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Disruptive tech in commercial real estate - by Daniel Calano

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A lot has been written about disruptive technology. At its simplest definition, disruptive technology is a completely new approach to a problem or business, typically only available because of a growing digital culture. Uber is a poster child of this phenomenon, whereby independent drivers, not licensed or employed by a typical taxi company, can access a network of communication and GPS locational information, enabling them to “disrupt” the taxi world.

Encouraging or even fostering disruptive technology is part of the millennial culture, interested in sharing services. Allegedly, millennials prefer not to own, some for financial reasons, some for the notion that physical assets simply get in the way of freedom, job switching or time. According to a 2015 PWC report, 86% of Americans believe that a sharing economy makes life more affordable, with 83% saying that it adds convenience and efficiency. Overall, 57% see access as the new ownership.

This new culture has had ramifications in transportation (temporary cars, temporary bikes, Uber), in housing (rental over ownership), in travel (favoring experiences over goods) in ordering and delivery of food, and so on. From a real estate point of view, we all know the “Amazon impact” on retail and thus on strip malls and major malls. On the residential side, companies like Zillow have brought advanced research and purchasing technology to people who would prefer to own.

With retail and residential being impacted, how much impact has been felt in the commercial real estate world? In a University of Pennsylvania, Wharton Business School article and ongoing research, authors address this question. Summarizing, the authors state that there is the beginning of a new digital approach to an otherwise location and asset based industry. However, it is far from developed and perhaps behind the curve already.

In their research, they pose an interesting hypothesis: “Assets are losing ground to access.” I had to think about this for a while, as I had never heard this phrasing. What they mean fits in with the culture of renting versus owning. The article is suggesting that hard real estate assets, which are by their nature fixed and immobile, and always evaluated on “location, location, location,” can now be accessed more easily on a rental or temporary basis in a mobile world. In other words, access to information and facilities is becoming as or more important than owning the asset.

Concluding, the Wharton research determines a reason why CRE is slow to adapt: that executive thinking is traditional, questioning how it is even possible to monetize assets that they do not own. The Wharton research summarizes with a question, asking whether the CRE industry should embrace the digital world and be the “first mover” or let startups disrupt it from the outside. Their answer is that unless CRE embraces technology, technology firms will end up representing the customer better than the supplier can. Ownership of assets will have diminished value, while part of the value will be usurped by the disruptive technology.

The Wharton research does not posit any specific solutions, but it certainly emphasizes the problem. It envisions a digital platform and a virtual network where real estate participants "partner and co-create with tenants, suppliers and employees in a new business model, allowing them to participate and share in the value that your network brings." Not a direct and simple solution by any means, but it is a conceptual approach that we should all take to heart.

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