Architrave

How CRE asset managers are capitalising on the slow property market

Executive summary

Globally, the commercial real estate (CRE) market is facing a slump. According to our data, **there's been a 50% drop in closed deals since last year** and the trend looks set to continue. However, some asset managers are turning this crisis into an opportunity. Here's how:

- Despite the downturn, **CRE tech budgets increased by 12% in 2022** and the trend looks set to continue into 2023. This will have huge consequences for forward-thinking companies in the years ahead. Deloitte, PWC, and McKinsey weigh in on why overlooking this now could be disastrous later.

- Thanks to the recession, there's a huge focus on retaining and attracting talent with **68% of CRE leaders looking to increase their headcount in 2023-24**. Tech solutions are playing a pivotal role here—and significantly boosting productivity in the process.

- While **67% of asset managers are prioritising ESG integrations**, many are falling for the hype of the 'E' and 'S' and overlooking the importance of the 'G'. The downturn provides the perfect opportunity to tighten up governance reporting as our UK Managing Director explains.

The recession? It's already here

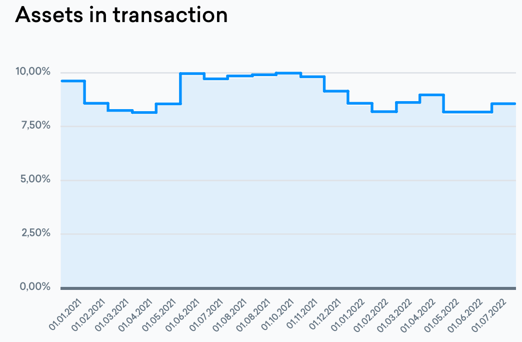
With the heady cocktail of rising inflation, interest rates, and geopolitical tensions, the threat of a global recession is looming. Rightfully, many professionals in the commercial real estate sector are concerned. The facts speak for themselves: For the past 75 years, a recession has followed a sharp increase in inflation and 68% of real estate experts in the U.S. believe that we are already in or will officially be in a recession by the beginning of 2023.

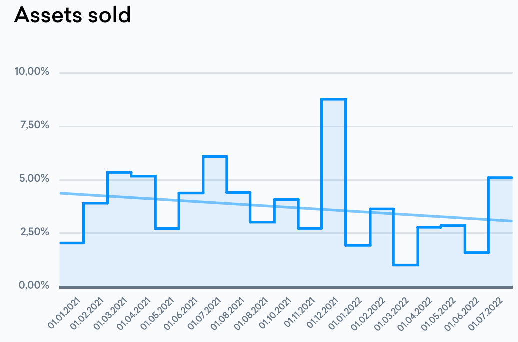
A gloomy picture, perhaps. But what can the data tell us about how these threats are affecting the real estate market today? Let's dig into the numbers.

The hard facts: transaction rates are slumping

From January to August 2022, a record €229bn of transactions were closed across Europe. However, for the past three months, closing rates were down 16% from the previous year. This slowdown is also hitting the UK with pending transactions at their lowest levels since 2013. Globally, with the notable exception of the industrial sector, the trend appears to continue with only 40% of global real estate CFOs expecting to close 2022 with revenues higher than in 2021.

The data from AV Transact, our transaction data room, backs this up. Despite the number of assets in transaction on our platform remaining steady, **the number of assets being sold has dropped by close to 50% when compared to 2021**. That's a huge difference. But, for some savvy asset managers, many of our clients included, this downtime is being used to their advantage.





How CRE experts are capitalising on the slowdown

01.

Tech adoption is booming

Though 83% of B2B businesses are concerned about the incoming recession, IT budgets are expected to grow by 13% in 2023, with a median increase of 5% at the company level. In particular, IT budgets for commercial real estate companies increased by a staggering 12% in 2022 and the trend looks likely to continue into 2023. As a result, even though we're heading into a recession, the global tech market will see 6% growth in 2023.

But why? Well, when B2B industry leaders were asked what vulnerabilities the pandemic exposed, 56% pointed to their technology infrastructure. According to McKinsey, the organisations that flourished during the crisis were those that experimented with new digital technologies:

> **"...and among those [companies] that invested more capital expenditures in digital technology than their peers did, executives are twice as likely to report outsized revenue growth than executives at other companies."**

To summarise: When a crisis hits, companies with a more advanced tech stack prosper.

01.

Tech adoption is booming

The winners and losers in commercial real estate

So, how does this impact commercial real estate? According to Deloitte's 2023 commercial real estate outlook, technology is the key to getting ahead:

"Technology is not a place where the real estate industry should be cutting back on spending. Real estate firms with the flexibility and risk appetite within the current environment can get ahead by exploring how **technology can unlock potential and achieve better efficiencies in the long term.**"

PWC agrees, stating that:

92% of real estate industry leaders see "adapting and integrating technology into business processes as critical to transforming an organisation and setting it on the right course for future success."

01.

Tech adoption is booming

How industry leaders are capitalising on the slump

To put it simply: Those who tech, will triumph.

Asset managers use an average of 4 different filing systems and 54% of their data isn't stored on any of them.

This is a staggering waste of resources. As a result, the urgency for asset managers to adopt tech solutions to improve their bottom line couldn't be clearer. The best time for asset managers to integrate new technology to their operations? During periods of downtime.

Our data shows that **our top clients are using this slow transaction period to focus on digitising other areas of their core business**. While transaction rates in our transaction data room, AV Transact, are slowing down, we've seen a huge increase in demand for our AV Onboard solution which supports asset managers in digitising and organising their documents.

01.

Tech adoption is booming

Additionally, we're seeing many of our multinational clients use our document classification standard (created with RICS) to create standards for new markets. As a result, they're capitalising on the downturn by bringing a sense of global organisation and standardisation to their portfolios. So, **while the market may be slowing, behind the scenes in many CRE companies, there's a hive of productive activity**.

The big take away

While transaction rates slow, it's what's going on behind the scenes that's giving forward-thinking CRE companies the advantage. The industry's big players are using the slump to adopt new technologies that 'clean house' and to future-proof their portfolios so that they emerge from this crisis stronger than when they entered it.

02.

Focus on retaining and attracting talent

Attracting and retaining talent during the downturn is of paramount importance with:

68% of commercial real estate industry leaders looking to retain or increase their headcount in 2023-24.

According to PWC, 38% of business leaders cite talent acquisition as a serious concern during the recession.

But, the industry has a tech problem. Recently, the Harvard Business Review revealed that the average worker switches roughly 1,200 times between different applications each day. This means 9% of their annual work time is wasted switching between different programmes. Likewise, 30% of the average working day is spent searching for information. Not only does this waste time and money, but it's also hugely frustrating to the average employee.

02.

Focus on retaining and attracting talent

Smart tech solutions increase productivity and retention

Technology plays a pivotal role here. Introducing automated processes reduces stress on employees, freeing them to focus on more valuable tasks that contribute more to their company's bottom line. According to Deloitte, innovative commercial real estate firms are increasing workplace automation to attract and retain talent. These companies understand that when their employees can outsource the more menial parts of their work to tech solutions, their work feels more meaningful. As Forbes states:

"Meaningful work is very important to most people—so using tech to pave the way for more opportunities for that kind of work in property management is a surefire solution to inspire more interest and engagement from outside talent."

Or, to put it more bluntly:

> **"The real estate industry needs to become more agile, tech-proficient, and strategic to win the war for talent."**

02.

Focus on retaining and attracting talent

The big take away

Astute CRE professionals are using the slump to adopt tech solutions that improve the working experience of their employees. They know that retaining and attracting talent during a recession is pivotal to their continued success both in the short and long term. Haemorrhaging talent during a crisis is a surefire way to lose any competitive edge and can ultimately result in stagnation.

03.

Attacking the ‘G’ in ‘ESG’

The noise around ESG in the real estate industry is deafening. Plagued by hype, panic, and empty words, the only thing CRE professionals can agree on is that ESG measures lack transparent, consistent benchmarks. While 67% of asset managers say they’re prioritising ESG integrations, this lack of clarity remains a considerable barrier with regard to data and standards. The absence of transparency has paved the way for an abundance of ‘greenwashing’ where the ‘E’ is concerned and of ‘social washing’ with regards to the ‘S.’

But what about the ‘G?’

While tech will play a critical role in ESG reporting, due to the uncertainty surrounding the ‘E’ and the ‘S,’ the industry is lacking clear next steps. But, when it comes to the ‘G,’ for governance, the role of tech becomes both clearer and potentially more lucrative with the former S&P Director of Research and Design, Kelly Tang, stating:

"[...] there is substantial empirical evidence to suggest that the "**G" aspect of ESG ultimately yields better corporate returns**.”

03.

Attacking the 'G' in 'ESG'

Don't believe the hype

Deloitte recommends that, though it garners the most attention, CRE companies shouldn't become hyper-fixated on the 'E' in ESG. As a result, asset managers could gain an upper hand by using this transaction slowdown to focus on governance reporting as Pablo Garnica, our UK Managing Director, points out:

"**A sector with as many gaps and siloes in its data, such as real estate, will have trouble claiming its governance is absolute or effective**. Even if, as a top performer, you have reliable oversight over a vast majority of your company or portfolio, having 10, 20, 30 or 40% gaps in your data puts your company (and those around and connected to you) at risk. **Without complete data, information is unreliable**."

03.

Attacking the 'G' in 'ESG'

The big take away

By adopting tech solutions to plug the gaps in their data, not only do CRE experts significantly boost their governance reporting, but they also lay a solid framework for providing accurate 'E' and 'S' reports when benchmarking eventually becomes clearer. With 97% of organisations having minimal or no digital document processes, and 72% using a mix of paper-based and digital processes, there's huge potential for CRE companies to use the downtime to improve their internal processes. Here's how we did precisely that for BEOS.

What all this means for you...

CRE companies are using the transaction slowdown to improve their internal processes, retain talent, and become ESG-ready. With tech budgets set to increase well into 2023, the battle to get ahead has pivoted from a focus on transactions to a focus on improving operations with tech.

...and here's our pitch

Our data shows that **European asset managers spend an average of €500 per month per asset on asset management software.** Especially in a recession, this budget needs to be effectively allocated.

SEGRO, BEOS, BNP Paribas, Deka, and Abrdn are currently using our solutions to win 30% more time, achieve first-class documentation, and secure higher transaction prices all whilst complying with regulations.

We're helping our clients accomplish this by offering four core products each focused on a different stage of the asset lifecycle:

AV Onboard

Here, we transform your messy paper documents into a clean, lean, digital document stack. This increases efficiency which both auditors and regulators like!

AV Operate

With this solution, you store, manage, and optimise your assets from a single dashboard and gain 100% visibility over your portfolio.

...and here's our pitch

AV Automate

Using our AI-powered document processor, we help you get much more out of your assets.

AV Transact

Here you can transact at the click of a button with the most powerful transaction data room on the market.

Essentially, no matter where you require support, we have a solution to match. Plus, thanks to our team of tech and CRE experts, we're uniquely positioned to help our clients get ahead during this slow property market. So, if you're a CRE professional looking to use the transaction slowdown to your advantage, we're ready to show you what we can do for you.

Architrave

Book a demo with us today

And let's discuss how we can future-proof your company against the challenges of tomorrow.

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