Is the real estate industry equipped to face the prevailing market and IT challenges?

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Setting the scene on RE markets

Investment volumes are at their highest levels since 2008, with investors continuing to strengthen their capital allocation into the real estate sector. This has been caused by the current low interest rates that are generating a phase of increased liquidity throughout the market and make the returns on real estate more attractive. In addition to this, the real estate market has become progressively more mainstream, being now considered as a "standard" asset class. In such a maturing market, investors are more experienced now than ten years ago, leading to rises in their result expectations, and their requirements for more sophisticated reporting. Moreover, since the global recession of 2008, major directives and rules are redesigning the regulatory framework of the real estate industry, with the introduction of FATCA in the US, and AIFMD, EMIR, PRIIPS, and BEPS in Europe.

All in all, this has led to an increase in pressure on the real estate players for more transparent, accurate data, including more comprehensive reporting and metrics. As a result, it has pushed the real estate players to review their organization and IT architecture models, while also urging software vendors to develop systems aligned with these requirements.

Why the real estate stakeholders have to change

Heavy workflow

Real estate is by nature a local business requiring specific local expertise, knowledge, and skills. As a consequence, all stakeholders are operating independently, in a non-integrated way, reducing the communication between them. This ultimately burdens the workflow processes, utilizing ample amounts of staff time to contact all the stakeholders in order to obtain all the required information.

This is somehow conflicting with the globalization trend initiated by the assets managers, who are seeking economies of scale in rationalizing the operating model (bigger mandate allocation and fewer asset servicers).

Paper-based processes

Real estate processes are heavily paper-based, with paper documents being the major source of financial data: property sale and purchase documents, lease agreements, loan contracts, rent invoices, etc. This implies challenging technical issues for data collection, data storage, data processing, and data sharing. It makes digitalization processes relatively heavier.

Due to the market experiencing significant growth, asset managers' workload has increased; they are now in need of ways to improve efficiency and limit expenses, resulting in outsourcing part of their activities.

Multiple Systems

Most stakeholders are still using differing systems, including MS Excel spreadsheets, or systems that are not "real estate oriented" but rather tailored toward "plain vanilla" investment schemes. As a result, a lot of data has to be collected from numerous varying sources across the entirety of the real estate value chain, requiring an inordinate amount of time, and leading to a greater risk of errors and inefficiency. This process becomes significantly costly, as high-quality staff are required to spend a copious amount of time on low added value activities.

Real estate industry facing the challenges

The real estate industry of today finds itself in a period of significant change; in one way by reshaping the value chain and putting significant pressure on the various players, while simultaneously offering potential new service opportunities. Data analytics, digitalization, risk and management exposures, IT platforms, and regulatory and complex investor reporting are just a few of the new challenges facing the real estate industry.

Asset managers horizon is ever changing

Today, asset managers' agendas are overburdened due to increased requirements resonating from the key drivers—investors and regulators:

Investors are searching for accurate comprehension and association of risks and returns. They require clear and frequent dissemination of quality information regarding their investments. Moreover, investors require the availability of real-time information on demand through various means such as periodical statements, web portals, and smartphone or tablet applications.

Regulators have established a wide range of risk measurements which have generated a list of management and reporting requirements that have an impact on the entire business, from the front office to the back office. The majority of the players do not consider regulation as only an obligation, they also see opportunities—for instance by increasing the number of mandates managed by a single AIFM. The global financial crisis, alongside the deterioration in real estate markets across large parts of Europe in 2008/2009, led managers to focus their attention largely on the area of risk management, such as incorporating risk analytics and data management for enhancement and optimization of risk reporting.

Therefore, providing transparency is becoming the biggest challenge, which some software providers are ready to face.

Asset servicers get opportunities

Due to the market experiencing significant growth, asset managers' workload has increased; they are now in need of ways to improve efficiency and limit expenses, resulting in outsourcing part of their activities.

Asset servicers are reacting by remodeling their core operations comprising of value-added services such as: post trade compliance, regulatory reporting, and enhanced middle and back office operations (i.e., client portals, investors reporting, operational and client dashboards, self-service tools, and risk analytics).

As a result, one of the biggest challenges facing asset servicers is the integration of the ever-expanding volume of intricate data, to produce consistent and easily accessible information. In order to achieve this objective, asset servicing firms are pursuing initiatives to develop solutions that leverage on an integrated technology architecture to provide aggregated and uniform data to clients.

In addition, beyond the cost and the service quality criteria, systems are becoming a significant key criteria for asset managers to delegate part of their activities to assets servicers.

Property managers' role is beyond rent collection

Property managers of today have augmented responsibilities, far beyond that of rent collection and invoice paying. They must manage and motivate staff, arrange insurance, collect renovation bids, ensure compliance with the government regulations, hire, design marketing plans, provide tax information, produce income and expense reports, supervise property security; all the while maintaining strong tenant relationships and client satisfaction. Property managers must also be efficient in rigorously managing their costs, while simultaneously uncovering additional revenue sources.

Within the last 15 years, the amount of property management software has soared, making life more efficient and less costly for tenants, managers, and owners. Most of these software providers offer web-based applications connecting all stakeholders through various services such as online leasing, tenant screening and applications, property maintenance, online rent payments, accounting and budgeting, facilities, contact center, performance and investment analytics, and many more. In addition, property managers are focusing their attention on mobility, utilizing basic tools such as smartphones, tablet solutions, and cloud-based platforms to allow access to information from anywhere.

Globalization as a key driver for growth
In a constantly growing market progressing toward globalization, we notice a trend in some real estate actors to reshape their organizations, adopting a global operating model. In order to support this model, they tend to move toward a unique IT platform solution deployed across countries. This platform would enable a more fluid process between all the systems utilized throughout the front office, middle office, and back office; it would also be adjustable for further requirements.
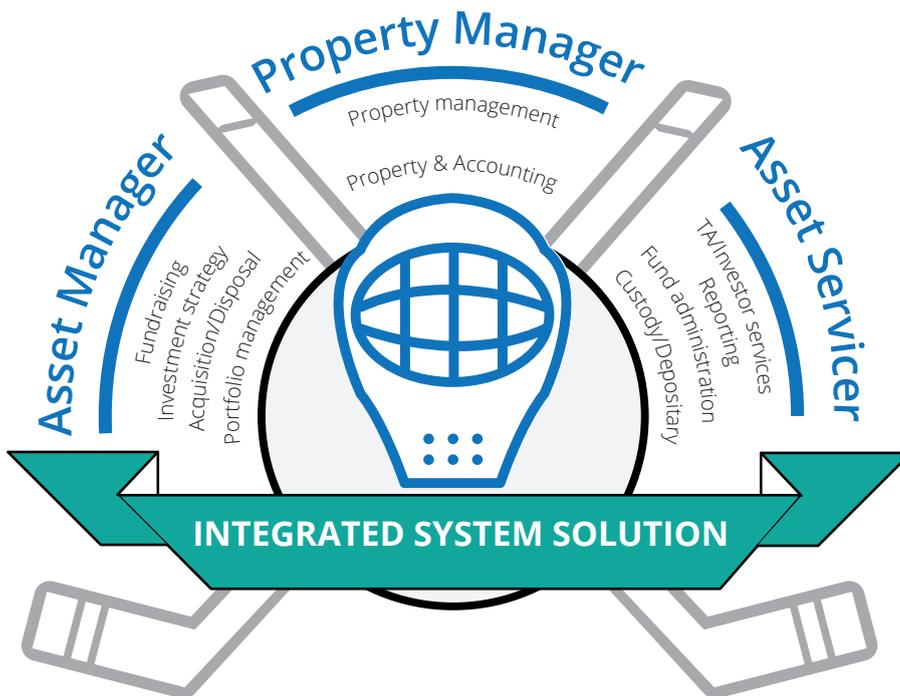
Software companies propose new IT solutions
It is clear that software vendors have well anticipated the needs of their real estate clientele, enabling them to offer integrated solutions such as EAM, IWMS, and ERP systems. For example, real estate EAM systems are programs for real estate management, capable of improving and reorganizing processes throughout the entirety of the real estate lifecycle. Such systems are capable of consolidating numerous otherwise disparate systems and data into a common and highly integrated operating environment. Most of these solutions are generally web-based solutions, which would make their implementation and management easier and cheaper, and could cover the entirety of the real estate life cycle (from front to back office).

Some solutions consist of central data collection and data warehouse to consolidate information from multiple stakeholders and diverse systems. The most advanced solutions will include workflow management tools for processing the various transactions, integrated with treasury management with automated and real-time payment processes, cash repatriation, and smart cash reporting.

They also propose true end-to-end automated solutions, including centralized databases allowing the automation of all investment calculations, investor specific reporting, and providing fund managers timely, complete information about investment performance and risks. As information is centralized, dashboard tools monitoring the compliance at each level of the real estate investment universe are offered more and more.

Across all solutions, digitalization of RE documents, digitalization of workflows, as well as mobile accessibility are increasingly considered.

Asset Manager
Fundraising
Investment strategy
Acquisition/Disposal
Portfolio management

Property Manager
Property management
Property & Accounting

Asset Servicer
TA/Investor services
Reporting
Fund administration
Custody/Depositary

INTEGRATED SYSTEM SOLUTION

In Conclusion

It is clear that the real estate players cannot ignore the challenges facing the industry: competition is constantly growing for new client business and the complex regulatory and tax landscape. For those wanting to gain ground in the industry, significant efforts and investments appear necessary, focusing on three main topics: operational efficiency, economies of scale, and transparency. In order to meet their goals, they will need to build a strong model converging toward a global integrated operating model, incorporating a sole core IT platform, while developing holistic regulatory and data solutions proficient in coping with the various regional regulations.

A need to alter norms

Aside from these challenges, an even bigger issue is expected in the real estate industry, concerning the willingness to change. The real estate industry has been categorized as "slow to adopt"; this branding is linked to how certain players in the industry prefer to stay with their individual systems that they have now, which favor local business ruled by local laws, tax, and accounting GAAP, and do not adopt new integrated systems. It requires a huge effort from those concerned to alter their mentality, dispose of their old and individual systems suited only to local business, and adopt a new global integrated model in which they will have to rebuild their workflow. The challenge is prevalent, but its achievement has the potential to be slower than the rapid market growth.

Confidentiality risk

A further issue lies within the realm of confidentiality. Many firms are hesitant in regards to sharing their confidential data on such web-based solutions, as they fear leakage of such private information. As most of the providers' solutions revolve around SaaS or wed-based platforms this is daunting for such firms, since there is always a risk of data leakage, which could have numerous consequential effects. ●