CRE Tech Talks

Episode #16: The 4 Commercial Real Estate Trends You Need to Know in 2018

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Scott: Welcome to this edition of "CRE Tech Talks." We're going to do something a little bit different today, whereas in the past, we usually interview and talk with someone from the industry, they're a technology company or a real estate professional.

We're interviewing one of our own this week. We're talking to our head of research, Phil Mobley who has been with us here for a couple of years. We're going to be talking to Phil about his recent CRE Tech Report, research survey report.

Want to kick things off first by letting people know that Phil has made a move from Atlanta, where he has been working for us for the past couple of years and living, working remotely and traveling to Boston, and has now moved to Boston. My first question for Phil is, what were you thinking?

Phil: **[**laughs] I wanted to hear as many Super Bowl jokes as possible, it was the main thing. It's great to be up physically with the team. In fact, I've been enjoying these podcasts for two or three years now. It's great to finally be a part of it. My eight-year-old daughter, about five days after we got up here, she said, "I haven't even seen snow yet. I was promised there would be snow."

We said, "Well, relax it's coming," and then sure enough a couple days later, we got about six inches. [laughs]

Scott: Tell her, "It's not going away for a while."

Phil: It's not going away for a while, so we're getting used to New England.

Scott: Good. Welcome to New England. Welcome to the Boston area. It's great to have you up here and we're excited for spending more time with you. Let's kick this off. Certainly, if anybody listens to this, we might even do it again.

Phil: That would be great.

[laughter]

Scott: Let's try to make it entertaining and interesting for folks. First of all, why don't you tell us a little bit about you, your background before Building Engines, and what you do here at Building Engines. Just let people know that.

Phil: I've been a researcher and consultant to the commercial real estate industry for, gosh, over a dozen years now. It started out in research even before that. I've been looking at data and telling stories with data for a long time, essentially my whole career. The real estate industry is one that I really enjoy working in.

I've worked for a survey research company for about nine years, then left the industry for a year or so, and then finally decided to come back to it, just because I missed the people that I'd met. I missed the complexity, really, of the interaction between owners of buildings, managers of buildings, occupiers of buildings. That can be one entity or it can be seven entities. There's a lot of customer interplay that goes there that's really interesting to explore when you look at data.

Here, at Building Engines, I do a couple of things. I oversee our research efforts into customer satisfaction. By customer, it's really our customer's customers, the tenants -- the occupiers of the building. That's right in line with the bulk of my experience in the commercial real estate industry. The other thing I do is projects like the one we're going to talk about today.

Benchmarking, and efforts that help us understand what really is the definition of good, in terms of how commercial real estate assets operate, and hopefully, providing value to our clients, and helping them understand what are the steps that they need to do to operate well and add value.

Because at the end of the day, the technology is an important piece, but how you use the technology is really the critical thing. Everybody has a system in their buildings that will help them manage maintenance, risk, and serve tenants.

We're going to talk some more about that, obviously, but the key is really, "How do you leverage those tools, your people, and your processes in order to drive value through that?" That's what this report is really about.

Scott: That's great. Before we jump into the report itself, let's talk about maybe one of the overarching themes that relates to this netstat concept of change. Oftentimes, our customers don't think about change, change about how they run their business, process change, and all kinds of things like that, but there's also change taking place in the industry.

Maybe, at a high level, talk about what's going on there.

Phil: I think the best way to really think about that is to start with what hasn't changed. What hasn't changed is that the goal of a commercial real estate asset is to be just that, an asset. It is to increase value for an investor and of course, the operational piece of that is about increasing income, and so you do that through rent and occupancy.

You want more people in the buildings paying more rent. That hasn't changed, but what has changed is the market pressures that are affecting, especially, the operational side of the commercial real estate industry.

We hear everything in the news about the millennial generation. Now, they're the biggest single generation in the workforce. When they were in college -- by the way, they're almost all out of college now. They're almost all here in the workforce. It's not 17-year-old kids anymore. It's people in their 30s -- they learned to work differently than those who came before them.

That involved technology, wireless technology. Because of that technology, the ability to work in places other than a desk, so cushy chair in a library or a dorm room.

It involved a sense of community and not necessarily where you're always interacting directly with people, but you're always in an area where people are just hanging around.

This is a segment of the workforce that got really comfortable working that way. When that's the biggest cohort in the workforce, it really impacts the way people use the space. It impacts the way occupiers use the space.

Of course, from an occupier perspective, if your company's trying to put an office together, trying to find space, it used to be about math and how many people I can fit in to a certain amount of space, how I can configure that space for maximum efficiency, putting the right people, right teams together, co-locating them.

The workforce wants to work differently now and companies want the best workers. That means they're rethinking the way that they're delivering space.

Scott, you and I were at an event. I guess it was probably about 12 months ago now, maybe a little more. We heard an executive say that his job as a property manager was to help his tenants hire and retain talent.

That's just a totally different mindset. It's not just about fixing elevator string or in just keeping things clean and operating, it's not even about customer service in the way that this industry has approached it. Whereas, you develop relationships with maybe a single point of contact at a tenant company, but it's about helping that company get the most out of their space.

That is a sea-change in how people think about operations in commercial real estate. It's putting a lot of pressure on our clients, the people who manage and own buildings.

Scott: There's a fundamental change in property management going on. This pressure to help your customers in terms of operating their business, which is very different from keeping the lights on and making sure the building is at a comfortable temperature.

Phil: That's right. One way to think about it is it didn't used to matter so much whether you were serving a law firm, or a technology firm, or a financial firm. Not that it didn't matter, it was important to know some of the differences of how those firms work.

Today, those firms work radically, differently. Even firms within those different industry segments will also brand themselves radically differently in the way they work.

As a property manager, it's becoming more important than it ever has been to understand that and to understand what they're trying to get out of the space. It's very uneven, chaotic and exciting because of that.

Scott: Here's this seminal question. Does management in operations really monetize a value?

Phil: Well, the intuitive answer has always been yes. I think the great things that we've learned from the report that we did is that the data also shows that the answer is yes. It's an emphatic yes. There are very clear differences in how high-performing buildings operate as opposed to the rest of the market. Our report helped us identify some of those differences.

Scott: Before we jump in to those -- the specific differences -- tell us a little bit about who you surveyed, how you surveyed and what was the foundation for the data in the report?

Phil: We wanted to go broad in a couple of different aspects.

One of those is broad in the reach of people that we spoke to. We surveyed people, certainly our client base, they were a big part of the group that we reached out to, but also the industry at large.

We wanted to get a full-fledge picture and representation of people who work in this industry. That's property managers, building engineers, owners and asset managers, executives, pretty much everyone who is involved in the day-to-day operations of a building, or thinking of that as a financial asset but still with an operational focus.

We ended up with over 900 of these people who responded to our survey. They represented over 500 property management teams, individual teams that we were able to analyze. A lot of rich data there.

The other way that we wanted to go broad with this is the breadth of operations and how we define that. We looked at the full spectrum of what we consider to be property operations. The big piece of that ultimately is customer satisfaction and customer service, which of course is a lot of what Building Engines enables.

Beyond that, communication and marketing not just to existing customers or existing tenants, but to the marketplace.

Preventative maintenance is a big part of operations. Security and risk management, we investigated things like certifications and awards to see if those things have an impact on value, financial efficiency, how well you are performing on your operating budget.

Amenities, which is not necessarily thought of as operational, but amenities require programming. It's not just about what do you have in the building. It's about servicing and programming what you have in the building so that the tenants actually experience those amenities.

The last piece was just more perceptual. What is the outlook of these industry professionals as they experience the -change in the industry? What are they thinking about that? How are they addressing it? Are they terrified and sitting back reactively or they grabbing the bull by the horn, so to speak, and being proactive about it?

Scott: I'm not a researcher, although I pretend to be one at times, play one on TV but 900 people, 500 firms feels statistically relevant. Pretty good sampling in the marketplace.

[crosstalk]

Phil: Absolutely. We have plenty of data. In fact, we were even able to subdivide this into a few categories. At the top of the market, your trophy buildings, major market downtown, high rise tide buildings, which of course operate differently even from other class A buildings, which we looked at, and then class B and C. Medical office is its own universe which we were able to analyze as well, and industrial and retail as well.

Scott: At a high-level, tell us a little bit of what you found.

Phil: The key question here is, does operations matter? I've given away the answer, and the answer is yes.

The reason we know that is because when we look at these buildings, we wanted to understand which are the ones that really are high-performers in the market. That goes back to a couple of things that we talked about a minute ago.

From operational perspective, if you're going to add value on a commercial real estate asset, you're going to do it through occupying all the space, having people occupying all the space, and then to the extent that those people are paying rent, you want them to keep paying more rent.

Higher rent, higher occupancy. Those are the leverage that you have to pull.

What we did as we structured this research was we identified the buildings that had high occupancy and high rental rates relative to other properties in their market.

We actually developed three different categorizations. If a building had both high occupancy and high rental rates relative to the market, we called those the leaders. The ones that had either high occupancy or high rent relative to the market, we put them in category that we call competitors.

The leaders represented about 20 percent of the dataset which seems about right, the top quintile, essentially the top 20 percent. The competitors were almost 30 percent. The rest of the market, we can call them laggards. The bottom 50-plus percent of the market, it represents the rest, what the leaders and competitors are differentiating themselves from.

That was the analytical approach that we took.

Scott: The good news there is if you're in one of those bottom categories, there's plenty of room to move up, right?

Phil: Well, there is. Especially if you read the report, you're going to find out what the others are doing differently. [laughs]

Scott: Well, then, let's talk about that. Let's talk about some of the specific things you learned, maybe some of the high-level items that jumped out at you in terms of what high-performing teams do that's different.

Phil: If I could tell a property manager one thing to do to act like a high-performer, what I would say is to make sure you serve your tenants well, but to hold yourself accountable to that. It's not just about providing good service. It's about having standards. It's about adhering to those standards and then documenting your adherence to those standards and being able to track that.

The single most differentiating operational practice across all property tides was that the high-performers -- which was a term that we use for the leader and competitor groups put together, that top-half of the market -- those are much more likely to provide tenant service that is according to standards and documented delivery against those standards. I would say that's number one.

Another thing to do is...something else that we've alluded to earlier is we said it's not just about having the technology, it's about how you use it. That has to do with people.

One of the things that actually surprised me a little is I expected the high-performers in our dataset to indicate that they had a more intensive staffing ratio. In other words, they had more dedicated resources at the building's on a per-square-foot basis. They were more intensively staffed.

It turned out not necessarily to be the case that there was less difference than I would have expected. In some cases, when you look at a role like property manager or assistant property manager, the intensity with which the high-performer staffed was almost identical to that with which the laggards staffed.

It's not just about throwing bodies at the problem to operate effectively. It's about having the right people in those roles and enabling them with the right processes and the right technology tools.

That's the second thing, is to make sure that you're staffed appropriately. You don't have to overstaff in order to be effective and to be a high-performer.

Another thing is benchmarking. It goes a little bit hand-in-hand with documenting and tracking your performance against standards.

It's even better if you can do that in a comparative way so that you know perhaps you can do that internally, if you're part of a somewhat larger company, and you can compare your performance against others in your company. Even better if you can do so against others in your own competitive market.

For example, the BOMA EERs are really well-known resource for benchmarking operating expenses.

Our high-performers were much more likely than the rest, to say that they used a data source like that in order to benchmark their operating expenses and show that they were performing in-line with the market, or for that matter to show where they were not in-line with the market, but at least to have an explanation for that on a rationale for why they might be high or low in a particular expense category.

You really are in a sense flying blind, if you don't have access to that type of benchmark, because again as we talked about it, the things are changing so fast now that just because you did something a certain way for a number of years -- maybe five years ago, maybe three years ago -- things are going to change.

You need a sense of what's going on in the market. Benchmarking is key to that.

Scott: What's interesting about all those to me is that they all relate back to the very first question I asked you, which was about change.

It seems to me that for each one of those items, use of technology benchmarking in processes, there had to be someone at the organization or group of people who are willing to commit to change and getting away from, "This is the way we've always operated," right?

There had to be a fundamental organizational decision to embrace change and do something different.

Phil: That's right. That reminds of a story I've heard a few weeks ago of someone who said that the minute she started exposing performance within her organization -- in other words, the minute her team of property managers started being able to see their performance against others in the company -- all of a sudden, the tide started rising and lifting all the boats. It was almost like magic.

Just knowing that you're being held accountable and that there is a standard there and a standard that is changing and moving all the time has a tremendous impact on how effectively teams are able to adjust and to change the way they do things in order to operate better.

Scott: We're going to talk in a second about how people can get access to the report and the data, because this is a tremendous amount of inside information.

Any information in there, you're just touching at the surface, but to wrap things up a little bit, what should property management professionals and owners do with the results of the study and the information once they get it and have a chance to look at it?

Phil: The first thing to do is to recognize that, "Hey, you got a lot of power here. There's a lot that you have control over that you can do." There's a lot that as a property manager, you may not have control over.

You may not have control, at least directly, over the capital budget, or the operating budget, or the asking [inaudible 21:32] , etc.

Scott: Or where the building is?

Phil: Or where the building is. You can't physically move it. At least not always.

What you can do is start to emulate some of these practices. You can emulate the way these high-performing buildings communicate with their customers and with the market in general. One way you can emulate that particular aspect is to communicate a lot and with a lot of different channels. That's something that we found.

You can think about the way you're using technology. Is your technology enabling you to do the things that you need to do day-to-day? If it is, that's great, but are you getting full adoption across your team? Are you really leveraging the efficiencies near there?

I think even more importantly now, are you getting the data back out of your technology for whatever aspect of operations you're talking about? Are you getting the data to measure your performance to compare it to bench market to hold yourself accountable for how well you're operating?

I think the other thing you can do is...It is not quite as simple as mind over matter, but one thing we did find is that the real estate professionals who are a little more optimistic and a little more proactive in their approach to all the change that's going on in the industry, they really tended to work at buildings that were higher performers.

This could be chicken-egg thing. Maybe they're more proactive because they have a solid set of practices in place and solid use of technology, good people, and so they're able to be more proactive.

Maybe it's a little bit the other way around, that people with a proactive approach have tended to set structures in place to help them operate better.

Maybe a little bit of both, but I think as much as you can as a property manager, adjust your mindset to it, to your point earlier. Embrace that change and be proactive about it. Start thinking that way, then it will help you operate better.

Part of this is just changing your goals. Embrace that new rule that your goal as a property manager is to help your tenants attract and retain talent. I think that will help change the way you start orienting your processes.

Scott: That's great. Reminds me of what our founder, former CEO, now Board Chairman said at a meeting recently, "If you're not moving forward, you're moving backwards." Right?

Phil: That's right.

Scott: I think there's a lot of that you can take away from this report. This is really a great insight. Again, there's a lot more data and information in the report itself.

I want to mention to everybody that we have access to the report, a full interactive assessment. You'll have the ability to look at a webinar that Phil [inaudible 24:42] back a week or so. Go on the topic with, again, some of these data and again access to the full report at creoperations.buildingengines.com.

We'll put a link to this in the show notes for the podcast. Any final thoughts? Anything else you want to wrap up with, Phil?

Phil: That's great. This is a really fun project to work on. It's nice when your hypothesis is confirmed.

You know when you've worked with property managers for a decade or more. You know that what they do really does matter, but it's nice to see in black and white just how important it is, the day-to-day operational part of real estate.

Scott: Absolutely. I think, for us, it was a great project here. It was great to see the results of the report. We think there's tremendous amount of value for the industry and for our customers, so real excited that you listen.

Again, welcome to Boston. We promise that we're going to keep the Super Bowl jokes from last year’s Patriots' victory over Atlanta down to a maximum of one per week.

Phil: All right. I guess I'll take what I can get.

Scott: [laughs] Thank you again for listening in to this episode of CRE Tech Talks. We look forward to having you join us again. In the coming weeks, we will continue to bring more information from both outside of the company, other technology companies and internally again with more subject matter experts here from Building Engines.

Thanks for listening.

QUESTIONS FOR THE HOSTS?

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