Strategic Innovation, Tech Priorities, and Human Capital in the REIT Sector
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Ferguson Partners’ Global Innovation + Technology Practice undertook a study focused on strategic innovation and technology priorities and their alignment with human capital in the REIT sector. As head of the practice, I interviewed several industry leaders and high-level executives who shared their perspectives on data and tech integration and their impact on their platform and operations. The executives offered their insights on new approaches to innovation across operating and business models that have emerged or accelerated due to the COVID-19 crisis. These models are instrumental in transforming customer experiences, creating new value, and driving growth.

The REITs represent a cross-section of the industry and are leaders in their respective verticals. They include data center solutions for global connectivity and coverage, logistics, single-family rental homes, communications infrastructure, grocery store anchor-tenant shopping centers, full-amenity multifamily apartments, and freestanding single-tenant commercial properties.
Reinventing the Industry

Real estate is particularly vulnerable to disruption, as innovation has typically lagged in the property sector. Since the pandemic, the real estate industry has undergone significant change, and real estate players have been struck hard across the value chain. Asset owners and operators must contend with drastically reduced operating income. Assets with greater human density seem to have been the hardest hit: healthcare facilities, regional malls, hospitality locations, and student housing have sold off considerably. By contrast, self-storage facilities, logistics and supply chain operations, and data centers have faced less significant declines. By one estimate, the unlevered enterprise value of real estate assets has fallen twenty-five percent or more in most sectors and as much as thirty-seven percent for hospitality, the most extreme example.¹

Over the past several years, industry leaders have been diversifying revenue sources, pursuing digital strategies, and focusing on the customer experience. The COVID-19 crisis has accelerated the need for strategic change and has exposed companies and leaders that have not yet made such investments. While some real estate companies were actively developing or pursuing digital and advanced analytics strategies before the pandemic, doing so was not a critical priority.

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In the wake of the coronavirus outbreak, real estate industry leaders have taken on a set of common imperatives. Before the crisis, the real estate industry moved toward digitizing processes and creating digitally enabled services for tenants and users. Practically overnight, physical distancing and the lockdown of physical spaces magnified the importance of digitization, particularly by measures such as tenant and customer experience. Within real estate, players have invested in digital sales and leasing processes, augmented and virtual reality, telehealth, on-demand delivery, concierge services, virtual communities, contactless access for tenants, maintenance staff, and much more. As more users adopt digital-first products and services, users’ expectations will be raised, and players that provide a forward-thinking, data-rich, tech-savvy post-crisis experience will stay ahead of the curve.

COVID-19 has put unprecedented stress on real estate operations, particularly those in the REIT sector. Real estate industry resilience will require technological change and swift adoption. Real estate leaders understand that technology adoption will position their businesses for sustainable long-term growth well beyond recovery from the pandemic. These REIT leaders are integrating technology platforms, creating business models that wed tech, talent and real estate, and integrating the digital and the physical aspects in a changing world.
**Capital Preservation and Competitive Differentiation**

Behavioral and demographic changes are proving to be transformative and may continue well beyond the crisis. In working toward striking a balance between capital preservation and further strengthening competitive differentiation in the face of the pandemic, the surveyed executives started with a focus on traditional metrics and the return on invested capital. Leadership agrees that the depth and breadth of the economic impact on the real estate sector are uncertain. In the REIT sector, it is more critical than ever to transition from an asset focus to a customer focus. As massive structural changes occur in the industry, the concept of SPaaS, space-as-a-service, drives how many of these REITs are delivering digitally connected business models of new products and services to their customers.

We can expect COVID-induced behavioral changes will lead to significantly reduced space needs in a post-coronavirus environment. Given the potential for transformative changes, real estate players acknowledge the need to take action to improve their businesses and keep an eye on a future that could be quite different. Most industry leaders are seeking to strike the right balance between capital preservation and further strengthening their competitive differentiation. Each of the leaders stressed that the next decade will be most noteworthy in the use and the resulting impact of big data, machine learning, and artificial intelligence on smart buildings and smart cities and in enhancing the customer experience. While many companies are still woefully unprepared for digital transformation, the industry leaders interviewed all said that they do not intend to fall into that bucket. Although REITs are owned by real estate investors and evaluated on traditional real estate metrics, they must invest in technology to deliver insights into where innovation will occur and utilize analytics to determine how best to innovate, operate and compete effectively going forward.
Leveraging Data + Technology

Smart leaders are incorporating disruptive technologies in their portfolios to prepare for the future. Each of the leaders interviewed has a concrete understanding of this imperative and have all increased investment and innovation in their REIT sectors. Several of the companies are at the forefront of this technology revolution. As a result of their efforts, digital technologies are increasingly powering their core business operations. Social, mobile, digital, and cloud, often referred to as SMAC, have moved beyond adoption silos to become part of their organizations’ technology foundations.

In this fast-approaching post-digital era, becoming digital is no longer a competitive advantage, but rather the table stakes for doing business. With digital saturation and a level playing field, companies will face the challenge of meeting evolving and increasing demands from customers, employees, and partners. For example, data center REITs are playing in a high-growth, high-demand market. Their clients comprise the enormous global cloud and technology companies such as Microsoft and Amazon, to name just a couple. REITs need to stay ahead of their clients in terms of product innovation to determine where operations should be located based on data aggregation figures. One REIT has even gone so far as to launch a Data Gravity Index, which predicts how data is driving location considerations and proximity to end users. As organizations deploy powerful Internet of Things (IoT) devices, and deliver more content streaming services, speed is the ultimate competitive differentiator. The most technologically advanced REITs are using intelligent apps and sensors to detect and mitigate cyber threats to their systems.
Some REITs are quite literally seated at the edge, where computational processing of sensor data and storage converge, investing billions in cell towers, fiber optic cable, and data centers. In another example, supply chain REITs view themselves as customer-first global organizations, pushing the boundaries of digitization as they create new resiliency models. REITs have launched and monetized proprietary technologies and ancillary revenue streams within residential, industrial, and commercial spaces. As multifamily REITs deploy resources to AI, ML and VR for customer services and even property management, they are laser focused on investing in technology that drives innovation. Grocery store and supply chain REITs are deploying drones and sophisticated hub and spoke models in an effort to solve last-mile delivery challenges. Logistic REITs are adopting autonomous technologies to revolutionize e-commerce operations and direct-to-home delivery.

REITs are using analytics to predict macro and micro trends across distributed portfolios, to determine when and if tenants will renew their leases, and to architect their asset holdings based on variables to engage their tenants and consumers. Leading REITs are engineering their data and technology strategies to enhance the customer experience, a prerequisite to master an enterprise view on innovation and invest in the digital revolution.

**Strategic Implications of Data + Technological Innovation**

Leading best practices start with data and technological innovation. Innovation begins at the board and C-suite. Their compelling investments in talent to drive data and technological innovation revealed recognition that top-level talent acquisition is imperative. Combining the digital with autonomous and remote working arrangements while retaining a human connection has become a key focus in the new reality. At the same time, leaders struggle with how technology has enabled a workforce to move too swiftly, reducing the time that should be devoted to generating ideas and evaluating their implications.

COVID has been a great magnifier. According to one of the leaders interviewed, although technology companies are very innovative, they surely did not intend for “people to live on a mobile device.” While data-centric, the leaders interviewed are intent on fostering a diverse collaborative workforce. They are keenly attuned to the competitive landscape for talent, confirming that it is exceptionally costly to lose the war on talent. Unlike traditional real estate companies, the REIT CEOs interviewed consider their enterprises to be quasi “technology companies” with the skill required in must-have multiple technology-related roles. These include Chief Cyber Officers, Chief Technology Officers, Chief Data Officers, Heads of Strategy & Analytics, and Innovation Researchers & Developers. Several leading REITs are managing real estate as well as patenting processes and products. As the industry continues to consolidate, REITs need to attract talent to a traditional sector that often is regarded as a laggard in the tech realm. They are continually searching for and trying to acquire the best and the brightest talent. Several REITs have established academic and government partnerships in robotics, AR, VR, data innovation, and even digital twins of smart cities to lead the way. A return on investment is primarily people driven.
Conclusion

The REITs of the leaders interviewed have invested millions in new paradigms to innovate for and connect with customers. Using technology as an agent of change, they have turned from an asset-focused property acquisition strategy to one based on building portfolios of properties that engage and draw customers. The notion that leading REITs in the United States are not innovative is proving to be wrong. These REITs are embracing disruption, growing markets, and hyper-specializing in strategies and sectors. They are moving the needle forward, innovating and integrating technology, data analytics, and top talent to surpass their competitors.
Specializing in Board, executive recruitment, and business advisory services, Ferguson Partners delivers premier strategic solutions to the real estate, real assets, infrastructure, hospitality, and healthcare services sectors. Our global teams specializing in executive recruitment, management consulting, compensation consulting, and leadership development serve clients in our sector specialties. Our colleagues commit to understanding your business’s unique needs and advancing its success. Our boutique firm has nine offices worldwide, dedicated to offering personalized client services and integrated talent management solutions.

Board and Executive Recruitment
Our Recruitment Practice remains the global leader in our sector specialties, completing more than 300 searches around the world annually. We believe that diversity correlates with corporate performance, and we pledge that diversity candidates will constitute a substantial proportion of every initial candidate slate. Our close-knit culture enables us to provide personalized service and adapt to our clients’ needs. We are exceptionally “high touch” in our approach.

In addition, every Ferguson consultant is Hogan-certified. Hogan assessments are powerful personality tools that evaluate an individual’s strengths, values and approach to problem-solving. The test, in its essence, measures a candidate’s executive intelligence.

Leadership Consulting
The experts in our Leadership Consulting Practice have assessed and developed over 1,000 senior executives. We work with executive leaders across various stages of their careers to help them demonstrate success and ensure fulfillment of the business’s strategy. Our approach is developmentally focused, rich in behavioral and psychological insight, and actionable, with an emphasis on behavioral change and business impact. Our clients include individuals, teams and organizations. Our services include:

- Culture and Organizational Effectiveness
- Leadership Assessment
- Executive Coaching
- Succession Planning
- Team Effectiveness
- Director and Executive Onboarding

Management Consulting
Our Management Consulting Practice is dedicated to helping clients achieve their strategic and financial objectives. Focused on the commercial real estate industry, our functional expertise includes:

- Strategy: strategic planning, competitive positioning, stakeholder feedback studies
- Organization: assessments, organizational design and operational benchmarks (staffing, workloads and financial metrics)
- Governance: Board assessments and best practices
- Specialized Research: market landscape, strategic trends, custom-designed research studies

This expertise, combined with data-based analytics and our ability to build consensus, leads to successful conclusions for our clients.

Compensation Consulting
Our Compensation Consulting Practice is the market leader in the real estate industry, conducting over 250 projects across public and private real estate firms per annum. Bringing industry expertise, unparalleled insights, and impactful advice to each and every client engagement, we go far beyond the data. Our consultants provide in-depth context, real-time market intelligence, and customized solutions that support each client’s specific needs. We perform a broad range of offerings, including:

- Comprehensive review of compensation levels, program design, and other practices
- Benchmarking of individual and aggregate pay levels against relevant market practices
- Designing of effective annual and long-term incentive plans for all types of real estate organizations
- Advising Boards and C-Suite executives on complex compensation issues related to transactions and IPOs
- Advising clients on how to best navigate complex compensation issues
Ferguson Partners Innovation + Technology practice brings your organization the precise talents, skillsets and capabilities it needs to achieve digital maturity. Using multiple lenses to explore your future-ready state and identify risks and opportunities, we deliver a comprehensive, elegant solution that reflects your strategic vision and respects your culture.

In a globally connected, data-driven world, the difference between keeping up with the competition and outpacing it is talent. Technology is the platform, but human expertise and ingenuity is the driver. With our deep understanding of what's ahead, we can streamline your path to innovation.

Innovation + Technology Leadership

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