Top 10 Real

INSIGHTS

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1. PROPTECH IS CHANGING THE WAY WE RENT, BUY & MANAGE PROPERTY

Proptech is a global phenomena that has been defined as 'a collective term used to define startups offering technologically innovative products or new business models for the real estate markets'.

Proptech is based on connecting various pieces of the property market, so that participants in the real estate ecosystem (buyers / sellers, brokers / lenders, tenants / landlords) can make better decisions with less friction. One of the key points of friction today are found in finding the right information (data) and streamlining workflows. This is a key theme in the majority of proptech companies. A growing trend will be predicitive or percriptive analytics that will actually start a new workflow as opposed to simply facilitate it.

CB Insights has calculated that since 2012, real estate tech companies have raised almost $6.4 billion in funding across 817 deals.

Proptech is using different technologies to disrupt the real estate industry. For instance artificial intelligence by room.ai, beacons by Smart Service Connect, smart home viewing booking tools by Front Door, blockchain technology by Ubitquity, virtual reality by Matterport, augmented reality by Datrix, or data visualization by Create.io.

Zillow, one of the first entrants into proptech has focused on assessing values on residential homes by using big data and crowdsourced data. These listing services are positioned to become the future online brokers. Online lenders are popping up to help home buyers buy a new home or refinance an existing mortgage.

Examples of some of the most innovative companies in this industry:

Canada's VR Listing is a full service real estate marketing company with a focus on immersive technologies. They provide turn-key solutions packaged for real estate agents, and are currently developing state of the art interactive technologies for other segments of the real estate industry.

Powered by big data, advanced technology, and extensive expertise, Bowery is trying to redefine the commercial appraisal space. Bowery powers its appraisers with a cloud based commercial appraisal writing software and mobile application, allowing them to write full appraisal reports in record time. Commerical AVM's are generally reviewed as being to nacent to be relied on, however, when applied by a trained appraiser they can…allow them to write full appraisal reports in record time."

Foyr is India's first online, automated interior designer. Their mission is to solve real life problems through technology, innovation and design. They're a varied lot of thinkers and doers, continually rethinking what's possible to help us all do what we love in new ways.

Ravti makes heating, ventilation, and air conditioning (HVAC) easier for the Real Estate world. They track, manage, and procure HVAC for large property owners. Removing the headaches associated with HVAC from the Owner's perspective while making it the easiest business on the planet for the Vendors that serve you.

SEEABLE aims to make 3D & Building Information Models (BIM) asset information visible and accessible to a wider audience, creating easy, non technical access to key information. The 2D and 3D applications are delivered across multiple platforms.

2. CANNABIS GENERATING CRAVINGS FOR SPACE

From production to distribution to retail outlets, the legalization of Marijuana has had an immediate effect on all sectors of real estate.

In advance of the implementation of the legislation that will make pot legal on July 1, demand for space to accommodate this new industry has been quick to materialize across the country.

In Edmonton

- Canopy Growth is retrofitting a 160,000 SF facility in the Morris Industrial Park
- Freedom Cannabis is converting a 125,000 SF facility in Acheson.
- Aurora Cannabis is constructing an 800,000 SF production facility south of the airport.

In the Greater Vancouver Area, Canopy Growth and other cannabis companies are converting and building new greenhouses for commercial marijuana cultivation. These facilities are located on the Agricultural Land Reserve, specifically in Delta, Langley and in Maple Ridge.

In London, Ontario, High Park, a subsidiary of Tilray has bought a 56,000 sf industrial building at 300 Sovereign Road. The building it undergoing a $10 million retrofit for cannabis production. The company is also constructing a $30 million cannabis greenhouse operation near Petrolia, southeast of Sarnia.

In April, Second Cup announced that it has signed an agreement with marijuana clinic operator National Access Cannabis to develop and operate a network of recreational pot stores. They will be applying to get dispensary licenses to sell marijuana through 20 of the coffee chain's stores in Western Canada.

In Alberta, where the retailing of marijuana will be privatized, more than 200 stores are expected to open in the first year.

One of those retailers, Fire & Flower, plans to launch retail cannabis stores across Canada. Within Alberta alone, Fire & Flower has applied for 37 retail store licenses with the Alberta Gaming and Liquor Commission. A typical Fire and Flower outlet would be about the size of a boutique, at 1,500 SF. The chain is already working on requests for proposals to set up retail cannabis stores in Atlantic Canada.

Ontario's LCBO is expected to open about 30 cannabis shops this year, increasing to 150 by 2020.

Studies by Deloitte, JJL & CIBC World Markets suggest that once legalized, cannabis has the potential to become a significant component of Canada's GDP.

3. PARKING PARADIGM SHIFT

Parking demand changing in urban centres with transit upgrades and proliferation of ride sharing companies.

With space for about 20,000 cars, the parking lot that surrounds the West Edmonton Mall in Alberta, Canada, is recognized as the largest car park in the world.

In America, it is estimated that there are 8 parking spots for every car.

Car parks are big and often empty: parking at homes tends to be vacant during the workday, parking at work vacant at night.

Cars consume a lot of land. "The car requires roughly 350 SF at the point of origin and 350 SF at the point of destination," says James McKellar, director of the Brookfield Centre for Real Estate and Infrastructure at York's Schulich School of Business. A parking spot requires 200 SF. There are huge costs associated with parking, with the price of a single spot in London fetching over a million dollars. The cost of a parking stall in a Toronto Condo is approximately $65,000, according to McKellar.

Some cities are conducting parking audits to get a better understanding of supply and demand.

In 2010 San Francisco conducted the first citywide census of parking spaces. They counted every publicly accessible parking space in the city, including lots, garages, and free and metered street parking. They found that the city had 441,541 spaces, and more than half of them are free, on-street spaces.

Since 1990, the city of Philadelphia has conducted an inventory of parking every five years in its downtown core. The city counts publicly accessible parking spaces and analysing occupancy rates in facilities with 30 or more spaces.

The city of Surrey BC conducted a survey in 50 residential buildings and found that 25% of the spots were unoccupied. In BC, parking adds about $30,000 to $40,000 per unit says Urban Development Institute President and CEO Anne McMullin. She added: "We've been working with many municipalities to work to relax the parking requirements that they have." Surrey's parking requirement bylaw was last updated in 1994.

Cities are starting to adjust zoning rules that require certain minimum amounts of parking for specific types of development although appears to be happening faster in European cities.

Starting in 2003, the city of Paris began eliminating on-street parking and replacing it with underground facilities. Roughly 15,000 surface parking spaces have been eliminated since.

Vancouver is encouraging the development of rental housing by promising to relax parking requirements compared with condos

Rideshare companies are also reducing the need for parking.

UK Company Liftshare, is a car sharing company that has 700 corporate clients. In 2015 Jaguar Land Rover signed on for Liftshare services. Since then Over 10,000 staff members have registered on the Liftshare platform and 5,000 of these have confirmed as sharing on a daily basis. Benefits like designated car sharing parking bays have incentivised employees to journey match with colleagues. These bays guarantee car sharers a parking space on-site – contributing to the success of the scheme. Car sharing has not only contributed to lowering the carbon footprint of Jaguar Land Rover's operations, but has also eased the demand for parking at its sites and reduced traffic in the local community.

American ride sharing program RideAmigos connects commuters in trusted networks where they can find ridesharing partners and the comprehensive information they need to make the best commute choices for them.

4. E-COMMERCE IMPACTS ALL ASSET CLASSES

Online shopping represents a relatively small but growing percent of retail sales, but is the biggest driver of industrial space.

In a study done by CBC's Marketplace in 2017, while 87% of Canadian shopped online, almost 75% bought no more than one item per month. According to StatsCan, more than 95% of shopping is still done at bricks and mortar shops.

That said, Absolunet, one of Canada's main e-commerce agencies reported that e-commerce revenue grew 53% during the 2017 holiday season compared to 2016.

In the US, e-commerce represents about 10% of all retail and Amazon is by far the largest player, with an estimated share of 43%.

Cushman and Wakefield estimates that 25% to 30% of industrial leasing can be traced to e-commerce needs. On a global basis, e-commerce concerns take up 20% of new leases, up from less than 5% five years ago, adds industrial real estate and warehouse logistics management company Prologis Inc.

Online retailers on average need approximately 1.2 M SF of space per US $1 B worth of online sales, three times the distribution centre space required for traditional brick-and-mortar retailers, according to Prologis.

The GTA has the third largest industrial real estate inventory in North America with 760 M SF. It trails only Los Angeles at 1.1 B SF and Chicago at 1.2 B SF. However, new industrial space is being absorbed as fast as it is being built and the vacancy rate is sitting at an all time low of 2.5% at the end of Q1 2018, according to Avison Young.

About three of every 10 goods purchased on online are now returned, about three times the rate of in-store returns, said Ben Conwell who is the Seattle-based senior managing director at Cushman and Wakefield and leader of its e-commerce fulfillment division. This produces an increase in demand for warehousing as the returns don't always go back to the distribution centre.

Newly appointed CEO of Granite REIT Kevan Gorrie, stated that "the reverse logistics side is really interesting in that more and more companies are specializing in that and they are taking up more and more space in and around the cities in North America," he said. "It is becoming a standalone business on its own."

Shopping center owners are repositioning their properties in a variety of ways. Traditional malls are being converted into back offices, call centres and medical facilities. Amazon, in an ironic twist, converted an Ohio Mall into a fulfillment centre.

Other large mall operators have upgraded their properties to create experiential retail spaces with attractive entertainment options such as restaurants, meeting spaces, theaters, and skating rinks. Esther Fung writes in the Wall Street Journal that some landlords are now more willing to have short-term tenants such as pop-up stores than they might have been in the past.

In addition to changing the retail landscape, ecommerce is also affecting space in multifamily buildings.

On average, multi-family establishments and apartment communities receive over 50 packages per day. The number can increase to over 200 packages per day during holidays and retail sales and the packages start to occupy a significant amount of space. This has lead to the rise of intelligent locker solutions and the need for space to implement the lockers.

5. AI FOR ALL

AI in the real estate industry has the ability reduce operational costs, improve customer service, improve efficiency, and reduce resource wastage within the industry.

Artificial intelligence can be used in property management to monitor and predict when critical maintenance systems are ready for replacement reducing the cost of preventive maintainance and limiting the impact on tenants from broken systems. The technology monitors rental trends in specific geographical areas and raise tenant rents automatically when leases expire.

Zenplace is developing a chatbot through Amazon's Echo that allows renters to pay their rent, place service requests and make other demands that would usually fall on the shoulders of a property manager.

In December 2016, Wynn Hotels announced that they would put an Amazon Echo in every one of their hotel rooms, using Alexa to improve their hospitality experience. Alexa will let guests control room lights, room temperature, drapery, and the television using voice commands.

REX Real Estate Exchange is using AI to sell housing instead of brokers. REX uses SEO and SEM (search engine marketing) to reach qualified buyers directly instead of just using MLS. By using artificial intelligence REX directly targets buyers and then remarkets your home to them as they travel around the web. REX uses robots at open houses to answer questions from potential buyers. The company charges 2% commission fee. In December 2017 it listed its 500th home.

REX is not the only company to employ AI at open houses. There are places in the US where you can visit an open home 24 hours a day, seven days a week, gaining access with an app that unlocks a smart lock, which then triggers all the lights to turn on and cameras to record your every move.

The artificially intelligent lawyer 'Ross' has already been hired by law firms to provide legal advice on contracts. Ross now covers all American case law.

6. CO-WORKING PRIMARY DEMAND DRIVER IN THE OFFICE MARKET

Flexible space has been growing at an average annual rate of 23% since 2010.

The flexible space/coworking sector has emerged as the primary growth driver within the office market reports JLL. Expansion from this sector claimed 29.4% of the total US office absorption between Q1 2016 and Q4 2017 (18.1 M SF).

Flexible office inventory in the US currently stands at over 51 M SF. Flexible workspace and shared amenity spaces are projected to encompass approximately 30% of the office market by 2030.

According to a recent study published by Cresa, there is one million SF of co-working space at 85 locations in Toronto. In Vancouver there is 790,000 SF in 59 locations. Toronto's downtown core has 69% of the locations while Vancouver's core has 56%.

Co-working firm Knotel will have leased almost half of the smaller spaces (less than 12,000 SF) landlords have made available in 2017 by the end of the year, said Knotel CEO Amol Sarva.

Last October Hudson's Bay Company sold off its Lord & Taylor property in New York City to a joint venture between WeWork and private equity firm Rhone Capital. As part of the $1.6 B deal, HBC will also lease out office space in its other locations, including floors of its downtown Toronto and Vancouver stores.

Even before the Lord & Taylor purchase, WeWork was the 11th-largest tenant in New York City, with over 2.1 M SF of office space, surpassing Goldman Sachs, according to a PwC report on real estate trends released Thursday.

More recently, co-working companies have targeted larger corporate customers as a new path of growth. Corporations may "outsource" larger pieces of their core headquarters and regional offices to co-working operators.

Such initiatives have the potential to hurt office landlords because co-working facilities typically require less space - about 75 SF per worker compared with roughly 175 SF in traditional offices. Also, co-working leases for big tenants tend to be six months to five years, much shorter than the typical lease term of five to 15 years.

Last year, Airbnb set up shop at a WeWork location in Seattle before leasing a permanent engineering office in town. Amazon has been a busy early corporate adopter of co-working space.

Green Street's recent study on co-working suggests the trend could be modestly negative for the office business. The report predicts co-working will detract from cumulative office demand through 2030 by about 2% to 3%.

However, the desire for co-working spaces has the potential to generate income for companies whose spaces sit vacant for a good part of the day.

Spacious, monetizes dormant daytime restaurant spaces by turning them into a network of managed co-working locations. Its capital expenditures are 30 times lower than WeWork, and it has enjoyed exponential membership growth over the past 12 months in New York City.

7. FUTURE PROOFING YOUR ASSETS

How to hedge against unknown policy changes and technology advances to prevent obsolescence is a challenge all asset managers are facing.

The first multi-level parking garage was built in 1918 in Chicago, and as of 2012, there are nearly 13,000 parking garages across the United States. Parking infrastructure (garages and parking lots) covers an estimated 3,590 square miles, an area larger than Delaware and Rhode Island combined.

"Garage tech" startups have served this sector with little fanfare, making parking more efficient, enhancing security, and managing the IT side of these parking businesses. Now, autonomous vehicles are forcing developers of parking garages to future-proof these structures from the outset of their construction.

Real estate developers are building new parking garages to be easily converted into office spaces. For a recent project in Cincinnati, the architecture and design firm Gensler designed a corporate headquarters with three floors of above ground parking that can later be converted into office.

With on-demand transportation like Uber, Lyft and other ride up and coming ride sharing programs developers are implementing a design change that provides people a comfortable place to wait for a ride.

A new CBRE study reveals that corporate real estate executives are bolstering portfolio agility and enhancing user experiences to "future proof" their real estate against changes in the economy, technology and labor markets.

The study references a survey conducted in partnership with CoreNet Global of more than 350 corporate real estate executives who manage commercial real estate assets and operations around the world.

Future-proofing strategies include the adoption of a shared-workplace model—the top reasons for which include: reducing costs (45%), reduced term needs (42%), and increased flexibility (41%). As they seek greater agility with lower risk, occupiers are implementing strategies to increase the occupants' overall experience within the core workspace.

Investment buildings consume around 40% of the world's energy and contribute up to 30% of its annual greenhouse gas emissions. It is likely that stricter environmental policies will be implemented and will increasingly impact the real estate sector in the future. Building developers are aware of this trend and are complying with strategies to reduce building-related emissions with a range of voluntary and compulsory measures such as green building certification -BREEAM, Energy Star, Green Star, LEED, etc.

Barbara Knoflach, Deputy Chief Executive Officer of BNP Paribas Real Estate in charge of Investment Management points out that, "research is showing that green properties improve returns and future-proof the value of real estate investments. These types of properties have lower operating expenses and voids, and can generate higher rents. Green properties are also more liquid and more resilient to technical and operational obsolescence."

The ultimate sustainable building is one that produces enough clean renewable energy as it consumes or, a net-zero energy building.

The largest of its kind in Canada is set to open in September 2018. Mohawk's Joyce Centre for Partnership and Innovation will use a solar parent system that will produce 550,000 kilowatts of clean energy per year. It will have 28 geothermal wells that will regulate the building's temperature. The L shaped configurations of the building is designed to harness daylight, which will reduce the use of daytime electricity. All of the LED lighting systems and the ventilation system will be sensor activated. The 96,000 SF building cost $55 million to construct.

8. BIG DATA = BETTER DECISIONS

Big data benefits include transparency, efficiency and can ultimately lead to better decisions.

Big data is playing a transformative role in the real estate industry. 90% of the today's data was created in the past two years and the volume is growing daily and exponentially.

With heaps of customer and industry data at the disposal of real estate companies, companies can use AI algorithms to make sense of the data driving out conclusions and insights which the real estate industry can use to make strategic decisions. It streamlines and speeds up the decision-making process. Data enables firms to do more objective analyses about value and the potential of investments, which reduces risk.

Organizations are understanding how big data can help make smarter decisions around acquisition, management and disposal of properties A Harvard Business Review study found that companies in the top third in their industries using data-driven decision-making are both more productive and more profitable than their competitors.

Real estate market trends used to be measured in terms of quarters and years. Now big data together with computer algorithms can predict market fluctuations down to the minute.

Appraisals are a part of the real estate process that is slow and labour intensive process. Big Data is being used in combination with sophisticated modeling techniques to develop automated, machine-based valuation models or AVMs. For underwriting and refinancing purposes, AVMs can provide an instant indication of property value, which saves both investors and lenders, significant time and resources.

Mining census information, listings of homes for sale and rent, GIS data and more, companies such as Zillow, Trulia, and Redfin, among others — combine what they draw from numerous databanks with their own proprietary user-generated content. The tools can deliver to consumer's information about their property's potential value and help them understand home-value trends within a specific area.

Stan Humphries, chief economist at Zillow, says that the company aims to "create complete transparency of real-estate info." He continues, "we not only want to create complete transparency but also analytics products." Buildings that collect data about the internal environment and the performance of systems have a massive opportunity to optimize performance, even in well-designed buildings. There have been examples of savings of more than 50% reduction in energy consumption.

Bid data is fueling new ways of looking at developments and community planning. A proposal by the developers of the Hudson Yards project in Manhattan and New York University is on the table to equip the planned spaces with sensors that would track air quality, traffic, energy use and much more.

9. SMART CONTRACTS REDUCES RISK

Smart contracts transparency and immutability inhibits fraud, and increases efficiencies.

Nick Szabo, the inventor of smart contracts states, “The general objectives of smart contract design are to satisfy common contractual conditions (such as payment terms, liens, confidentiality, and even enforcement), minimize exceptions both malicious and accidental, and minimize the need for trusted intermediaries. Related economic goals include lowering fraud loss, arbitration and enforcement costs, and other transaction costs.”

In 1994 Szabo realized that the decentralized ledger could be used for smart contracts, otherwise called self-executing contracts, blockchain contracts, or digital contracts. In this format, contracts could be converted to computer code, stored and replicated on the system and supervised by the network of computers that run the blockchain. This would also result in ledger feedback such as transferring money and receiving the product or service.

The terms of the smart contract are transparent to everyone on the network. They are unalterable and permanent so one of the major benefits of a smart contract is that they are resistant to fraud.

In September 2016 Deloitte announced the launch of a pilot project for registering rental transactions using the blockchain in partnership with the Cambridge Innovation center and the city of Rotterdam.

This is how Smart Contracts can be used to automate real estate activity according to Rentberry, a decentralized home rental platform:

- Rental agreements can be signed and verified directly between two parties: landlord and tenant. There is no additional bank fee, real estate agent fee or any other payments behind the scenes.
- Rental payments can be triggered and delivered automatically according to the schedule. Complete transparency and safety, since every Smart Contract, performed on blockchain and cannot be removed or edited.
- Security deposit can be adjusted for any damage repair charges and brought back to your account due to the triggered smart contract by the end of your lease. The actual security deposit terms and conditions are included in the smart contract in the first place.
- Open houses can be arranged without any hassle of schedule synchronization due to the Smart Lock Technology that can grant access to the house according to the smart contract between a prospect and landlord.

Another proptech company that is innovating around leasing is SquareFoot. SquareFoot is the platform that connects businesses with their ideal space. By re-engineering the leasing process from initial search all the way through touring and lease negotiations, SquareFoot is plans becoming the go-to destination for commercial real estate leasing. SquareFoot provides access to available inventory via its online listings platform alongside technology and tools that simplifies the space leasing.

Integra Ledger, the legal blockchain developer, is to unveil ‘smart lease’ technology which will allow real estate lawyers to add blockchain functionality to property contracts using existing document software platforms such as Microsoft Word.

According to Integra Ledger, one of the key problems, with ‘smart contract technology at the present time is that it generally requires completely new software, and smart contracts themselves aren’t yet widely utilized for anything other than fairly simple transfers of value’, (i.e. in most cases they are used for cryptocurrency transactions, rather than the types of complex, multi-clause contracts most lawyers would think of when it comes to a property transaction.)

10. THE SHARING ECONOMY HEATS UP

Beyond Co-working, the sharing economy has many applications

The millennial trend of minimalism, coupled with the decreasing sizes of new condominiums has heralded in a new era of collaborative consumption.

Many startups are being created that provide goods and services to people where and when they want them. The ability to do this is predicated upon leveraging a platforms and a foundation of big data.

Beyond Uber and Airbnb, the pioneers in this space, many different niches markets are being discovered. Arguably the largest niche is in the co-living space.

Co-living communities such Common, Ollie, and Starcity are designed and furnished to cater to a younger demographic at a more affordable price. They emphasize community, charge a membership fee in lieu of rent, and allow tenants to commit to several months at a time or leave earlier than planned. These projects have proved reasonably popular so far, but it is unclear if they can be economically viable at scale. WeLive, the largest among them, was projecting 14 locations by the end of 2016, but has opened two so far, citing higher-than-expected costs and a potential change of strategy.

Flip is a marketplace for flexible housing. They make it easy to sublet, get out of your lease or find a flexible place to live. Flip’s platform handles the entire experience: digital qualification of incoming renters, rent payments, security deposits, legal documents and landlord approval.

Huthunt is a first of its kind collaborative renting platform that helps connect people looking for roommates and apartments in a social, collaborative, and user friendly app.

Forbes has identified the following sites that are on the forefront of the sharing economy:

- TaskRabbit, Care.com and Upwork connect those offering freelancing services with those seeking the services.
- Getaround enable individuals to share their cars with neighbors and get paid for it by connecting the users on the Getaround platform, automating payments, and even insuring the cars for up to $1 million.
- Liquid provides the same type of service that Getaround does for renting bicycles!
- Lending Club and sites like it allow people to lend one another money, with much lower interest rates and fees than traditional credit cards or bank loans. Investors earn solid returns and borrowers get more competitive rates, all facilitated by the platform.
- Sites like Poshmark and threadUP allow individuals to sell their gently used clothing while services like Le Tote offer subscribers the ability to borrow clothes and return them like a Netflix subscription for your closet. Rent the Runway allows women to rent designer gowns for a special event at a fraction of the price of buying one.
- Neighborgoods and similar sites allow people to borrow resources — like tools and kitchen appliances — directly from their neighbors. Rather than buying a specialized tool for a single project, people can connect with and borrow from their neighbors, facilitated by the platform.

The Brookings Institute that the sharing economy is estimated to grow from $14 billion in 2014 to $335 billion by 2025. This estimate is based on the rapid growth of Uber and Airbnb.

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