



NEREJ

Technology affecting real estate: Adapt or contract

February 07, 2013 - Appraisal & Consulting

In my last article for NEREJ, the topic was about how future changes in health care would impact real estate. It also got me thinking about other technological changes, and how these would affect real estate in the long run. Historically, there have been major inventions that dramatically transformed our built environment. Most well known among these is the invention of advanced steel and concrete construction, combined with the elevator, which allowed for dramatically higher buildings.

Comparatively, we have an explosion of technological changes today. We can only scratch the surface here, but let's take a deeper look at some of these. I group the changes around the following three categories:

- * Information proliferation;
- * Tools to analyze the information; and
- * Direct transactions - fewer middle men.

Information proliferation has not only helped people make better decisions, but also allows for mobility in making decisions. For example, both professionals and laymen can use remote data bases of sales information, Google Earth for location information, and various social media venues for rating quality of real estate. Uploading to the "cloud" allows us access from anywhere. At a recent Urban Land Institute conference, one real estate professional commented that prospective residents can drive around an area to look at a new place to live, then use Smart phones to find information about the community as well as pricing. On site calls to brokers allowed them to communicate their knowledge quickly, and directly, eliminating time wasted on uninformed questions and discussion.

Information, combined with analytical tools from the second category, provide a seamless advancement in understanding real estate. Depending on their degree of sophistication, buyers, investors, tenants all have access to analytical tools that help understand the vast amounts of information. Some of this is already provided in pricing sites such as Trulia and Realtor.com, or marketing related GPS sites, all higher level sites which help aggregate data and provide more advanced statistical analysis.

Finally, these higher levels of information, communication and analysis allow for fewer people in the middle of transactions. Direct connections can be made, bypassing traditional hierarchical methods. Will new technology render traditional real estate transactions redundant or superfluous? I don't think so, because whatever your level, transactions require a certain degree of trust among people. Will brokers, appraisers, bankers, insurers, be marginalized or their functions replaced by information and analysis that reduce the need for middle men? This will vary, with more impact among residential transactions and fewer among commercial.

Will the need for space be reduced? Most certainly. The Internet has had the biggest impact on

retailing and the demand for retail space overall. Online retailing will continue to reduce the demand for space and in some cases make entire industries obsolete or unprofitable, such as music and book stores, movie rentals, and even parts of financial industries. The demand for office space will certainly be reduced as workers continue to become mobile. Workers outside the office will not only produce more, but will be perceived as more ambitiously attuned to modern business.

Just as people wondered how much impact an elevator might have on the form and function of building, today, we must consider technology, finance, transportation, energy, world economies, and many other things in order to determine the potential changes in real estate functions and usage. No answers today, but certainly many more things to think about.

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