

# What Every Real Estate Investor Should Know

## About Technology

Point of View is an occasional *PREA Quarterly* column offering the opinions of leading individuals in real estate. The *PREA Quarterly* welcomes opinions from PREA members on significant issues affecting our industry.

**TECHNOLOGY HAS NOT TRADITIONALLY HELD** a prominent place in institutional real estate partnerships. Until recently, few credible software solutions targeting real estate investment partnerships even existed. Today, the situation is dramatically different—cloud computing is changing the way the real estate private equity industry does business. For managers and investors alike, cloud computing is helping teams advance their investment process, innovate, function effectively, and achieve better returns.

### So What's the Opportunity?

Today, cloud technology is critical to the success of investment managers and investors alike and is easy to incorporate into your organization. Technology enables teams to shift focus from administrative or marketing activities back to high-touch, investment-related performance. Software also simplifies outreach to existing and new clients. Switching to automation tools has shown that, on average, investment teams charged with tasks related to fund-raising typically gain several hours in daily productivity and save anywhere from 20% to 75% of their annual administrative budgets.

For instance, we see large institutional investors with allocations spanning multiple geographies use cloud-computing technology to supplement their offline due-diligence process with electronic collection of data and analytics on investment opportunities. The California State Teacher's Retirement System expects to use data and analytics to supplement research on major investment decisions. This is the future of institutional real estate investment.

Likewise, forward-thinking investment managers are saving time and resources by submitting due-diligence information using due-diligence automation and client relationship management (CRM) tools. With due-diligence automation tools, managers can strategically relay due diligence responses to as many investors as necessary without duplicating efforts from one investor to another. One of the advantages of a tool such as this is that it manages redundant investor questions and, once completed, can be sent to any investor with the click of a button.

### What About Crowdfunding?

Much talk has surfaced of real estate investment being disrupted by online marketplaces for prospecting deals and capital. Advocates point to Lending Club and other crowdfunding platforms, and suggest that real estate is heading in a direction in which online marketplaces will displace offline introductions and transactions. Online marketplaces for real estate have created access for individual accredited investors who are not otherwise real estate professionals. Because oversight on these sites varies greatly, many of the developers tapping crowdfunding do so when banks and other traditional financing options are not available to them. Though the cost and procedural inefficiency associated with investment partnerships are universally acknowledged, concerns remain regarding the online sourcing of quality investment management services.

Most likely agree that individual reputation and trust engendered through personal networks will continue to propel much deal making in the real estate space. High-touch collaboration among colleagues (investors, lenders, operators, managers, placement agents, consultants, and others) remains central to doing business, and this is where technology can drive the most impact.

### But Is Technology Just a "Nice-to-Have"?

Your process for sourcing capital and deals today may not be technology-enabled but may be entirely adequate. In a world where everyone is without technology, long-established methods will continue to work well. However, as your peers begin to use software to scale resources, optimize workflows, and create operating efficiencies throughout the investment life cycle, you might find yourself at a competitive disadvantage.

The current environment favors managers who are able to successfully address investor information needs. Investment teams otherwise meant to focus on transaction pipeline, investment execution, and value-added asset management may find themselves diverted to marketing, generating reports, and fulfilling one-off data requests from partners. In this scenario, two types of investment managers are set up for success: (1) large asset management firms equipped with dedicated marketing capabilities and (2) investment managers who leverage technology for investor communication and thereby programmatically convey high standards of transparency and fiduciary excellence.



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Cloud computing presents a powerful option for the latter group. Historically, older technology companies have facilitated the repackaging of technology solutions from other industries to better serve ours. In the past several years, a few companies, including Sterling Analytics, have started to deliver purpose-built tools aimed specifically at real estate private equity. These companies present practical technology to meet the workflow needs of investors and investment managers in the real estate private equity space.

The ability to do more with less could not come at a better time. Global macroeconomic factors have created a deeper market and broader set of prospective partners for real estate investment. Non-US-based investors committed 19% of the capital raised for US-focused closed-end funds between 2011 and 2014. Furthermore, 56% of Asia-based investors and 71% of European investors intend to increase their real estate allocations over the long term. The *PREA Investment Intentions Survey*, conducted in conjunction with INREV and ANREV, shows that Asia-Pacific-based investors place a relatively high value on diversification. For global institutional investors who already have a real estate allocation, a majority are below their strategic targets to the asset class, and a third plan to up their targeted allocations in the longer term. The deepening of global equity markets also creates interesting exit opportunities for investors. For both assets and financing, technology can help you cast a wider, more intelligent net as you act on these expanding opportunities.

### What's a Luddite to Do?

Most managers and investors would agree: the effort, time, expense, and risk associated with adopting new technology have often not been worth it. This is primarily because until very recently, technology available to our industry was built on resource-intensive infrastructure, involved hefty up-front investments in time and capital, and was often unwieldy to maintain in-house. The net benefit was not evident.

Today, experienced investment managers are turning to software to track business intelligence without spreadsheets. A straightforward industry-focused relationship management system is indispensable for efficient collaboration with colleagues, partners, investors, and lenders. As partnership discussions forge ahead, these managers can

quickly capture and store business intelligence for later access and sharing. A CRM is part of an overall strategy to help monitor and direct progress in capital-raising and support the development of stronger, lasting relationships.

We advise managers to avoid CRM systems that were built for other industries and later adapted for the fund management space and that require a lot of customization. CRM has been around since the 1990s, but only in the past five years have elegant systems specifically designed for the real estate industry become available.

Judicious investment managers use due-diligence management tools to automate due diligence with investors. With automated due diligence, investment managers can deftly navigate a detailed investor due-diligence questionnaire and the distribution of marketing materials while minimizing distraction from core investment activity. The alternative—manually processing due-diligence questions on a case-by-case basis without centrally controlling the dissemination of information is time-consuming and can create serious gaps in the protection of a firm's proprietary information. Using due-diligence management software gives managers granular administrative control, affords insight regarding potential investors, and enables a responsive stance to investor queries.

Finally, we advise investment managers and investors alike that not all cloud-based software is created equal. Tools built specifically for the real estate private equity industry can provide a powerful boost over those merely adapted to it. Security, performance, and support are also essential considerations when selecting the correct software for an organization.

Today, cloud-based technology is easy to adopt and empowers investors and managers to take advantage of a larger global market. Investors are in a better position to exploit tactical opportunities or partner with local niche operators. Managers now have the tools to reach strategically suited investors globally. Technology reduces the time and expenditure required to foster quality investment partnerships. High-performing real estate investors are staying ahead of the pack by adopting these tools today. ■

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