In conversation:

Venture investors discuss the state of real estate technology in Asia

A deep dive with ULI members leading the sector

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Progression in the real estate technology market

The past few years have seen a shift in the real estate technology ('RealTech') landscape. Global capital providers – especially sovereign and pension funds – are now demanding that asset managers and underlying portfolios are at the forefront of innovation and technology, in much the same way that managers have been required to drive sustainability outcomes in recent years.

At the same time, many developers and investment managers are looking at using technology to generate new revenue opportunities or to improve operating efficiencies that lead to lower costs. Also, to address sustainability challenges such as how they will become carbon neutral by 2028-30! What began as a trend has gained momentum – having an exposure to real estate technology has now become 'business as usual'.

"A key change we have seen is that global emerging technology companies targeting the real estate sector have also matured – so we are seeing much better quality of deal flow", said Jonathan Hannam, Co-founder and Managing Partner of Taronga Ventures, Asia's leading real estate technology and innovation investor.

"As businesses recover from COVID-19, we can see that across the entire real estate sector, internal barriers of resistance have eroded - as greater use of innovation and technology has become the only way of returning to some level of normality", Jonathan added.

With the RealTech space evolving rapidly, there is now a breadth of technology solutions available for real estate, with many companies competing within the same space. Ariel Shtarkman, Founder of Orca Capital Limited and ULI APAC Senior Content Adviser said, "Historically, real estate stakeholders were able to be profitable without much innovation, especially in the rising real estate markets in Asia, so the conversation on technology innovation was not a priority. We are now seeing stakeholders become more receptive to new technology available due to the pandemic".

"Real estate technology - previously seen as a buzzword – has gained importance within the sector, due to the demand from tenants, their employees and being a differentiator in terms of competitiveness. There is now a clear pressure to incorporate sustainable technology within real estate portfolios to gain market advantage", Ariel added.

However, the major challenge for real estate institutions remains implementation. Many corporates now want to drive change within their organisations but realise that change also requires a shift in culture and a different skillset. In order to address this, leading global real estate groups are now adding technologists to their boards and having innovation heads as direct reports to the CEO.

Jonathan said, "With these changes we can expect that there will be an even greater focus on technology and innovation in 2021 and beyond with greater levels of investment and corporate allocation".

"The reason is simple – the use of property technology has become a differentiator – making corporates more attractive to institutional capital and portfolios more attractive to tenants".

"To some extent I see real estate technology as an insurance policy for real estate investors. Having an awareness of the sector can lead to portfolio level opportunities as well as exposure to market shifts. During our journey we have heard from a number of developers who have told us that they are in no rush to innovate, that they can wait to see what will happen".

"At the same time, we are also seeing many groups investing into, trialling and testing emerging technology, and there are many cost-effective ways for corporates to access this sector. My sense is that there is a real risk to those who are not open to innovation", said Jonathan.

"Innovation and technology is a must have - not a nice to have", said Ariel. "Tenants and employees themselves have become much more progressed technologically, and they are driving the demand to their employers and real estate owners. The real risk to real estate owners is that if they are not early to adopt, they will not be able to compete over tenants and location in the future".

Innovation and technology driving sustainability outcomes

The industry has also seen a greater level of focus on emerging technology companies that deliver innovative solutions with regard to energy and sustainability.

"One of the most interesting transactions that Taronga Ventures completed in 2020 was an investment in CarbonCure Technologies, a Canadian based cleantech company that has developed carbon dioxide removal solutions for the concrete industry. We joined a syndicate that included Amazon's Climate Pledge Fund, Breakthrough Energy Ventures, Microsoft, and GreenSoil Investments, with a goal to remove 500 megatonnes of carbon dioxide annually from the concrete industry by 2030", said Jonathan.

"We also recently invested into Allume Energy: a system that enables the power generated from a single rooftop solar system to be shared between multiple apartments or businesses within the same building. On average there is a 40% reduction in grid energy for end users unlocking solar energy for multi-dwelling buildings. Taronga led the round, with co-investors including the Schmidt Family Foundation, the investment fund of former Google CEO, Eric Schmidt".

"We expect to make additional investments into world leading CleanTech with a focus on carbon reduction, as well as investments into alternative energy in 2021", said Jonathan.

Ariel added, "ESG is becoming more relevant. Technology implementors in the real estate sector are not only incorporating the technology to make the buildings more sustainable, but they are also using data to specifically measure how those technologes and solutions help with their sustainability goals".

The outlook on RealTech investment and adoption in Asia

The Asian market has continued to see rapid urbanisation across many major cities, with the market generally being early adopters of technology.

Jonathan said, "From a global perspective we have seen a number of research articles that show circa 60% of the real estate technology capital has been invested into Asia. If we think about the scale of markets like China, Japan and Korea as well as heavily institutionalised real estate markets such as Australia, Singapore and Hong Kong and then add in emerging markets like India, Indonesia, Thailand, Malaysia and the Philippines, the range of opportunities are vast".

Many institutional investors are now allocating significant amounts of capital to invest into real estate technology. The more sophisticated groups have realised that they need to take an ecosystem approach and combine internal innovation skillsets with external experts – either through investment into funds or participation in innovation programs that support emerging technology.

"A number of corporates have embarked on 'go it alone' strategies with some even announcing that they invest into RealTech companies in order to stop a company going to one of their competitors. In our view this simply does not work", said Jonathan.

On looking forwards, Jonathan said, "Early on in our journey we recognised that in order to effect change within the real estate sector that we needed to have an ecosystem approach – bringing together a pool of market leading real estate companies, with government, universities and technology companies. Thus, we expect to see a greater level of sharing and collaboration moving forward".

"From an investment perspective our pipeline of potential new investments includes construction technology, solar distribution systems that will be applicable for build-to-rent and residential owners, cleaning technology applicable to all sectors, marketplace creation for retail, as well as additional investments into vision systems and AI".

Ariel added, "The whole notion of real estate technology and innovation is becoming more mainstream which is good because there are many more investors, whether they are angel investors, or RealTech investors such as Taronga Ventures, that are interested in that sector. It's not a niche anymore but an important part of a venture capital portfolio".

When asked what ULI members can expect in the next 12 months, Ariel said, "The rate of RealTech adoption will accelerate in a variety of verticals as real estate owners prioritise having healthy buildings and adopting technology that will help with their ESG goals. Asia is a fragmented market; companies who have proper datasets will have a major advantage. As technology adoption increases, we will see many more real estate stakeholders themselves start to become more proficient in technology language, enabling greater conversations about real estate technology. The flow-on effect will see more emerging companies within the ecosystem".

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