CRE Tech Talks

Episode #10: Driving Forces Behind CRE Technology Growth & Adoption

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Scott: Thank you for that warm introduction, and welcome to this episode of the 2016 "CRE Tech Talks" podcast series. I'm Scott Sidman from Building Engines, and your host. I am really excited for today's conversation and our guest, because there's a very close connection from a company product and value perspective to what we do here at Building Engines.

While we spend a good amount of time discussing a number of the new CRE technologies, and particularly startups, there's certainly a number of companies who have been around for several years who are still incredibly innovative in finding new ways to solve all problems.

We have one of those companies and their leader here with us today, and we're going to speak with him about his opinions and insights on today's topic, which is "The driving forces behind CRE technology growth and adoption."

I'm pleased to welcome to the podcast and joining us from sunny Irvine, California, Michael Wong, the CEO and president of Genea. While Michael may currently be a technologist, he has a strong background as an investor and financier, which we'll talk to more about in a minute. But first, welcome and thanks for joining us on the podcast, Michael.

Michael: Thank you, Scott. I'm really honored to participate in this. I've always thought the world of you and Building Engines. I'm glad that we could do something together as a podcast.

Scott: Thank you. And likewise, and certainly, we've had the opportunity to meet on a few occasions, and our teams cross paths regularly, so likewise. It's great to have this opportunity to speak in this format. Why don't we get started by having you tell us a little bit about yourself?

Your professional background. We like to have our guests share a unique or interesting fact about themselves to kick things off. Go at it.

Michael: Sure. As you had mentioned, my background is actually not software or real estate. I actually come from a finance background. After I graduated from UCLA, I spent a couple years as an investment banker and then quickly made my way into the private equity industry, where I worked at companies like Blackstone for a couple years in New York until I realized New York weather wasn't agreeable to a California kid.

Then I flew back out to California and rejoined a bunch of colleagues who migrated to Leonard Green & Partners and spent a little over 10 years there.

It was during my last three years when I was at Leonard Green where I headed our efforts in Technology, Media & Telecom investing, and that's where I first came across Genea. At that time, it was way too small to be a Leonard Green investment opportunity. But as an investor, there's a checklist of things that I look for in great companies, and Genea had the potential to checkmark every single item on my list.

Long story short, after a few years of keeping track of the company and doing diligence, I had an opportunity, and I was asked by the board to not only make an investment in the business but to come run it. As fate would have it, November 15th of 2011, I wrote a check and became a large investor in Genea as well as the CEO, and I've never had more fun.

We have a great space that Building Engines and Genea plays in. I think there's a dynamic space and I think we are adding a ton of value, and it's been one of the most exciting things I've ever done in my career.

Scott: That's terrific.

Michael: I guess I'll share with you something I did recently that may be interesting. I am generally not a lover of heights. I'm actually afraid of heights, but a group of friends, and I, jumped out of an airplane about a week ago, and that was the first and the last time. I enjoyed it, checked it off the list, but it's not something I will ever do again.

Scott: I felt the same way about bungee jumping. I actually like heights. After I did it the first time, I told myself, "Cross that off my list. No need to take that risk again," so it's funny you say that. Good for you, and I'm glad you landed safely.

Really interesting background. It's funny. It's encouraging to hear that as an investor, you thought enough of the space that you put your money where your mouth is, and you jumped in with both feet. And I think that also speaks to what we've been seeing in the past few years in terms of the investment activity in commercial real estate technology, and you sound like you saw that early, which is great.

Maybe tell us now a little bit about the company. Tell us about Genea and what you do and how long the company's been around prior to your joining it and those pieces of information as well.

Michael: Yeah, absolutely. Genea spawned out of the controls company. The person who was the founder of Genea came from the controls industry, and then he spent a portion of his career in the property management business.

Between understanding what the controls were capable of doing and what the property management team needed, there was a level of automation that was missing. In the late '90s, early 2000 time period, we created a software application called ACS, After Hours Control System that automated that missing link.

The initial version of the software was software that was put into a physical server. The server would be sent out to a building. The building engineer would connect that server to their building automation equipment. And instead of tenants needing to use a work order system or a phone or a fax to notify a property team, oftentimes requiring them 24 hours advance notice that they need overtime HVAC services.

Instead, once the ACS was plugged in, tenants could access it directly themselves through a touch-tone telephone. That was the interface back in the early 2000 time period.

ACS was rolled out successfully to, we're guessing, about half a billion square feet of real estate throughout the country. A seminal moment for Genea was when the Irvine Company approached us. This was about 2006, 2007 time period, and said, "We want ACS in every single one of our buildings."

They have about 30 million square feet, but they said, "Look. The catch is we don't want these servers all over the place, because servers need to be maintained and upgraded. We don't want those headaches for our property teams. We want you to host the software." That's when the light bulb went off in terms of taking this application, moving it to the Cloud.

As with most software applications having moved to the Cloud for good reason. People want the benefits of software and not the headaches of maintaining it. That's when we started raising some outside capital to invest in the development of a Cloud-based solution, which was launched at the beginning of 2011.

What ACS Cloud is now, it's a much enhanced version of an old ACS. No longer is it software residing on location, but it's in the cloud. Obviously, people access things differently. People don't like to use touch-tone telephones. They want to use smartphone apps and web browsers, and so the access for tenants in a large high-rise office, multi-tenant office, is almost like a Nest for the home.

It gives them that level of control to overtime HVAC services through convenient devices, iPhone, Android devices, any web browser. That was the initial launch of the Genea Cloud-based services. We've developed some other services in the meantime, and that's the Genea story.

Scott: That's really interesting. You focused on a very specific problem and solving it in a unique way as we talked about it at the beginning. Let's use that as a jumping off point to talk about a broader question. We'll relate it back to one of the primary early problems for commercial real estate technology and software.

It was that by automating the things that people did manually, we were going to improve efficiency and provide value to the property, to the portfolio, to the owners and managers. Do you still find that's as important today? And maybe talk about what those promised benefits are and if they've changed at all?

Michael: I don't think it's any coincidence that it doesn't matter what industry you're in. If you're in heavy manufacturing, if you're a taxi-cab driver, a hotel owner. Technology is not just influencing the way you do business. It's dramatically impacting your business. It's been very disruptive.

Obviously with the taxicab business, Uber has turned that business completely upside down. The hotel business, Airbnb, obviously has had similar tech impact in terms of the way that business runs. I would say the commercial real estate business has definitely been a slower adopter of technology.

But now, the cost of adopting value-added tools is now very cost-effective and provides a tremendous amount of value above and beyond whatever they cost. I do think just like any other business, it doesn't matter what business you're in, operationally, you need to continue to figure out ways to improve efficiencies. Technology, that's out there right now for the commercial real estate market. It's really helped transform the way businesses are building their brand.

Scott: Yeah. Completely agree on all those points. And maybe you could tie that to some specific examples of how you're addressing inefficiencies and creating value for your customers with your product.

Michael: Specifically with ACS, being a finance person, you could imagine I always think in terms of numbers. Nice thing about that is I speak the language for the real estate market. Just because it's new technology doesn't mean any real estate company or property management team will adopt it. It needs to make financial sense.

We're constantly quantifying our value proposition to our clients, and we really break it down into four folds or four components in terms of the ACS Cloud product.

Number one, core competency for every single property management team is tenant satisfaction. You want to make sure that your tenants are happy. Well, we are a tenant facing application. Instead of requiring a tenant notify a property team 24 hours in advance that they need overtime HVAC, the problem with those solutions, using a work order or a fax or a phone call, is tenants may not know they're going to work late or over the weekend until past those deadlines.

What we bring is immediate access through an iPhone app, android app. If someone comes into their office on a Sunday at 3:00, no longer do they have to hunt down somebody in the property management team or an engineer or go through security. They can go ahead and log into our app, enter their username, passcode, and they can make the request, and boom, it turns it on and turns it off.

Tenants love that. We hear that from our customers all the time. There's also a better workflow for the property team in that before, they would receive a work order from the tenant, an engineer would need to be dispatched to turn on the HVAC services by programming the energy management system. Then at the end of the month, the property management team would have the dubious tasks of reconciling work order logs with energy management system logs to make sure they're not double billing for overlapping requests for specific tenants.

That's a very labor intensive process. We streamlined the entire thing, so the property management team can spend time doing more important things. Then I would say there's another element of the benefit of our tool. When you automate the billing for HVAC services, and you tie it directly into the energy management system, you prevent something we see all the time in the industry, and that's called "billing leakage."

Let's just say a partner at Latham and Watkins, comes in on a weekend and says, "I don't care what your rules are, I need HVAC services." He says that to the security guard. The security guard scrambles around to track down an on call engineer.

On call engineers would go remotely program the energy management system for that specific request, and they don't bill for it. It happens all the time. When you automate the billing function associated with the energy management system, you prevent those types of experiences, which really has a positive impact on the revenues of the building.

You're making sure you're billing for 100 percent of the services provided. The last thing, number four is there is an energy savings component to what we do. We're not an energy dashboard. We don't give consultative reports on how buildings can run their equipment better. That is not what we do.

What we do is we give access to the people who need HVAC services, which means most buildings have Saturday lease hours between maybe 8:00 to 1:00. Instead of buildings defaulting to running their buildings 8:00 to 1:00, all our clients turn off their buildings 8:00 to 1:00.

Basically, that lets the tenants know we're not going to run the building hoping you show up. If you need HVAC services during your lease hours, 8:00 to 1:00 on Saturdays, go ahead and use your ACS Cloud app. It's very easy to turn on. Once again, you don't want to waste a bunch of energy. It's a much more pragmatic way of running the building. That's on ACS Cloud.

We have another product that I'm extremely excited about. We rolled it out in the beginning of last year. It's called AMRB, Automated Meter Reading and Billing. It basically automates our entire workflow for billing tenants back for their supplemental equipment.

A lot of tenants will have a server room that needs to be cooled all the time, so when all the HVAC equipment for the main building turns off, tenants can't afford to have that server room get hot, so they'll install a separate HVAC unit.

The energy being consumed by that unit needs to be paid for by the tenant, because it's not fair that all the other tenants pay for something that's running all the time. The process of billing tenants back for that, it's one of the most archaic things we've ever seen.

It's people walking around with clipboards and billing tenants with Excel spreadsheets. So we've streamlined the collection process and automated the billing function that integrates all the way into the accounting software. That's been very well received.

Scott: That's terrific. I wasn't aware of that product. It sounds like you found another application for your application, which is great. Actually, in our position in buildings, we've seen that exact thing happen, so good for you in finding a solution for it.

Interesting on your billing leakage comment, it reminded me of the statistic that years ago, BOMA had come with applications like ours. It was coming out that approximately 25 percent of all potential billable service revenue was missed just because of the lack of systems. That was just a broad number, so certainly, what you're doing addresses that piece as well.

A lot of what you talked about relates to bottom line savings, so top line in terms of capturing revenue, but then bottom line savings as well. The broader piece of this, too, as you mentioned, "Will I see tenant satisfaction?" Do you help your clients understand the value in terms of reducing vacancies and attracting tenants with the way they use tools like yours?

Michael: I know we do, because I hear it from our clients. One of the examples I'd like to point to, we had the good fortune of working with a team in Miami. I think it's actually a mutual client of ours. The property manager for that property that we implemented, about six months after we went through our implementation, I went down there and visited that team, and she says, "We want a three-year extension."

Candidly, this is a property team, and a property manager specifically who was reluctant to try our solution thinking that they'd ran the building very efficiently already. But because the owner of the property wanted to try it, she reluctantly agreed to try it. The feedback I got after six months of being implemented was, "We love this system". Certainly, it's automated around the workflow for us, and there's been some positive impact for revenues, but the number one reason why I love this product is because I've polled my tenants, and the tenants love it. You give tenants a little bit of control, and tenant satisfaction goes through the roof.

I'm sure you've seen something similar with your mobile apps. You just give tenants a little bit of control, it really enhances the perceived value of a building. I do think it's important.

I mentioned earlier on, a core competency for every single property management team is make sure the tenants are happy because it takes, and I think the stat is four times more or five times more to get a new tenant in than to keep the existing one. Making sure you're doing a good job for your existing tenants is extremely important.

Scott: That's a great story. It must be a great feeling, too, in validation when you can turn a reluctant prospect into someone who's validating your points for you and extending the term of your agreement.

One of the things I wanted to talk about, too, was prior to your time in joining Genea, I think you said you started in 2011. So after the 2008 crash, we experienced this shift, and fundamental shift in the marketplace to an emphasis on operating properties well.

Prior to that, most of the activity centered around transactions, and buying, and flipping, and selling buildings, and that's how you created value. Well, that changed, and that created a lot of pressure on management teams to do more with less, to keep tenants happy.

My question to you is do you think that, that emphasis is continued from what you're seeing, and do you think it's impacted the demand for more smart building technology like what Genea does, or is it waning in any way?

Michael: You and I have a very similar perception of what happened in the 2008 financial crisis. Prior to that, the way you made money is you bought right, and you sold right, and the operations of the building were not just secondary but completely off the radar.

That's part of the reason why when you look at this industry, a lot of things had been done up until recently, with pen and paper and Excel spreadsheets, in a very inefficient workflow. Once you had the financial crisis, and building owners were required to hold their buildings longer for a longer period of time, really the only way to create value when you hold things longer is to look inwardly, "Heck, we got to operate this thing better."

So the mindset definitely shifted from what I can tell. That really spawned this industry. It really gave it a big jolt. People were looking for value added solutions, and much more open to it versus "It doesn't really matter, because we're just going to sell this thing in two to three years anyway and make a bunch of money."

I do think that was a big change in the mindset. I don't see it going away. Once you get used to having that type of, "We need to improve, we need to improve," mindset, it doesn't go away.

You may have disruption as a property management team if there's a change in ownership and have to switch gears. But once you have stable ownership, it's "Let's keep on improving. Let's keep on improving." You see the good teams really looking for the value added tool. I haven't really seen it wane at all.

Scott: I agree. Maybe talk a little bit about other things you see related to one of the trends that we see in the marketplace, related to sustainability. I think you've touched on energy and sustainability. Those are offshoots of that reaction to the crash as well. What are the things do you see a reaction to that in the market?

Michael: You're absolutely right. People are very focused on it in terms of the right tools to improve sustainability. It's a very noisy piece of the industry. Within commercial real estate and technology focused specifically on sustainability, I have seen a lot of different solutions.

Very few of them have made sense to me in terms of applications that I'm willing to partner up with, but it's obviously a need in the marketplace, so we continue to look for things that we can develop to help meet that demand.

It's a big focus for a lot of real estate owners and property management companies. There's been a whole industry of consultants trying to help this industry figure it out, and I don't think there's any silver bullet yet.

Scott: I tend to agree there. We've also talked a lot about data, both collectively and in the marketplace, over the past several years, and big data has been certainly a buzzword in commercial real estate technology as well as everywhere else. How does Genea think about real time data and some of the ways it helps you and your customers understand what's going on in the buildings?

Michael: Data is interesting. Referring back to my private equity days, we have a theory, at least, in that some firms get so focused on the data that they get paralyzed, and they don't do anything. I think data is important to have, but it's important to know what data you should be focused on.

I think data is important, but how you use the data, how you drive actionable events can improve efficiencies and be more responsive. I think that's what I'm looking for. Data for data's sake can be actually inefficient. I've seen some of the better companies where they will provide the relevant data, and it needs to be actionable data. I think that's the way I look at data, because you don't want to just accumulate a ton of information and then figure out who's going to be responsible for it, because ultimately, nobody does anything with it.

Scott: That makes sense as well. I actually just wrote a little blog post earlier in the week with some predictions for the upcoming year. One of the things I thought about was the phrase "the rise of small data," which is exactly what you define as actionable data. I think the same thing exactly the same way.

We talked about the market. We talked about some of the forces driving commercial real estate technology, growth, and adoption. The benefits seem to be clear, so in my mind, the other side of the coin is risk. That's one of the things we talked to, perhaps, some of the slower adopters of technology.

What do you think happens to some of those laggards if they're not adopting the right technology, smart building tools, over the next few years?

Michael: As building teams are deciding how to improve a tenant experience for a very long time, the main focus was how do we improve the landscaping, the looks, and the appearance of

the common areas? Those things are obviously important. But similar to what we said before, part of a tenant's experience in an office building is technology.

If you ignore some of the technology applications that are now available, then you're going to put yourself at a competitive disadvantage in the tenant's eyes. If you're still requiring tenants to fill out a request through a fax or an Excel spreadsheet, even if you have to scan it in, the perceived value of that building goes down versus "Well, wait a minute. There's a portal or an app that streamlines it. I don't have to worry about it. There's a confirmation email that comes back."

Operationally, equally important is if you are now still managing through paper Excel spreadsheets, you're just not going to be efficient.

One of the things I've noticed about this industry now that I've been in it for over four years, property teams are always being asked to do more, and at the same time expenses are being cut.

Well, the rubber meets the road. Either service levels go down, which impacts the tenant's experience in the building. Something's got to give. At the end of the day, unless you utilize some of the tools that help teams become much more efficient, they're just not going to get the job done.

It's unfortunate. I think the tools are there. The ones that aren't adopting it, I think, are falling behind. It's putting them at a competitive disadvantage from the tenant's perspective, and they really shouldn't be doing that.

Scott: It's interesting. I think it's hard sometimes to separate yourself when you've been in the business for a long time. My sense is that there are still some companies out there that think they're immune from obsolescence and going the way that other companies have gone in every business.

While that group seems to be shrinking, there's still a bit of them out there. I think you're absolutely right about that. The tenants are probably the ones that drive that to happen faster.

Just in a broad sense the size which you're doing, the size of stuff that we're doing, have you seen any other technologies or trends coming in this space that you think that people in real estate should pay attention to and have an opportunity to impact buildings in the way they're operated?

Michael: I'd say that anything that I think is interesting are things that we're developing, we're continuing to listen to our customers and focusing on ways where we can impact their lives and the tenant's lives with value-added tools.

Some of the things outside of that we're pretty focused on what we're doing as a company, keeping our customers happy. I don't have any great visions of other applications I see out there right now.

Scott: Fair enough. My last question or item that I would ask you is if you were speaking to the audience and thinking about property management executives, real estate owners, managers, what are the three or four takeaways you'd like to leave them with about how they should think about improving their buildings, the tenant experience, or just general operations?

Michael: Sure. Without beating a dead horse here, I think the good property management teams, they constantly figuring out ways to improve. The challenge, I've seen, for a lot of property teams is there are a lot of people chasing space with "the perfect app" or a new value-added solution. It is noisy.

I think as the industry shakes out and the better service providers who provide the better value added products as well as service levels that are appropriate for this industry, a very high service level, I think the industry will get less confusing. But it is noisy right now. I just hear too many times where property teams go, "Oh, there are so many people calling me, and a lot of it is snake oil."

I think that's the challenge, but hopefully it doesn't discourage property teams to make sure that they do spend the time, do the diligence, talk to referrals. Some of the things we do all the time. We will earn the right to do more with large owners. Give us a pilot program. Let's prove it out.

With that, we've earned the right to do more business with every single one of the owners that we've been in business with. They don't want to waste time adopting something that doesn't make sense. That's my observation.

Scott: That's great. Thank you for mentioning the service component of what you do as well, because I think that's the underrepresented piece of software in technology companies in the space in terms of the importance they place on the service aspect of what you do.

I certainly know enough about your company. I know that's a critical part of your value and your offer to customers as well, so I'm glad you brought that up, because I neglected to mention it or ask about it earlier, so thanks.

Michael: Part of the reason why you and I enjoy having dialog is that you treat our customers in a very similar manner. We treat them with a lot of respect, and we're responsive. I don't think a lot of other companies necessarily have that same philosophy. There's the same DNA in both our businesses.

Scott: Absolutely, and that's very true. Finally, Michael, tell me what's the best way for people to learn more about Genea? Where can they find you, and how do they connect with you and your folks?

Michael: We've got a website that is informative, so if people want to learn more, www.getgenea.com is a great place to start. And certainly, reaching out to us, we have a very responsive team that if anyone wants to inquire about any of our service offerings, we will get back to them with information right away, and we'll take it from there.

Scott: Are there any upcoming events that you know your folks would be participating at as well?

Michael: There's a number of BOMA events throughout the country that we'll be participating in. I know you're going to be at many of the same conferences. I know there's one in DC, one in

Florida coming up in a few months. We'll certainly be at the national event back in DC, so we will be actively involved in the industry.

Scott: Great. We'll put all of those links and connections in the show notes as well, so you'll have direct access to those. With that, I want to thank you, Michael, for participating in the show today. It was a great conversation. It was great catching up with you. Certainly, I'm a big fan of the products and the company, and I know that our mutual clients are as well.

Michael: I appreciate your time, and once again honored to be a part of it.

Scott: Great. Thank you, everybody. Thanks for listening in on this episode of the CRE Tech Talks podcast. We look forward to having you join us on future episodes and visiting our website at blog.buildingengines.com and clicking on the CRE Tech Talks podcast link under our resources section. Thank you and have a good week.

QUESTIONS FOR THE HOSTS?

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