New Entrants – New Rivals

How top real estate players are seeking new revenue sources

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Methodology

This report is based on an analysis of cross-industry activity by the top 40 by revenue real estate companies in Germany. They distribute across four sectors: investment/asset management, property management, facility management and listed real estate companies. The analysis also includes the top five global fund managers based on total real estate assets under management. The analysis seeks to identify activity by companies which takes them beyond their core real estate sector. It includes a review of new product launches, mergers & acquisitions activities, partnerships and joint ventures (JVs) as well as start-up incubation programmes. The review covers a six year period from 2013 to 2018.

New business opportunities for real estate players

This report takes a look at the extent to which the top global and German real estate companies are reaching out beyond their traditional industry boundaries.

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Real estate is at the heart of all our lives. It provides the places where people work, live and play, receive education or healthcare. Traditionally, real estate has been understood in terms of bricks and mortar. But, increasingly, the strategies of real estate companies are being framed beyond the four walls of rooms and buildings and, more than ever, are taking account of the circumstances of people’s lives and the surrounding environment.

This report takes a look at the extent to which the top global and German real estate companies are reaching out beyond their traditional boundaries to engage in activity outside of their bricks and mortar core. Through added services, technologies and new forms of flexibility, real estate companies are rethinking their strategies to reflect changes in human behaviour and to capitalise on rapidly evolving technological possibilities.

We reveal a major increase in cross-industry activity by global and German real estate players. Our analysis uncovers an upsurge in moves by companies to expand the use of technology, in particular, but also to step up activities in areas such as healthcare, energy, and mobility. A common theme for these moves is a focus on customer needs and the need to deliver strategies that can anticipate changes in customer behaviour and respond to wider infrastructure and societal changes.

Susanne Eickermann-Riepe
Partner
Head of Real Estate Germany

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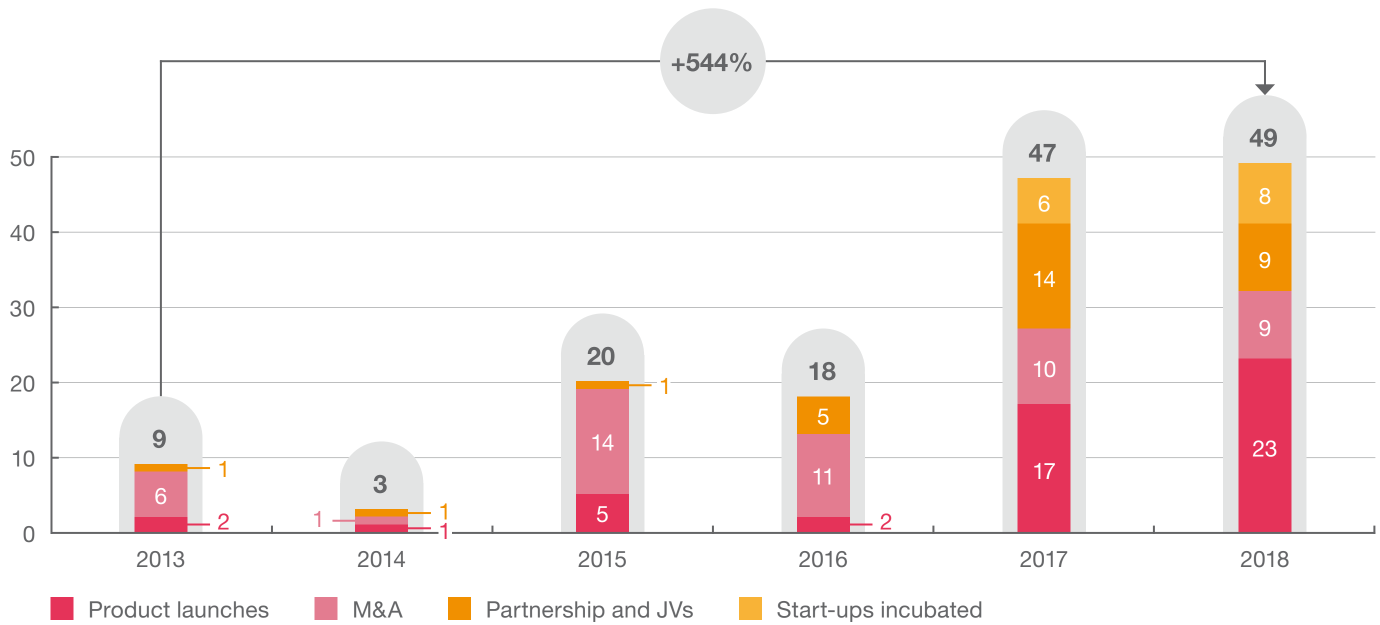
Beyond boundaries

There has been a surge in the cross-industry ambitions and activities of key real estate players which is likely to continue in future.

We are seeing a surge in the cross-industry ambitions and activities of the leading global and German real estate companies. Over the last six years the number of moves into other sectors has risen more than fivefold. Our cross-industry analysis shows that the combined total of new cross-industry product launches, mergers & acquisitions activity, partnerships & joint ventures (JVs) and start-up incubation programmes by real estate companies has risen by 544%. From just nine such activities identified in 2013 to 49 in 2018 (figure 1), with a compound annual growth rate of 40%.

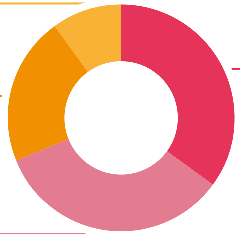
40% CAGR 2013–2018

Fig. 1 Cross-industry activity has surged since 2013



Indeed, the upward trend appears to be intensifying. Over the whole of the 2013–18 period we identified a total of 146 cross-industry moves by real estate companies, of which over two thirds took place in just the last two years. This big surge since 2016 has been fueled by a steep rise in the number of new product launches and a growth in start-up incubation. In regard to real estate companies, start-up incubation has become more established as a strategy for companies seeking to boost their technology capabilities. Partnerships and joint ventures are more common and have also risen in the post-2016 period. The incidence of M&A activity has seen a peak in 2015, but its share of overall activity has sunk slightly as other activities have grown.

Fig. 2 M&A activities and product launches drive cross-industry moves (total activities 2013-2018: 146)



These moves come as real estate companies grapple with changing customer needs and wider societal and technological changes. The race is on not just to adapt to but, ideally, to get ahead of these needs. Companies are looking at the megatrends that are driving human behaviour and reaching out to acquire the capabilities or collaborations they will need to evolve and extend their product offerings. These megatrends include factors such as ageing population, growing population, a sharing economy, digitalisation, structural shortage in housing, structural oversupply in retail property and a younger generation with different mobility and life-work expectations.

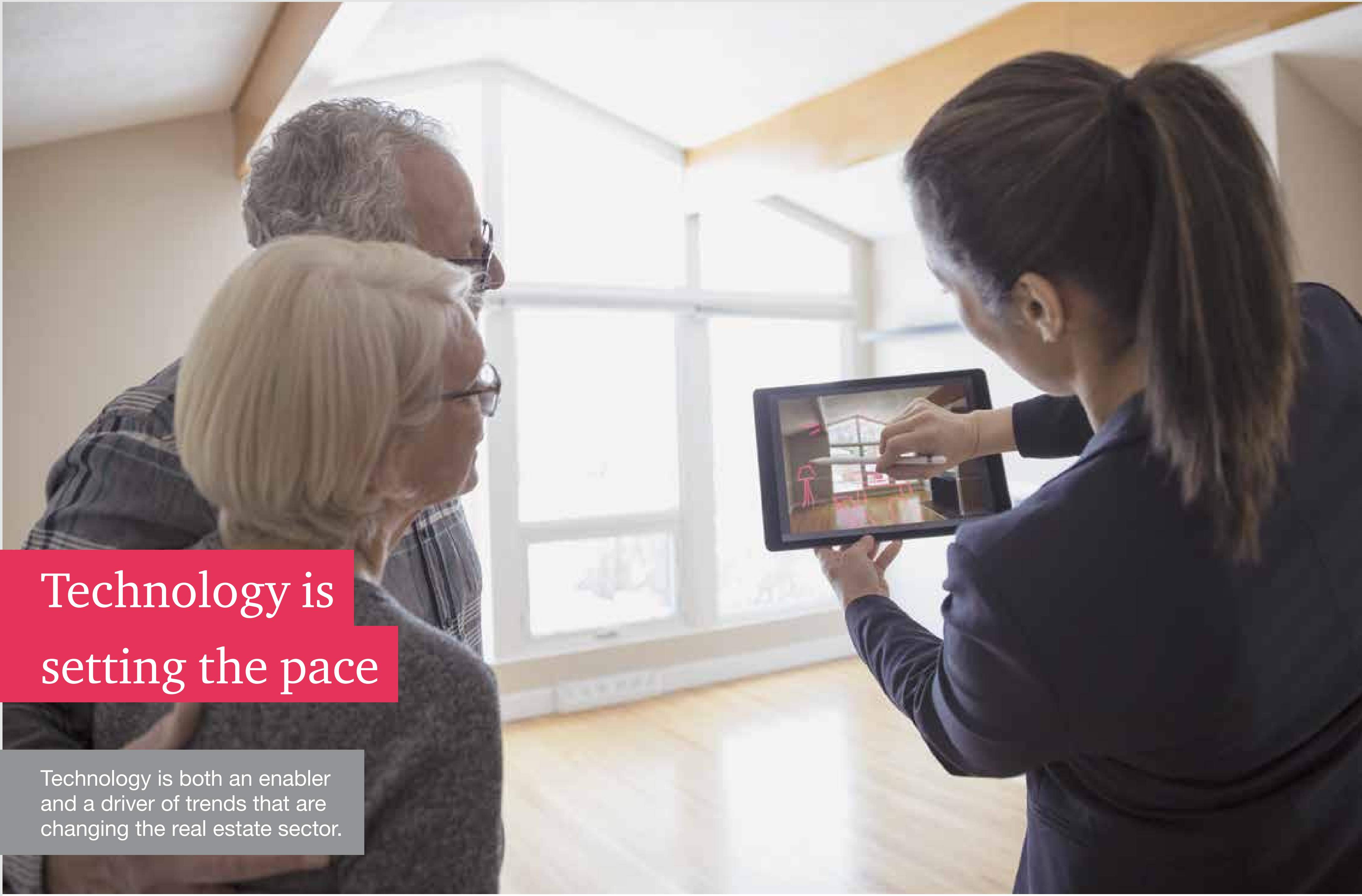
From on-demand content to space-as-a-service

With buildings expected to meet multiple demands, and their occupants wanting more flexible tenancies, the outcomes-based, space-as-a-service model has emerged. This has strong echoes of the move to on-demand content seen in entertainment.

Examples of these innovations in real estate include Amsterdam's Zoku (Japanese for family, tribe or clan), which offers both short-stay options for mobile professionals and longer-term home/office apartments, along with common areas to eat, co-work and socialise.

WeLive, the new venture from the founders of WeWork, offers studios and apartments, along with shared facilities ranging from laundry rooms that double as bars and event spaces to communal kitchens, roof decks and hot tubs. People can stay for a few nights or sign longer leases.

From: Emerging Trends in Real Estate: reshaping the future, Europe 2018, PwC/ULI.



Technology is setting the pace

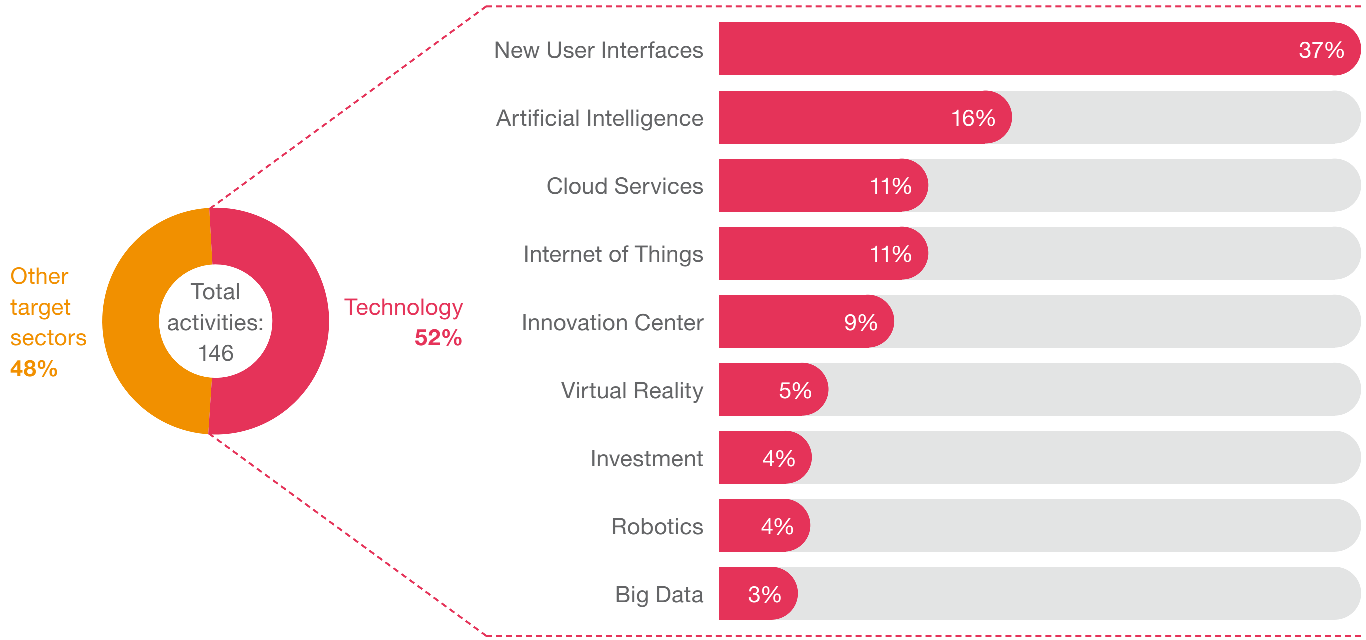
Technology is both an enabler and a driver of trends that are changing the real estate sector.

Technology is the number one target for cross-industry moves by real estate companies. It is the go-to sector, accounting for just over half (52%) of the total number of cross-industry moves identified in our review of the last six years (figure 3). Technology is both an enabler and a driver of trends that are changing the sector. Real estate could once be viewed along linear and long-term lines. But the traditional invest, design, build and let model is now giving way to a more complex model with more moving parts and moving targets.

Technology provides the synchronicity to hold these new complexities together. Existing companies within the real estate sector are using technological advances to improve their productivity and to rethink their offerings to adapt to the changing needs of the market. They are also increasingly conscious of the risk of asset obsolescence if their estate and strategies don't keep pace with changing technological possibilities and consumer behaviour. Flexibility of space and time as well as greater interactivity with customer requirements and urban infrastructure are all becoming important components of real estate company calculations.

New 'PropTech' entrants, sometimes in the form of start-ups, are competing in the sector, often posing a threat to specific parts of the traditional value chain. In turn, many of these entities are being targeted by real estate companies either as partners or as acquisitions. At the same time, real estate companies are sometimes incubating their own advanced technology capabilities or utilising already-developed capabilities to launch technology-driven new product offerings.

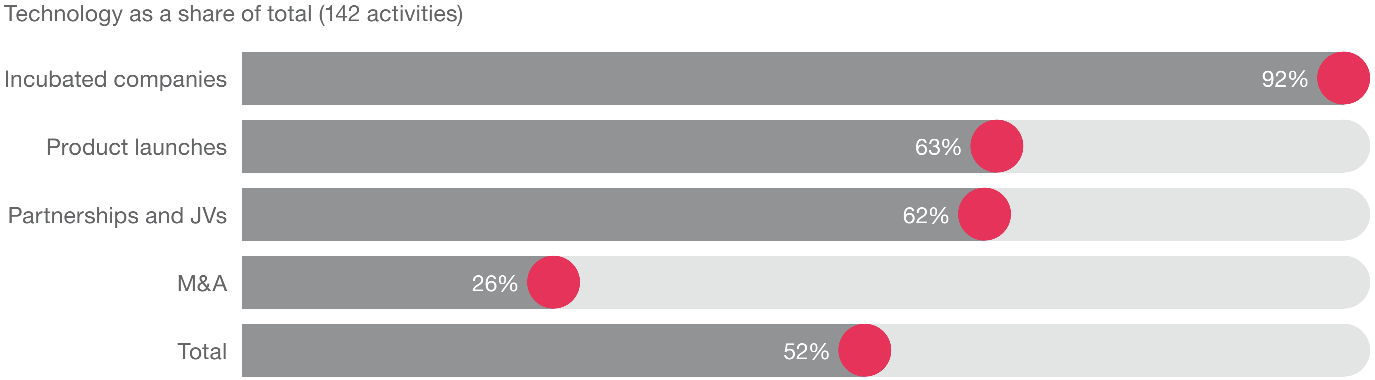
Fig. 3 **New user interfaces and artificial intelligence as focus areas for technology investments**



Breaking down the areas of technology that are targeted by the real estate players, the biggest interest is in new user interfaces (37% of all technology-related activities) and artificial intelligence (16%), followed by cloud services and internet of things (11% respectively) – as figure 3 shows.

Our review of activities shows all of these strategies at work as companies move to boost their technological prowess. Much of the activity identified in our review came in the form of start-up incubations, new product offerings as well as partnerships, using technology to enhance or extend existing real estate services.

Fig. 4 Proportion of technology as target sector by type of activity



New user interfaces are being developed by real estate companies both to improve the customer experience and to increase their own organisational productivity. For example, real estate company LEG has streamlined its organisational interface with many thousands of tenants with the take-up of its digital channels. LEG reports that in the first year alone, 57,000 tenants had used its WhatsApp service and after just six months 15,000 were using its digital tenant portal app, with knock-on effects on improved customer satisfaction and increased business process efficiency[1].

The increasingly widespread use of data analytics helps real estate players to develop new solutions, often backed by artificial intelligence. CBRE's Aspire platform, for example, is a self-service portal for their clients which is capable of generating real-time information about clients' property management, including financial analysis, retail analysis, procurement, sustainability and facility management[2].

In another example, Swiss- and German-based tech company Allthings has developed a digital communication and service platform for residential and commercial properties, partnering with real estate companies to give them access to digital services that simplify everyday life, connect people and improve communication[3]. Elsewhere, Hamburg-based office and retail real estate company ECE has introduced easy to park, enabling automatic barrier opening and cashless parking payment, and easy-dining with customers able to order in advance online for the food court, avoiding the need to queue at peak times[4].

Some of the most interesting technological developments reach across technological sub-categories. For example, VRnow is a Berlin-based PropTech startup that uses a deep learning algorithm to automatically extract architectural information from any blueprint which it claims will improve asset and facility management. It has also developed a virtual reality 360°, 3D architectural visualization tool designed to assist real estate marketing[5].

Global real estate services company JLL announced a global co-operation agreement with technology company Leverton to rollout machine learning technology. Levertons machine and deep learning technology enables the identification, extraction and management of key terms and data from corporate documents, such as leases and contracts, in more than 20 languages. JLL expects the initiative will transform the way lease documents are reviewed, analysed and managed for its clients. It is one element in a drive to use smart technologies and big data to optimise and connect its over 280 offices across the 80 countries in which it operates globally[6].

Many other real estate companies are choosing to partner with technology companies to deliver technological transformation. Cushman & Wakefield, for example, has a global agreement with smart building technology provider Internet of Things (IoT) technology firm MCS Solutions to devise smart building and services solutions covering a number of real estate, workplace, and facilities management areas. These range from buildings occupant comfort to cleaning to catering, technical maintenance, energy management, space optimisation, and smart working among others[7].

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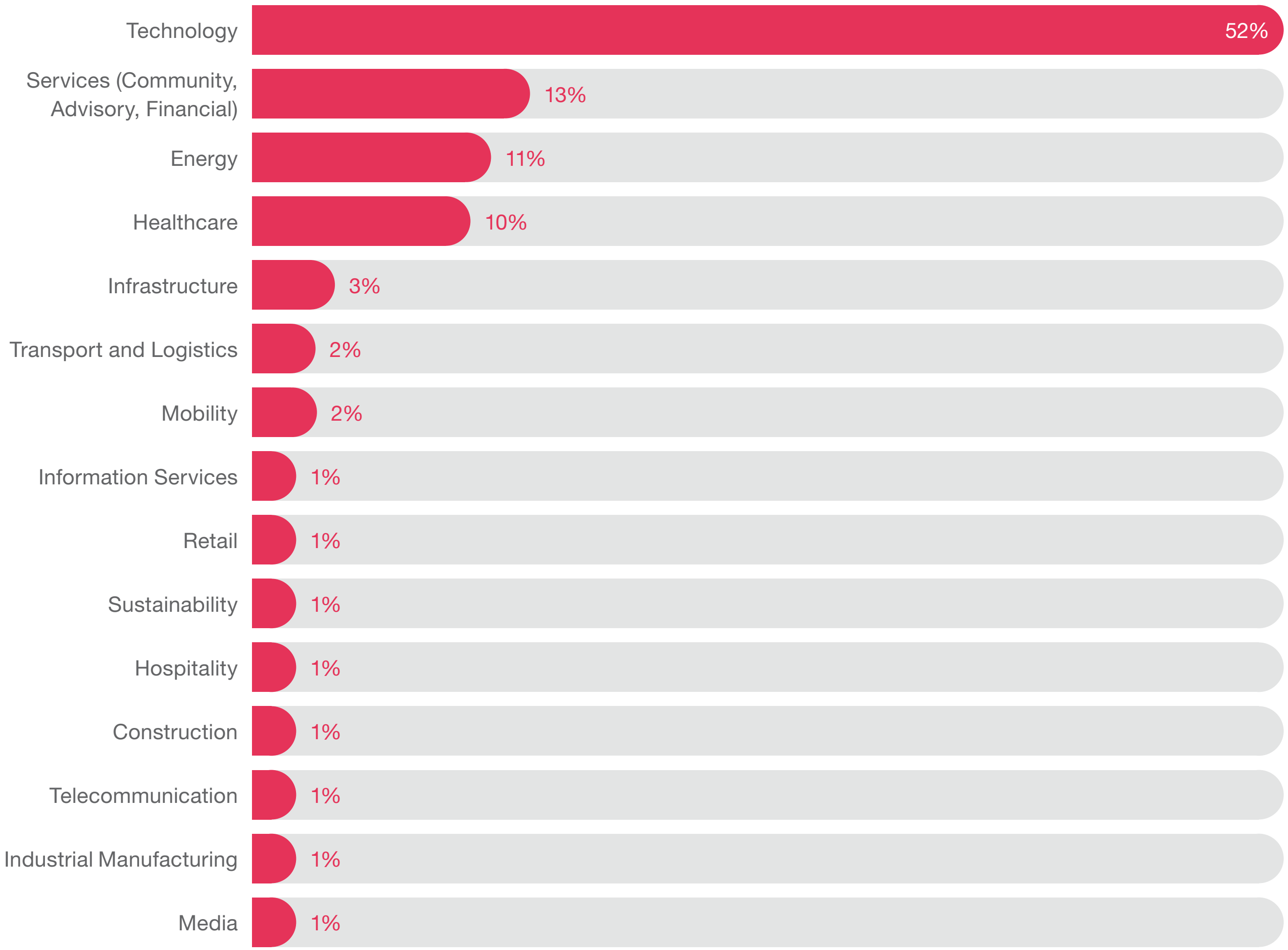
1 LEG-Wohnen, 20 August 2018, https://www.leg-wohnen.de/unternehmen/presse/pressemitteilungen/aktuelles-details/news/digitale-mieter-kanaele-sind-chartbreaker-bei-der-leg/?no_cache=1&tx_news_pi1%5Bcontroller%5D=News&tx_news_pi1%5Baction%5D=detail&cHash=6cbe55a9fddc199ed9c5adebaa11474e.
2 CBRE, https://www.cbre.com/about/tech-vantage/aspire.
3 Allthings, 2019, https://www.allthings.me/en.
4 ECE Future Labs, April 2015, https://futurelabs.ece.de/projects/detail/easy-to-park/.
5 VR now, 2019, http://www.vr-now.org/.
6 JLL, 30 November 2016, http://www.jll.eu/emea/en-gb/news/734/jll-signs-global-agreement-leverton-automate-lease-management.
7 Cushman & Wakefield, 10 December 2017, http://www.cushmanwakefield.com/en/news/2017/10/cw-announces-global-partnership-with-smart-building-technology-provider-mcs-solutions.

A wider real estate landscape

Energy and Healthcare are key target sectors besides technology.

Although technology is the dominant focus for cross-industry moves by real estate companies, nearly half (48%) of all cross-industry activity in our review ranges across sectors other than technology. The canvas is a wide one. As figure 5 shows, the largest three non-technology sectors targeted by real estate companies are the services sector (including financial services, advisory or community services), energy and healthcare which together account for a third of all cross-industry moves.

Fig. 5 Key target sectors for real estate companies



Many German real estate companies have been stepping up their presence in both medical services property and elderly care. For example, German-based investment and asset manager CORPUS SIREO has expanded its investment in medical care centres, assisted living and care homes across Germany. It reports that demand from investors is high as the segment offers above-average stability and wide risk distribution[8]. Other services increasingly offered by real estate companies include childcare facilities and student homes.

Moves by real estate companies in the energy sector arise for a more diverse set of reasons linked to electro-mobility, energy efficiency, automation, smart building management and wider smart city infrastructure. There has been a spate of recent initiatives by real estate companies to install charging stations for electric vehicles in projects within their portfolios. European retail real estate specialist ECE is an example for the extension of charging infrastructure to all its German centres[9].

It is also an area that is attracting players such as building and industrial services company WISAG, which has developed a new 'future drive' brand intended to provide an all-inclusive charging package aimed at industrial companies, hotels, office building and shopping centres among others[10]. Further afield, global real estate services company CBRE has partnered with Johnson Controls to jointly develop an innovation laboratory to develop energy management solutions with a joint US$40m worth of funding over ten years[11]. CBRE has also acquired Environmental Systems Inc. (ESI), a US provider of energy management services in the United States which provides analytics-driven managed services for over 180 million square feet of facilities at over 2,800 sites[12].

Real-Estate companies expand heavily into sectors with high stability and potential.

[8] CORPUS SIREO, 16 February 2017, https://www.corpus-sireo.com/en/presse/press-releases/presspages/2017/16-02-2017-german-corpus-sireo-spends-an-additional-euro-130-million-in-the-health-care-property-segment.
[9] Elektroauto-News, 6 September 2018, https://www.elektroauto-news.net/2018/ece-ladeinfrastruktur-e-fahrzeuge-enbw-kooperation.
[10] WISAG, 18 June 2018, https://www.industrie.wisag.de/industrie/leistungen/news-industrie/article/neue-produktmarke-futuredrive-by-wisag.html.
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Implications and recommendations

Disrupt or disappear? The cross-industry movements are expected to intensify, with potentially existential consequences for companies that don't recognise and act on the implications in their markets.

With such fluidity and flexibility across the boundaries of the sector, with new entrants emerging, with customers requiring new levels of convenience and service, and with the need to interact smartly and effectively with surrounding infrastructure, what are the key implications for real estate companies?

1. Adopt a disruptor's mindset.

Relentlessly focus on how you can meet customer needs more effectively, how you can make their life easier and more convenient, how you can offer consistently added value and make better use of assets. That's the focus of your potential disruptors and it needs to be your focus as well.

2. Become a place- and lifestyle-shaper.

More than ever, real estate companies have the opportunity to build identities and brands around the ways they can enhance people's lives. Their offer is as much about what they bring to ways of working and ways of living as it is about the physical assets they create for working and living.

3. Compete through collaboration.

Identify opportunities to convert disruptors into collaborators when assessing partnership and joint venture opportunities. Look for partnerships with external enterprises that can help you innovate and scale-up ideas.

4. Develop the vision of a digital champion.

Digital technology is changing the industry and the behaviours of owners, occupiers and managers. Whether it's services for customers, optimising work processes, or improving asset effectiveness and efficiency, becoming a digital champion will be integral to future success.

5. Make the most of legacy as well as future assets.

The attention you pay to legacy assets could be as important as your vision for new assets. The risk of obsolescence as real estate struggles to keep up with technology and rapidly changing consumer behaviour is a real one. You thus need a clear and effective plan for enhancing the best of your past while managing and divesting anything that will detract from your future focus.

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