



2022 commercial real estate outlook

Economic, social, and digital disruptions combine to force a change in how CRE is developed, financed, and used

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Contents

Adjusting to new market realities	3
Cautious optimism for operating fundamentals	3
Warning signs loom	5
The challenge to lead	7
Innovating through REaaS	7
Reevaluating portfolios for greater differentiation	9
Social momentum: The time is now	11
Talent trends: Redefining how employees connect to their companies	14
Future-proofing the organization: Technology as the foundation for digital services	16
To boldly go ...	19
Endnotes	20

KEY FINDINGS

Despite some financial concerns and an evolving regulatory environment, optimism around fundamentals prevails.

Eighty percent of respondents expect their institution's revenues in 2022 to be slightly or significantly better than 2021 levels.

Sustainable properties are often key to a better tenant experience; building partnerships to provide new offerings to tenants can also enable real-estate-as-a-service (REaaS).

Over three-fourths of respondents say their companies will likely expand partnerships with or invest in proptechs, which could help firms deploy the REaaS delivery model.

Many CRE firms are focusing on retrofitting properties and repurposing spaces for alternate uses to maximize value.

However, only one-quarter of respondents say their companies are substantially increasing technology investments to bolster portfolio and asset management capabilities.

Most CRE companies are in the early stages of addressing climate risk; respondents indicated sustainability concerns, and the need to address them were priorities in this year's survey.

But in the wake of the pandemic and community demands for more equitable playing fields, CRE leaders should also prioritize social issues and diversity, equity, and inclusion (DE&I) initiatives. The CRE industry has a long way to go to achieve equitable representation.

As the CRE industry develops long-term, return-to-work strategies, flexible working arrangements, organizational purpose, and demand for technology skills will shape the talent landscape.

The tight labor market is bringing workforce issues to the forefront, such as well-being, ESG, and adopting a more individualized approach to where work gets done (remote/office/hybrid). Our survey indicates CRE employees want their firms to be more purpose-driven.

Most firms continue to depend on legacy technology systems, which could hamper progress and their ability to innovate.

Eight in 10 respondents do not have a fully modernized core system that could easily incorporate emerging technologies.

Adjusting to new market realities

IN SEPTEMBER 2021, Google confirmed its plan to purchase a campus in Manhattan, at US\$2.1 billion for 1.3 million square feet, with a targeted completion date in 2023.¹ Upon final closing, the transaction has the potential to be the largest office sale in the United States since the beginning of the pandemic; many consider this development a very positive sign for the commercial real estate (CRE) industry. It indicates that the company's long-term goal is still to be where targeted talent can be found and to offer a state-of-the-art collaborative space. Meanwhile, in China, there is speculation that the Evergrande Group, a residential property development firm, may struggle to repay their debt obligations, with much of it due within the next 12 months. Concerns around Evergrande's possible collapse may reverberate throughout Asian property markets, potentially impacting future development in the fast-growing region. After nearly 2 years of change not seen in many generations, the CRE industry is at an inflection point. Which way will it go?

As we turn the corner on 2021, hopes that we would be doing the same on COVID-19 have stalled. The Delta variant has clouded the near-term outlook as vaccination, masking, and social distancing requirements have impacted commercial work and gathering facilities. The CRE industry is positioned at the forefront of the recovery: Office employers are balancing productivity and safety; retailers face critical turning points in an evolving industry; residences are competing for tenancy amid shifting migration patterns and heightened affordability concerns. Meanwhile, companies face increasing demands to

prioritize environmental, social, and governance (ESG) issues, aging technology infrastructures, a tightening labor market, and increasingly differentiated competition. How the CRE industry proceeds into early 2022 could set the foundation for its success over the next several years.

Cautious optimism for operating fundamentals

In 2022, many real estate companies are not expected to be out of the woods yet, but the solid fundamentals that buoyed the sector prepandemic could help in the short term. The commercial property price index accelerated 4.8% year over year in Q2 2021, with deal volume growing 81% to US\$243.5 billion over the same period.² While North America has maintained the upturn, deal volume in Asia-Pacific (APAC) and Europe, Middle East, and Africa (EMEA) has been lower than 2019 levels.³

Three-fourths of our 2022 Real Estate Outlook survey respondents (see the "Methodology" sidebar for more details) expect these trends to continue. The outlook on leasing activity is positive, with North American respondents expecting relatively lower vacancy levels (figure 1). And optimism surrounding asset values in North America is being negatively affected by residential market respondents. On the other hand, over 70% of respondents from the European markets expect vacancies to increase, even as an equal number of them anticipate valuations to grow. This is likely due to an expected recovery in deal making in Q4 2021.⁴

Meanwhile, respondents in APAC feel optimistic about transaction activity and valuations. While most global travel has stalled, markets with better domestic tourism, such as Japan, China, or

Australia, could attract opportunistic retail and hotel deals.⁵ Led by the Australian markets, offshore investors are already expanding their positions in APAC this year.⁶

METHODOLOGY

The Deloitte Center for Financial Services conducted a global survey among 400 senior commercial real estate executives in finance, operations, talent, and technology.

Survey respondents were asked to share their opinions on how their organizations have adapted to the varied impacts of the pandemic on their workforce, operations, technology, and culture. We also asked about their investment priorities and anticipated structural changes in the year ahead, as they pivot from recovery to future success.

Respondents were equally distributed among three regions—North America (the United States and Canada), Europe (the United Kingdom, France, Germany, and Switzerland), and APAC (Australia, China, and Japan). For the purposes of this report, all references to China apply specifically to China Mainland only.

The survey included real estate companies with assets under management of at least US\$100 million and was fielded in July and August 2021.

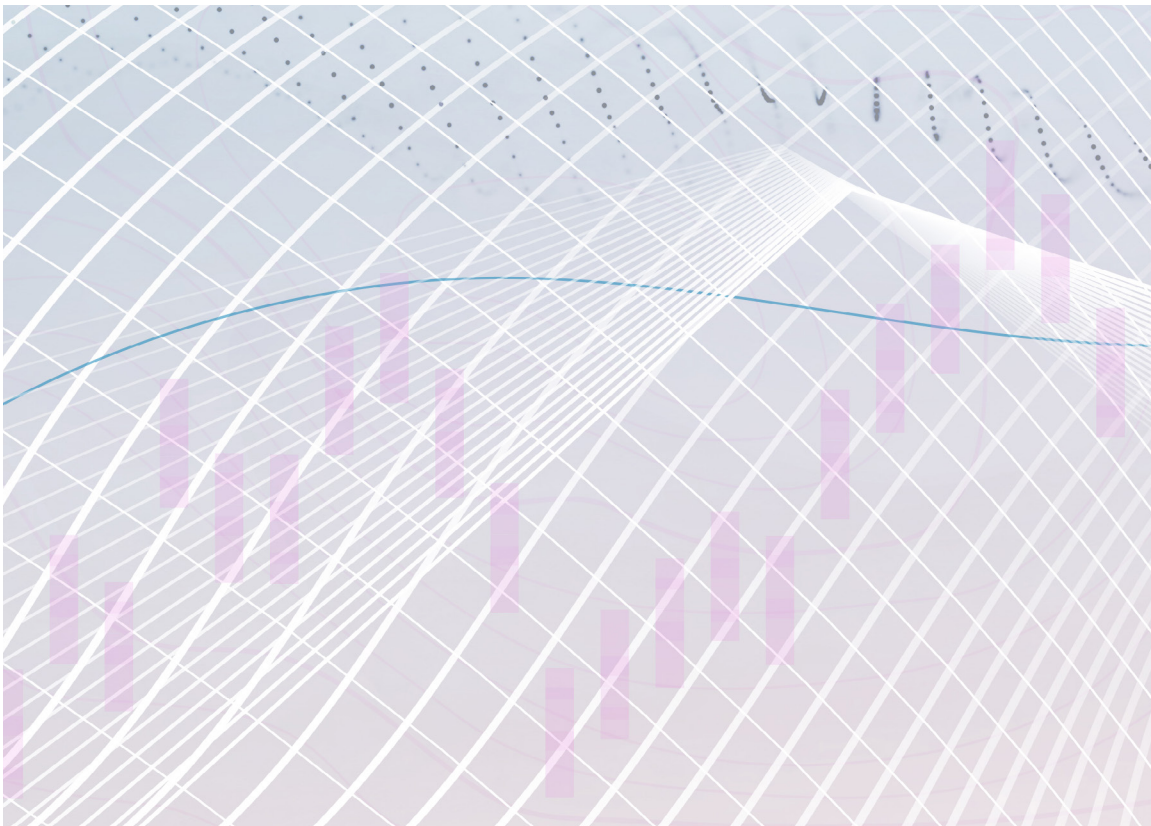
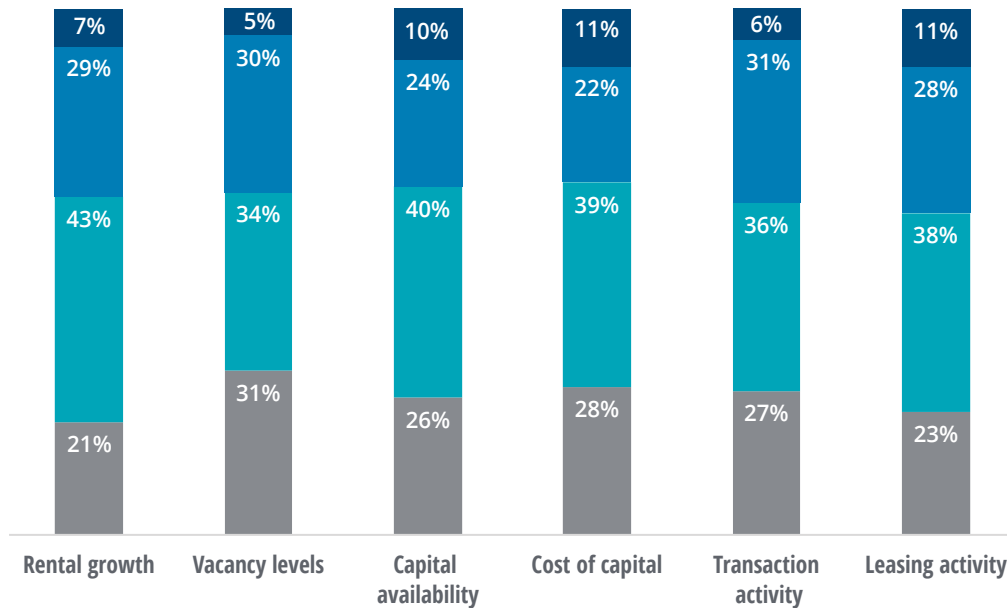


FIGURE 1

Respondents' opinions about the outlook for operating fundamentals are generally positive

Expected changes over the next 12 months

■ Flat or decline ■ Improve 1%–10% ■ Improve 10%–20% ■ Improve >20%



Notes: Percentages may not total 100% due to rounding. A decline in vacancy level and cost of capital is noted as positive.

Source: The Deloitte Center for Financial Services Global Outlook Survey 2021.

Among property types, most survey respondents from the digital economy subsectors (data centers, cell towers, and industrial) estimate even better revenue prospects for 2022 year over year. Meanwhile, only one-third of respondents in the residential market globally expect their institution's revenue to grow significantly in 2022. This may be due to pricing pressure from increased demand and supply chain constraints, along with inflationary pressures in the broader economy.

Even office, retail, and hospitality respondents showed some optimism on the short-term outlook. However, firms will likely need to weave evolving usage of these spaces into their growth expectations. For example, firms providing spaces to life-sciences tenants could, in the right markets, hedge evolving demand for other segments of the office subsector.⁷ Likewise, hotel owners with

refinancing capabilities could make capital improvements to tilt tenant demand in their favor when travel—particularly business travel—resumes.

Warning signs loom

But concerns remain. In some parts of the world, owners' inability to collect back rents is creating a liquidity crunch, and legal disputes due to inflexibility in workouts are negatively impacting some tenant relations. Our survey suggests that these issues remain key challenges, especially for European respondents. Led by retail and office assets, debt from unpaid commercial back rents in the United Kingdom total around US\$9.6 billion and is rising, which could result in an extended cycle of legal actions.⁸

Managing existing debt is also a concern, especially for North American respondents. Low interest rates prompted many CRE firms to refinance, but a pandemic-driven surge in debt workouts and lender inflexibility may necessitate alternate or flexible financing solutions. Many hospitality and retail real estate firms have been accessing customized financial solutions from alternative lenders to take advantage of the market conditions presented by the crisis.⁹

Several regulatory and policy changes are expected to greatly influence the real estate industry in 2022. While lease moratoriums and other tenant assistance programs have supported people during the pandemic, owners are being stretched thin as tenants continue to pay below market, or no, rent.¹⁰

In the United Kingdom, the pandemic left retailers with US\$4 billion in accumulated rent debt, with two-thirds of retailers facing binding arbitration or eviction proceedings if the moratorium ended.¹¹ And in August 2021, the US Supreme Court struck down the latest moratorium on residential evictions. The administration has struggled to speed the flow of federal funding to people who are behind in rent.¹²

Tax policy changes are also top of mind for survey respondents. In the United States, proposed

adjustments to tax classifications and limitations on 1031 exchanges to those earning less than US\$400,000, along with restoration of estate and gift tax rates and exemptions to 2009 levels, could depress asset prices and slow transaction activity.

In China, highly leveraged state-owned banks had their lending activity in the property sector capped, which paves the way for small and mid-sized regional banks to compete for loans. The Chinese banking regulatory body, the CBIRC, is now monitoring sector loans for smaller banks that attempt to overextend.¹³ Developers have also been compelled to deleverage by 2023 as part of the *three red lines* regulation.¹⁴

Large-scale government infrastructure investments offer opportunity for new CRE development, however. In the United States, the Infrastructure Investment and Jobs Act could allocate as much as US\$550 billion to revitalize the nation's aging roads, bridges, railways, and ports.¹⁵ The city of Shanghai plans to develop five suburban submarkets to reduce density in its metro area.¹⁶ In emerging markets, 2021 public spending and investment has focused on alleviating short-term challenges, such as health care needs and poverty. This has created a major infrastructure spending gap, offering an opportunity for private investors to step up their interests globally.¹⁷

ACTION STEPS

Looking forward, CRE leaders should consider the following developments as they plan their strategies:

- Pandemic-related financial concerns will persist well into 2022 and beyond. To overcome these headwinds, leaders should connect with tenants to create stronger relationships, invest in their success, and make it easier to do business.
- Monitor large-scale, government-funded infrastructure investment along new or improved transit routes. This could position newly developed assets in gateways to major metro areas, especially for master, mixed-use developments.
- Expand internal finance department capabilities and systems to improve performance and allow for more relevant KPIs, predictive forecasting tools, and quicker access to capital markets.

The challenge to lead

WHILE THERE MAY be reason for guarded optimism in the short term, globally, the sector faces fundamental long-term challenges. The workforce and technology infrastructure are both aging while new data sources are emerging and big-techs and proptechs exert their influence. Shifts in where people live and work, how they buy, and where they choose to spend their time have significantly impacted how real estate is built and consumed. In the [Deloitte State of the Consumer Tracker](#)¹⁸ survey, only 50% to 60% of respondents feel safe returning to the workplace, to stores and restaurants, or to hotels. Now is not the time for complacency: CRE leaders have a unique opportunity to lead both their companies and the sector, to address major societal issues, make new markets, and generate stable financial returns. Leaders should collaborate with other stakeholders to rebuild trust in institutions of all kinds.

Innovating through REaaS

Traditionally, the CRE industry has addressed problems or opportunities by throwing bodies at

them. But now, there should be a shift in mindset in how firms engage with tenants, end users, investors, and developers. Leaders should adopt a Real Estate-as-a-Service (REaaS) approach, which combines strategy, technology, and data to deliver digital and physical services—not just space—to tenants and users. By deploying a REaaS model, firms could combine and cross-leverage smart building capabilities across systems, enabling a flexible yet comprehensive infrastructure to support end-user requirements under one roof.¹⁹ Yet three quarters of respondents report that smart buildings comprise less than half of their total portfolio.

To make REaaS come to life, industry leaders should think of it as a different revenue model, one that requires advanced technological capabilities. Among the enhancements CRE firms could make to impact tenant experiences, respondents cited *sustainable and energy efficient properties*, *dynamic building designs*, and *flexible leasing models* as the most promising (figure 2).



FIGURE 2

The most valuable enhancements CRE firms could make to improve the tenant experience

Importance of each aspect, ranked

Most important **1** **2** **3** **4** **5** Least important

Enhancements	Industry subsector						
	Overall	Office	Retail	Industrial	Residential	Specialty residential	Hospitality
Sustainable/energy-efficient properties	1	2	2	3	1	1	4
Dynamic building designs, such as reconfigurable spaces	2	3	1	2	3	3	2
Flexible leasing models (i.e., revenue sharing, management contracts, etc.)	3	1	5	1	2	4	3
Additional amenities	4	4	2	5	5	5	5
Interactive mobile apps for communication and updates	5	5	4	4	4	2	1

Source: The Deloitte Center for Financial Services Global Outlook Survey 2021.

Respondents first recognize the importance of sustainability as a driver of tenant experience. CRE firms can help reduce carbon emissions by using a digital twin—a virtual replica of a building that pulls data from sensors, meters, and systems to track air quality, temperature, and electricity usage. Microsoft and Willow worked with Brookfield to build a digital twin for the One Manhattan West property, unlocking cost savings, energy

optimizations, and value-added services.²⁰ Firms should also focus on constructing buildings that can withstand natural disasters, especially in cities that are making significant investments in infrastructure to manage climate risk. With the rising cost of ground-up construction, most respondents felt that incorporating dynamic property design in new developments as well as in

retrofitting existing ones could add value. Office and industrial respondents believe that firms could create additional value by providing flexible short-term leasing options that create customizable personalized experiences while attracting rental premiums, workspace efficiency, and operational costs. To that end, CBRE purchased a 40% ownership interest in shared office space provider

Industrious, which has more than 100 locations in 50-plus US cities.²¹ Warehouse owners could also partner with flex space providers, who are subleasing to smaller e-tailers with ad-hoc space needs.²² Even residential respondents seem interested in innovative leasing models. And proptechs targeting flexible apartment leasing are attracting real estate investor interest.²³

ACTION STEPS

Enabled by a REaaS operating model, real estate leaders can unlock additional sources of revenue by:

- Innovating traditional business offerings to augment experiences incrementally. Measures include property-level enhancements, value-add services, or even increasing flexibility with tenants.
- Offering additional services, insights, and experiences, such as high-speed connectivity, spatial intelligence services, or customized and scalable digital infrastructure. Landlords should thoroughly assess how their spaces are being used and then build capabilities that offer tenants plug-and-play properties. Amazon's "Just Walk Out" cashier-less checkout technology in their supermarkets is a recent example.²⁴
- Partnering with or investing in proptechs. Many proptechs players are already deploying REaaS models; CRE firms can leverage these networks. For example, Airbnb partnered with a real estate property management software developer to build a mobile app that would allow apartment owners and residents to lease space on Airbnb as well as manage their properties.²⁵
- Partnering with tenants in new ways. Our survey respondents, primarily those from large institutions, believe investing in partners or vertically integrating would be important to enable new service models. Simon Property Group has made multiple bets to help turn around retail brands.²⁶ Grosvenor Group, the international property company, has set up a tenant investment fund, which helps them better understand their tenants' businesses and informs leasing decisions.²⁷

Reevaluating portfolios for greater differentiation

The pandemic's impact was uneven across real estate subsectors, prompting CRE leaders to find opportunities to maximize their portfolio value organically and inorganically. Global M&A activity grew about 85% year over year in the first half of

2021,²⁸ aided by US\$353.1 billion in dry powder globally as of October 2021, which is expected to continue.²⁹ About 40% of respondents believe their institutions are very likely to increase M&A activity over the next few quarters. Though objectives may vary—APAC respondents could prioritize portfolio diversity, while European respondents might look to specialize by maintaining only core assets.

FIGURE 3

Capitalizing on the window of opportunity to maximize portfolio value

Investments to maximize portfolio value over the next 12–18 months

Most important Least important

		Overall	Residential subsectors	Commercial subsectors
ASSET MANAGEMENT	Retrofit and upgrade existing properties to enhance their value proposition	1	2	1
	Repurpose space for alternate uses	2	5	2
	Convert properties to multipurpose uses	8	6	8
PORTFOLIO MANAGEMENT	Diversify portfolio beyond core assets	3	4	4
	Specialize portfolio by maintaining only core assets	4	3	6
	Sell underperforming or nonstrategic assets	5	7	5
	Reallocate portfolio to concentrate on specific tenant types	6	8	3
INVESTMENT MANAGEMENT	Invest in opportunistic deals	7	1	8
	Conduct sale-leaseback transactions	9	8	7

Notes: Residential subsectors include residential and specialty residential (student housing, senior care) properties. Commercial subsectors include office, retail, industrial, hospitality, health care, and digital economy (data center, cell tower) properties.

Source: The Deloitte Center for Financial Services Global Outlook Survey 2021.

Our survey respondents are also concerned about a rising valuation gap between modern and older developments, increasing the relevance of retrofitting. Global investments in hotel properties reached US\$30 billion in the first half of 2021, as investors banked on the sector’s revival and plan to upgrade amenities, services, and technology and add sustainability measures.³⁰

Repurposing spaces for alternate uses has also gained momentum. With convenient locations, many shopping malls are being revived as last-mile fulfillment centers.³¹ Half of our survey respondents say they are increasing acquisition of properties solely for repurposing. However, close to 60% reveal that economic, legal, and physical constraints are holding their firms back. They

would need to partner or hire talent with expertise in adaptive reuse developments and additional resources to overcome these challenges.

Firms could also differentiate themselves by deploying asset and portfolio management analytics. While respondents say their firms plan to focus on tenant types that could bring the most value, only a fourth see their companies increasing spending on analytics to validate tenant selection or mix.

Analytics could also help firms with location intelligence. The pandemic has clearly influenced

geographical preferences among tenants and employees; the feasibility of working remotely and the associated demand for housing made suburbs and emerging markets even more lucrative. Our survey reveals that close to 40% of respondents' firms globally are very likely to revive activity in the suburbs. Retail REIT Kimco Realty merged with Weingarten Realty to strengthen their combined position in the sunbelt markets and high-quality suburbs.³² More than half of North American respondents also plan to expand activities in emerging markets.

ACTION STEPS

As property demand and usage shifts continue, real estate leaders could improve portfolio value by:

- Making investment intelligence a core capability to accurately predict future property valuations and leverage for investment, development, leasing, and repurposing decisions. Predictive analytics can also help firms estimate future tenant viability and improve portfolio management.
- Enabling location intelligence by building predictive models using geospatial variables to drive submarket or micro-level investment decisions. Adding in explainable AI capabilities could help firms better understand and trust data outcomes.³³
- Extracting value from existing assets by upgrading them for new or improved use. Brookfield Properties created a blueprint to redesign many of their retail spaces with in-demand experiential retail, standardizing property overhaul efforts across their portfolio.³⁴
- Combining adaptive reuse projects with broader societal goals. An historic building in London was recently repurposed to cut its carbon emissions by half rather than demolishing it.³⁵ Firms could also support community development, as two-thirds of respondents suggested. In fact, many hotels are already being purchased to be repurposed as affordable housing projects.³⁶

Social momentum: The time is now

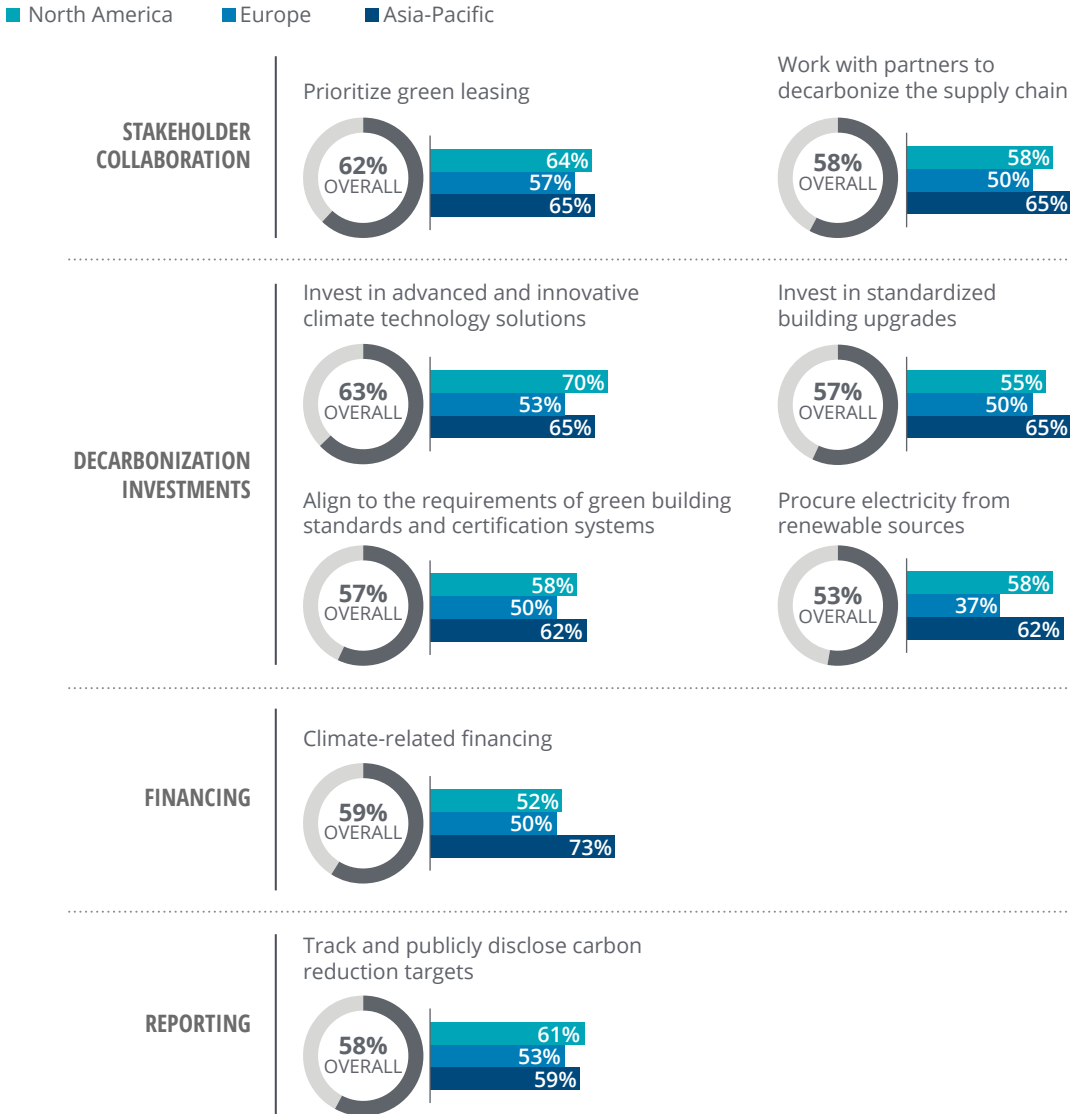
Environmental, social, and governance (ESG) issues have emerged as a top focus, and companies need to respond to meet investor, tenant, and employee expectations. Indeed, 60% of

respondents believe that ESG initiatives are driving new business opportunities for their organization, and half think these initiatives are giving them a competitive edge. Companies are currently pursuing different routes to create a tangible impact, with sustainability ranking as most important to respondents (figure 4).

FIGURE 4

CRE firms vary widely in their commitment to sustainability and plans to combat change

Actions firms will likely take to minimize environmental impact over the next 12–18 months



Note: Percentages were calculated by aggregating responses of “somewhat likely” and “very likely.”

Source: The Deloitte Center for Financial Services Global Outlook Survey 2021.

The CRE industry has a huge role to play in helping combat climate change. According to Architecture 2030, a nonprofit environmental advocacy group, buildings are responsible for nearly 40% of annual global carbon dioxide emissions: of these, 28% comes from building operations, and the remaining 11% from building materials and construction

(embodied carbon).³⁷ As the world transitions to a lower-carbon economy, real estate leaders can make an impact by collecting and assessing data on the environmental impacts of building operations, investigating and implementing resource efficiencies, and partnering with developers who use sustainable practices and materials.

Green leasing, where tenants either commit to or benefit from embracing sustainable practices, such as waste reduction, is also becoming a greater focus. Half of respondents to the 2021 Sustainability report from RICS said that green leases command premium rents, and 30% said that brown buildings (those without sustainability features) offer reduced rents to compensate tenants.³⁸

Turning to the “S” in ESG, only 50% of respondents believe their organization is making strategic investments to improve affordability and quality-of-life issues in communities in which they operate. Less than half say their institution is taking steps to increase diversity in the tenant-mix to reflect community demographics. Industry leaders should recognize that stakeholders increasingly want to see improvements in these areas. DL3 Realty, a developer, is now on a mission to revive communities by redeveloping properties in disadvantaged neighborhoods.³⁹ They converted a vacated Target store into a Blue Cross Blue Shield customer care center, creating access to health care

for neighborhood residents.⁴⁰ Another space was repurposed into a call center for Discover Financial Services, providing employment opportunities for local workers.⁴¹

As regulators step up ESG reporting demands, soon, firms will have to prioritize these efforts. The US Securities and Exchange Commission is expected to announce new ESG reporting requirements by the end of 2021.⁴² The European Union’s Corporate Sustainability Reporting Directive and the China Securities Regulatory Commission’s recent disclosure rules will also require companies to identify, track, and report on key performance indicators, such as carbon emissions and human capital metrics.

Our survey showed quantifying climate risks in their business and portfolio, as well as quantifying DE&I initiatives and social equity across different geographies, was particularly challenging for smaller companies.

ACTION STEPS

CRE companies should consider the following actions to improve ESG governance and impact:

- The stakes are rising for ESG disclosure. With moves toward more regulated disclosure so too comes the need for more rigorous governance and controls around ESG accounting and reporting.
- Design and implement processes to record progress and hold leaders accountable for achieving target metrics. This would make reporting more streamlined as regulators increase disclosure expectations.
- Create a road map that establishes and documents ESG strategy as part of the broader business strategy. Focusing on priorities and developing clear, actionable, and measurable goals can be critical to effective governance and long-term value creation. Share this road map with stakeholders and key decision-makers to help assess risk and move initiatives forward.
- Intentionally incorporate ESG into the business from the start of a project to how it is managed daily, postconstruction. This would involve everything from the raw materials being used to how data analytics can help existing tenants reduce their carbon footprint.
- Communicate their ESG vision and plans to investors and employees alike. Sustainable investing is a growing area of capital formation and CRE companies can take advantage of this new wave if they are transparent about how they incorporate ESG into the mission of their company.
- Conduct a robust climate risk assessment to mitigate overall risk and inform strategies.

Talent trends: Redefining how employees connect to their companies

Employers have more work to do when it comes to attracting and retaining talent in this new age of flexible work. In Prudential’s latest Pulse of the American Worker survey, 25% of respondents plan

to look for a new job postpandemic, citing compensation, work-life balance, and growth opportunities as top reasons.⁴³

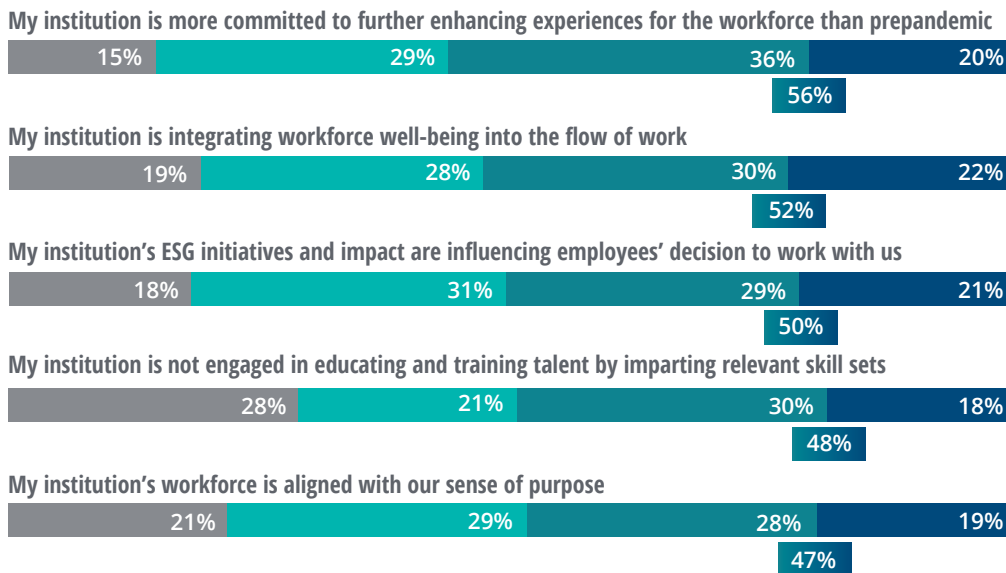
Our respondents say their companies are addressing these issues. But these efforts have not imbued a strong sense of purpose among employees (figure 5).

FIGURE 5

Responses about purpose, well-being, and workplace culture suggest deficiencies and gaps at many CRE firms

Level of agreement on institution’s purpose

■ Neutral or disagree ■ Somewhat agree ■ Agree ■ Strongly agree



Note: Percentages may not total 100% due to a small number of respondents who said they didn't know.

Source: The Deloitte Center for Financial Services Global Outlook Survey 2021.

More than half of our respondents believe their firms could do more to improve Diversity, Equity, and Inclusion (DE&I). A study by Ferguson Partners discovered that there is only one Black Named Executive Officer (NEO) out of 141 across all S&P 500 REITs and only 11 (out of 726) Black NEOs across the public REIT industry.⁴⁴ Another

recent study revealed that women account for only 37% of the US CRE workforce and earn about 10% less in base salary than their male counterparts.⁴⁵ Employers should be intentional about recruiting, retention, and career advancement initiatives for women and racially and ethnically diverse people to make significant progress in representation.

CRE companies should continue investing in digital tools to support remote work and focus their recruiting efforts on employees with strong technology skills. Two-thirds of respondents revealed their institutions plan to be completely or partially virtual going forward. Property operations and analytics and reporting positions were cited as roles most likely to remain virtual. Interestingly, more than half of all respondents believe long-term remote working would negatively impact productivity, while about 60% feel a remote working option would help their company compete for talent.

Building a workforce that can support the more data- and technology-intensive REaaS model could be critical for future success. Respondents agree that superjobs—which require a combination of technical and soft skills and a broader set of responsibilities than traditional roles⁴⁶—will become increasingly critical. But one-third say it is getting harder to find the specialized talent they need.

Since the hiring market remains competitive, CRE leaders and managers should rethink how they perform their roles to support long-term flexible working. They should identify moments where in-person work is truly beneficial while providing equitable opportunities for employees who remain remote full-time. Compensation structures that minimize internal competition could also help strengthen workplace culture. Nonwhite real estate professionals are worried companies are focusing too much on diversifying top positions instead of recruiting a diverse new generation of entry-level brokers.⁴⁷ But building a more diverse workforce may require firms to rework the traditional compensation structure, in which new brokers mostly subsist on commissions earned rather than full salaries. That's often a tough sell for working-class recruits, which includes racially and ethnically diverse people, who say the commission pay structure, in effect, edges them out of what could be a lucrative brokerage career.⁴⁸

ACTION STEPS

To attract and retain the top talent, employers should consider the following:

- Provide employees flexibility on where they work and how their workday is structured. Clearly communicate expectations to help prevent surprises.
- Focus recruiting efforts on talent who are skilled in technology. This can also support the growing role of superjobs—which can help replace the large population of baby boomers who will be retiring in the coming years.
- Step up DE&I initiatives at all levels. Placing diverse individuals in top leadership positions will not be enough to promote long-term diversity in an organization. The PREA Foundation's work with Sponsors for Educational Opportunity in the United States is an example of an initiative focused on closing the opportunity gap for underserved students and young professionals in real estate.⁴⁹
- Find effective ways to communicate the company's purpose and how employees' work aligns to that mission. While employees want to be compensated fairly for the value they provide, they also gravitate to companies that have strong social programs and well-defined inclusive cultures.

Future-proofing the organization: Technology as the foundation for digital services

With guarded, if not solid, expectations for revenue growth in 2022, it should be no surprise that twice as many technology respondents plan to accelerate innovation (44%) than suspend new expenditures and investment (21%). European real estate companies, in particular, are increasingly using data aggregation tools for analysis and reporting.⁵⁰ Across the industry, the use of alternative data, such as foot traffic and walkability scores, is growing and can help CRE companies differentiate themselves.⁵¹

Since innovation efforts require investments in technology, expectations for budget increases for technology are also on the rise. Our survey suggests that real estate company tech budgets could see an average increase of as much as 10.3% in 2022. Respondents from North America and APAC expected the biggest increases (+11% and +12.3%, respectively), suggesting companies in those regions are more bullish on technology spending than their counterparts in Europe (+7.7%). But innovations like smart buildings and digital twins

require standardization of data models and integration, and core technologies are an important factor.⁵²

Unfortunately, 60% of technology executives surveyed indicate that the tech platforms at their companies are, at best, on the journey of modernization. Furthermore, only 20% to 40% of respondents expect large increases in cloud, data analytics and artificial intelligence, blockchain, and robotic process automation (RPA) spending. Reasons for adopting cloud differ by region: European and Asian respondents cited *operational agility* as the main driver, while those in North America cited *cost optimization*. Interestingly, only in North America, cloud adoption is tied to access to advanced technology such as artificial intelligence. Adoption of predictive analytics varies by region as well: 50% of respondents in APAC say their companies are in the early stages of implementation, while more than one-third in North America are still in the process of identifying potential applications.

Respondents with modernized systems seem to be breaking from the pack, while those saddled with legacy systems are playing catch-up. For those in the middle, transitioning infrastructure to the cloud is the clear top priority (figure 6).



FIGURE 6

Plans for digital investments are tied to overall state of technology infrastructure

Percentage of respondents who say their firms will make large investments in the following technologies (12- to 18-month time frame)

Technologies	Overall	By maturity level		
		Least mature	Transition phase	Most mature
		Legacy system		Modernized system
Cloud computing and storage	36%	33%	38%	38%
Blockchain	29%	22%	29%	35%
Robotic process automation	26%	25%	19%	30%
Artificial intelligence	23%	17%	19%	32%
Data analytics	22%	31%	24%	14%

Note: The transition phase includes responses of respondents transitioning from legacy systems to modernized core technology systems to improve interoperability and efficiency.

Source: The Deloitte Center for Financial Services Global Outlook Survey 2021.

Regarding specific technology investments, from 15% to 33% of respondents say investing in capabilities such as building connectivity, market intelligence, geospatial analysis, or risk analytics would benefit their company. And more than 70% of respondents believe the real estate finance function should generate business insights and provide services such as advanced forecasting or scenario planning. But these actions would require firms to modernize their core infrastructures and add new skills in finance departments, where our respondents pointed to a need for more technology expertise.

Blockchain, tokenization, and cryptocurrencies are also increasingly on the real estate agenda. Our survey respondents were interested in all forms of

asset digitization and the digital ledger; developers favor blockchain to manage construction projects, while brokers are more focused on cryptocurrency payments. But while smart contracts can improve efficiency, implementation is not likely to gain momentum until larger players invest in the necessary infrastructure to drive the needed network effects. Similarly, experiments with cryptocurrency, payment acceptance, and tokenization might be a differentiating factor for younger or more tech savvy individuals, while also providing potential to unlock greater liquidity and tap into new investor bases.

It's likely that those that are investing in these capabilities are the ones separating themselves from the competition. Unfortunately, reliance on

legacy systems is hindering many CRE companies' ability to implement these technologies. This was the top reason cited by our respondents. Lack of

available talent and perceptions that the technologies are not mature enough were other top reasons.

ACTION STEPS

To move forward with portfolio analytics, take advantage of smart building and alternative data, and provide both a differentiated tenant and employee experience, CRE leaders could:

- Identify cloud investments that go beyond cost optimization or business continuity. While respondents suggested that complexity of implementation is one of the top reasons holding their companies back from incorporating advanced applications, partnering with third parties could make the task feasible. Only 40% of respondents indicated that these types of partnerships were in their company's plans.
- Assess current technology platforms and consider building out in-house data analytics capabilities. Scattered portfolio data has made risk assessment difficult for CRE. Despite heavy investments in third-party data, some firms are unable to connect the dots.
- Build tailored and proprietary AI-driven analytical solutions to gain a competitive edge. Oxford Properties Group's proprietary machine-learning model analyzes data from about 50 datasets to back property-level investment decisions. They also utilize data from digital twins of buildings as well as their surroundings.⁵³

To boldly go ...

OVER THE PAST 18 months, every industry has experienced fundamental transformation, and CRE is no exception. Today, the real value of property is not defined solely by the space and its location, but by the convergence of infrastructure and technology-enabled real estate service models. Indeed, the profound impact of the pandemic on specific elements of the real estate industry requires a lasting course correction. Forces driving inconsistent recovery across property sectors are compelling many CRE firms to take action that goes beyond maintaining the status quo. The time to act is now. Failing to do so could put companies at a significant competitive disadvantage, if not worse.

With demand for better equipped and dynamically designed properties on the rise, industry leaders should proactively use data to better understand tenant behaviors; retrofit and realign buildings to make them smart, connected, and energy efficient; strengthen partnerships with tech companies to incorporate smarter offerings; and regain the trust of multiple stakeholders, including talent, within the industry. By taking these actions now, CRE leaders can help improve the tenant and end-user experience and enhance operational efficiency through automation. They can also play a key part in helping address major economic opportunities and societal needs across the globe.

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