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Disruptive technology in real estate: Minor impact or sea change - by Daniel Calano

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Disruptive technology: All of us are mostly happy users of this, whether it is in real time streaming of your favorite movie, or a half price Uber ride, or simply whiling away the day Googling information you always wanted to know. However, as real estate professionals most would agree it has not revolutionized our industry...yet.

Disruptive technology has been nibbling away at the edges of our business. At this level, perhaps we should call it facilitative technology, rather than disruptive. Primarily, it has provided greater and more transparent data, with user-friendly algorithms to access and analyze it. Google and Google Earth are of course great examples. We can visit, compare, and value real estate, without leaving our chair. This level of technology is a big benefit to us, and it has not caused a sea change in the underlying industry. It has not yet made any of us obsolete.

Compare that level of technology to the consumer shopping experience, formerly known as the "Mall." Four years ago, I wrote an article on how it was obvious that Amazon would have an impact on instore sales. At that time, it was mostly conjecture, without a lot of data backup. Fast forward, this week there was a New York Times article entitled, "Is Retail at an Historic Tipping Point?" The byline reads, "as job losses rise and stores close, the change is so rapid it's measured in dog years." The article continued with statistics showing how quickly e-commerce is now impacting retail. Between 2010-2014, e-commerce grew at an average of \$30 billion annually. Over the last three years, average annual growth has increased to \$40 billion. A senior economist at Reis, a real estate analytics firm, was quoted saying, "It's like the Doppler Effect. The change is coming at you so fast, it feels like it is accelerating".

The impact at this end of the real estate spectrum is disruptive, perhaps destructive depending on your point of view. Not only are shopping malls showing increasing vacancy, according to the article these stores have laid off about 89,000 Americans since October. This is a fundamental sea change in one end of our real estate industry.

Other real estate sectors have also shown signs of change, somewhere between minor and disruptive. As most know, first individual offices, then cubicles in the office building have morphed

into open collaborative work areas. Workers are using technology to work from anywhere, anytime, and as a result, less office space per worker is needed in the home office. As another example, branch banks are becoming obsolete. Banks themselves are creating this future by providing user-friendly web pages and apps to allow for “out of store” banking. While the process may be causing obsolescence, it is required in order to complete.

Another example, manufacturing, which would typically not be considered high-tech, is trading factory laborers for robotics, software, 3D and IT. As a result, space needs will change.

In a recent article by Pemco Ltd., a real estate valuation and asset management company, a writer indicates that, “the real estate industry stands as one of the last big industries that haven’t been disrupted”. However, they argue this will change. Speaking mostly about the process of buying and selling real estate, the article focuses on technology as creating efficiencies in the process, but also reducing the need for intermediaries in the transaction, and as noted, reducing or changing the need for space. They cite the obvious companies like Zillow, and more analytical ones such as Compstak and Hightower as providing immediate and user friendly information that facilitate and speed up the process. While far- fetched at the moment, the article reports some believe that buildings could eventually be traded like stocks, bringing absolute transparency and completely changing the process of the real estate transaction.

Whether it is on the low end of the curve of more understandable data, or on the high end of the curve of a reduction in the need for bricks and mortar shopping malls, there seems to be no question that we are in the process of change. Compared to other businesses like music and movies, we are just starting. Our industry is harder to move, with much history and culture as obstacles in the way. However, slow change does not mean less change. Most will agree that change is coming, and the astute real estate professional needs to keep that horizon in full sight.

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