



## Digital Disruption of the Commercial Real Estate Industry

Andrews Myers closed out our third year as a sponsor for the Houston Business Journal's (HBJ) Commercial Real Estate webinar series with a discussion on Digital Disruption of the Commercial Real Estate Industry. One of the lessons we have learned from the COVID-19 pandemic is that emerging technologies have made it possible to continue to get business done, regardless of where employees or clients are located.

Panelists discussed the lessons taught by COVID-19 with regard to so-called "digitization of the industry" and what businesses need to consider going forward. They also discussed the opportunities posed by digitization and the hurdles the industry might face in implementing it. Panelists included Lee Bratcher, president of the Texas Blockchain Council; Rena Burns, partner at Deloitte & Touche LLP; Stuart Showers, senior vice president in Transwestern's business analytics division; and Edward Wagoner, chief information officer at JLL, Digital.

### Key takeaways from the webinar:

#### **Digitization and its role in commercial real estate.**

Digitization is the process of converting information into a digital format, enabling the ability for consumption analysis to benefit business downstream. Stuart Showers explained that until recently, market reports were on reams of paper. Now, all that information is digitized.

#### **Factors driving digitization.**

The workforce and improved technology are driving digitization. Pre-Covid, complete digital change appeared to be a 10 to 20 year project. However, the pandemic has probably cut that timeline down to 2 to 5 years. The workforce has had a taste for working at home and they do not want to go back into the office. Rena Burns noted that fortunately, improvements in technology have made that digitization and telecommuting possible.

#### **Opportunities and challenges to the digital transformation of commercial real estate.**

Efficiency is an opportunity gained from digitizing the commercial real estate industry. There is redundant work in CRE and the ability to digitize, share, and centralize data in a common data model helps reduce a lot of the time spent doing things that didn't need to be done outside of that. Showers mentioned that the property tech market is exploding, representing both an opportunity, as well as a challenge. The emergence of new property tech tools is fantastic, but you have to be very wary and careful in analyzing the data. As a result, many false steps can be taken.

### **The pandemic's effect on the adoption of cryptocurrencies.**

The pandemic has accelerated the digitization process in almost every industry. We are still early in the development of cryptocurrencies, but the adoption curve has accelerated more quickly than the adoption of the internet, which is a facilitating factor in fueling this adoption. Lee Bratcher stated that more and more everyday consumers are adopting cryptocurrency and digital wallets on their phones. Commercial multifamily properties have even initiated the adoption of tokenization in real estate markets.

### **How blockchain has made it easier to share data in commercial real estate.**

Bratcher explained that Blockchain allows for the reduction of the illiquidity discount. Real estate is illiquid and depresses the price of those assets. Therefore, if you remove the illiquidity discount, the value of those assets would increase. Blockchain is removing the illiquidity discount from the commercial real estate industry through a process called tokenization.

Publicly traded companies have maximum liquidity because their stock is traded daily on the stock market. Tokenization is bringing that level of liquidity to real estate. With tokenization, you can set the parameters of trading for entrances or exits at whatever frequency your platform will work with your investors, whether that's on a daily or weekly basis.

For example, 1,000 tokens represent ownership of a property. If each owner has 333 tokens, they own one third of the property. Tokenization can allow for one investor to increase their holding, another investor to decrease their holding to increase their liquidity, and also allow other investors in from the outside. Through tokenization, the transaction costs that can be cost prohibitive and the timing costs that can be cost prohibitive can start to decrease. While you have to take into account the regulatory environment, whether its accredited investors only or fully regulated securities, either route is more accessible than the current way of doing business.

### **Biggest hurdle to digitizing commercial real estate.**

According to Burns, a change in mindset and shortage of workers presents the biggest hurdle to complete digitization in CRE. Everyone has become more open to technology over the past 20 months. In 2019, a survey amount the commercial real estate industry indicated that 64% of respondents felt it was important to integrate new technologies. The same survey indicated that only 24% of companies in the industry were actually integrating new technologies. An organization has to have that change in mindset and desire to invest in change. An aging population is going to lead to a shortage of workers. In order to make up for this shortage of workers, reducing the redundancies in commercial real estate through technology will be key.

The full-recorded presentation of the webinar is available [here](#).

For more information, please contact [Josh Cunningham](#).