



PROPTech PULSE

THOUGHT LEADERSHIP FROM GOODWIN'S PROPTech PRACTICE

Real Estate Innovation

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Since the dawn of the internet age, technology has dramatically transformed business industries, but the real estate industry, a sector traditionally resistant to change, has lagged behind in terms of technological innovation. Technology adoption rates remain low among real estate companies for a variety of institutional reasons, including a lack of internal expertise and infrastructure to integrate new technologies. However, the emergence of PropTech — the convergence of real estate and technology — is bringing tides of change for the real estate industry.

In recent years, venture capitalists and other institutional stakeholders, including certain real estate firms, have increased investments in real estate targeted technology, with an estimated \$11.2 billion invested in 2018.¹ Most real estate companies that have not yet embraced technological innovations are at least beginning to explore PropTech offerings in an effort to adapt to the changing global real estate landscape and initiate technological evolution ahead of the possibility of external disruption.

THE TRADITIONAL PACE OF INNOVATION

Real estate companies are typically slow to technologically innovate explained in part by the fact that technology is not often viewed as a key business driver. Technology adoption is further impeded at many real estate firms due to a lack of expertise to effectively evaluate the many concepts that are being developed in the real estate technology market. Only four percent of real estate owners and asset managers consider

themselves highly effective technology users.¹ This dearth of technological expertise leaves firms unable to identify the potential gaps in their services that might be supplemented or enhanced by the adoption of technology.

A lack of technological prowess is not the only impediment to PropTech adoption at real estate companies. For real estate leaders, facing the prospect of innovation may mean assuming a degree of risk that seems unnecessary given the general stability of real estate as an asset class. Most real estate companies have historically been very successful from an operational standpoint using management processes and technological programs that have not significantly changed over time but which have nonetheless allowed operators to remain market leaders. Separately, certain real estate service providers that have maintained longstanding control over parts of the real estate transaction chain may be likely to resist innovations that would disrupt well-established transaction structures.

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¹ Deloitte, "[Building the Future Real Estate Predictions 2018](#)."

PACE OF CHANGE IS QUICKENING

While the historical pace of technological change has been slow overall, the real estate industry now appears to be reaching an inflection point where consumers are seeking offerings that provide fluid technological connectivity and expansive access to information, among other benefits that come with technological innovation. As more PropTech concepts emerge backed by significant institutional funding, real estate stakeholders and consumers alike are experiencing how innovation unlocks additional value and efficiencies in the operation of real estate.

The rapid pace of PropTech development is creating a new real estate business landscape that will require nimble leadership teams positioned to recognize and integrate new technology solutions. Real estate leaders are now devoting more time and resources toward understanding and implementing new technology, be it through internal development, investment, or acquisitions of technology assets. While adoption rates still remain relatively low, over half of commercial real estate professionals expect technology to have a significant impact on the future of the industry.²

THE FUTURE IS BRIGHT

The picture of what technological adoption looks like for real estate varies widely across the industry. PropTech is disrupting various aspects of development, investment, construction, data usage, transaction channels and financing, among others. PropTech segments aimed at these categories range from virtual reality applications to artificial intelligence software to online property management platforms.

Just as varied as the industry processes experiencing disruption are the avenues by which real estate industry incumbents are becoming involved in the PropTech space. Some have chosen to invest directly in technology solutions through in-house research and

development divisions and others have licensed or purchased software or technology platform solutions that enable their businesses to expand and innovate. Some of the most effective adoption models have combined participation as investor and incubator.

More than ever there are synergies accelerating between the builders and operators of the physical world and the developers of the digital universe. The task at hand for all involved is to seek out the right opportunities that will ultimately be the most impactful on the real estate industry.

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² BOMA International, "[Commercial Real Estate Technology Trends 2018](#)."

