular, owners and operators identified the top five tasks that tech tools support across leasing, accounting and building operations, which the right platform should handle exceptionally well:

- Rent/income tracking – 39%
- Financial performance – 30%
- Project management – 20%
- Tenant communications – 18%
- Service request management – 17%

Specific to building operations, the most important elements were:

- Reporting and analytics – 23%
- Managing risk and security – 19%
- High/well-functioning systems – 17%
- Seamless experience across entire portfolio – 17%

The details matter when it comes to selecting a technology solution

For an industry that has thrived without tech infused into its processes for much of its existence, owners and operators are rather sophisticated when it comes to understanding what will drive the most value in a tech solution today.

- 88% of those surveyed said security and data privacy regulations were extremely or very important when determining which technology to buy or employ
- 77% of those surveyed said it was extremely or very important for their teams to be up and running quickly
- 73% of those surveyed said it was extremely or very important to be able to add modules to their tech platform as needed and scale as portfolio and needs grow

However, according to owners and operators, some of the top barriers to entry, besides costs, they and their teams experienced with tech adoption or usage are in direct conflict with what's important to them:

- 32% of those surveyed said most platforms or tools don't integrate well
- 29% of those surveyed said it's difficult to get tenants to use [the tool]
- 28% of those surveyed are concerned with security

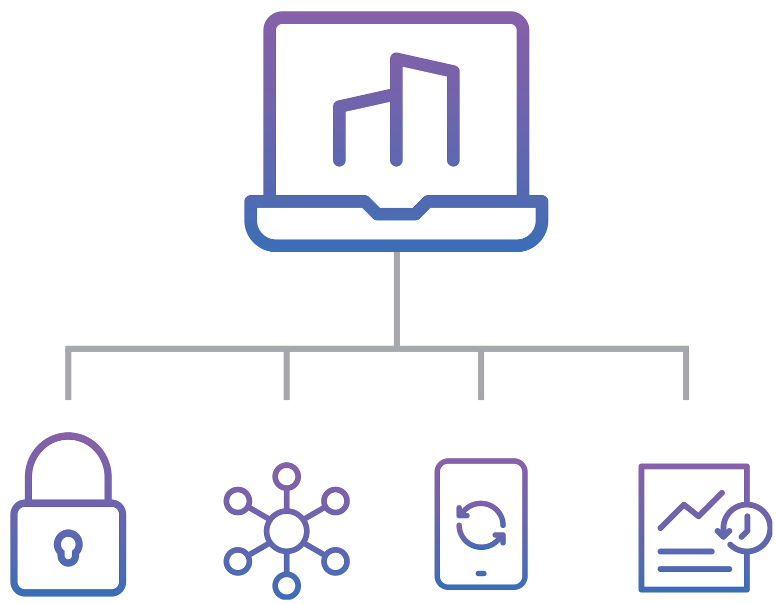
An enterprise-class platform that scales as your portfolio grows

- *Open Architecture with APIs designed in to ntegrate into your existing IT ecosystem*
- *Scales across languages, currencies and time zones*
- *Security & data privacy; meets requirements for GDPR, SOC II, CCPA and ADA*

Quick time to value to drastically reduce the time & effort required to achieve a measurable ROI

- *Cloud-based & integrates with existing systems*
- *Self-service; stand up buildings in minutes without professional services*
- *Enables global standardization on best practices*

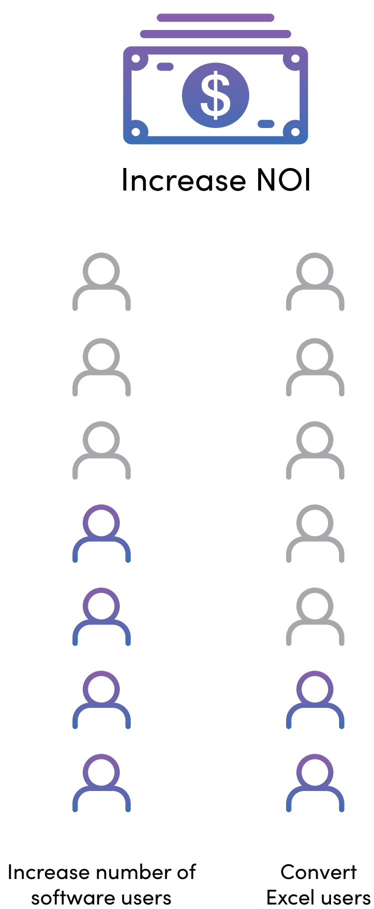
As evidenced by the data, modern CRE operations need tech solutions that keep up with the current business environment, and can withstand the many cycles and evolutions of the CRE industry—criteria that matter to owners and operators. As identified in the previous section, selecting the right tech solution starts with the foundation—is it a platform that will serve all needs across all levels? And, there is more to consider: Is it enterprise-class? Is it secure? Does it provide quick time to value? These questions are critical to ensuring a platform meets modern standards.



Conclusion

Powerful technology has the ability to help owners and operators optimize NOI. And based on responses, the market is open to and ready for new, innovative solutions to do just that.

To truly make a positive impact on NOI, there is opportunity to **1. Increase the number of owners and operators using a software platform to compare building performance—this is important in bringing the industry to a place of optimal efficiency and 2. Convert those using Excel or some other static documentation to track performance—manual process simply don't cut it in the modern CRE world**.



At the end of the day, tech platforms need to provide excellent outcomes for users. And, since property teams (operators) are typically the ones who actually use building operations tools to carry out day-to-day functions but also prove the value of their team to owners, it would behoove them to select a platform that will deliver on the promise of excellence.

Overall, the data suggests that owners and operators largely agree that:

- **A building operations platform that meets all functional needs would improve business**
- **Better operations solutions would improve occupant experience and the bottom line**
- **It's extremely important for their team to be up and running on a tech platform quickly**

The study shows that CRE owners and operators have "woken up" to better tech but it's clear there is a gap in what they want and need, what is available and what service providers are doing to educate the industry on smart tech practices. The consensus is that technology is shaping the industry, and owners and operators believe more innovative solutions would provide better business outcomes. The industry is becoming more sophisticated when it comes to tech, but there is room for improvement to get to a place of confident adoption.

About Building Engines

Building Engines strives to help CRE owners and operators deliver an exceptional experience for everyone, in every building by offering better communication, maintenance prioritization and operational risk management. The technology company is focused on improving net operating income for owners and operators by increasing revenues, delivering the best occupant experience, and reducing costs. For more information, visit www.buildingengines.com

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