21st CEO Survey

Are leaders falling behind by standing still?

Key findings from the real estate industry

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Introduction

It is a long held perception that, compared with other industries, the real estate sector is slow to adapt and innovate. But that view overlooks some nuances.

For most of its existence, the real estate industry has been perceived as being slow moving in terms of innovation. Real estate is a long-term, capital-intensive asset class, so it follows that some companies have a built-in bias toward conservatism when it comes to strategy. But that bias may no longer serve real estate companies well.

Technological and social disruption is transforming not just how we live, work, and play but also how we "consume" real estate, requiring industry leaders to respond with bold and innovative solutions.

The takeaways from PwC's 2018 CEO survey suggest strongly, however, that the CEOs of most real estate businesses have a different view of these challenges than CEOs in other sectors. It's time they asked whether they need to accelerate innovation to catch up.

Craig Hughes
Global Real Estate Leader, PwC UK

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An inflection point

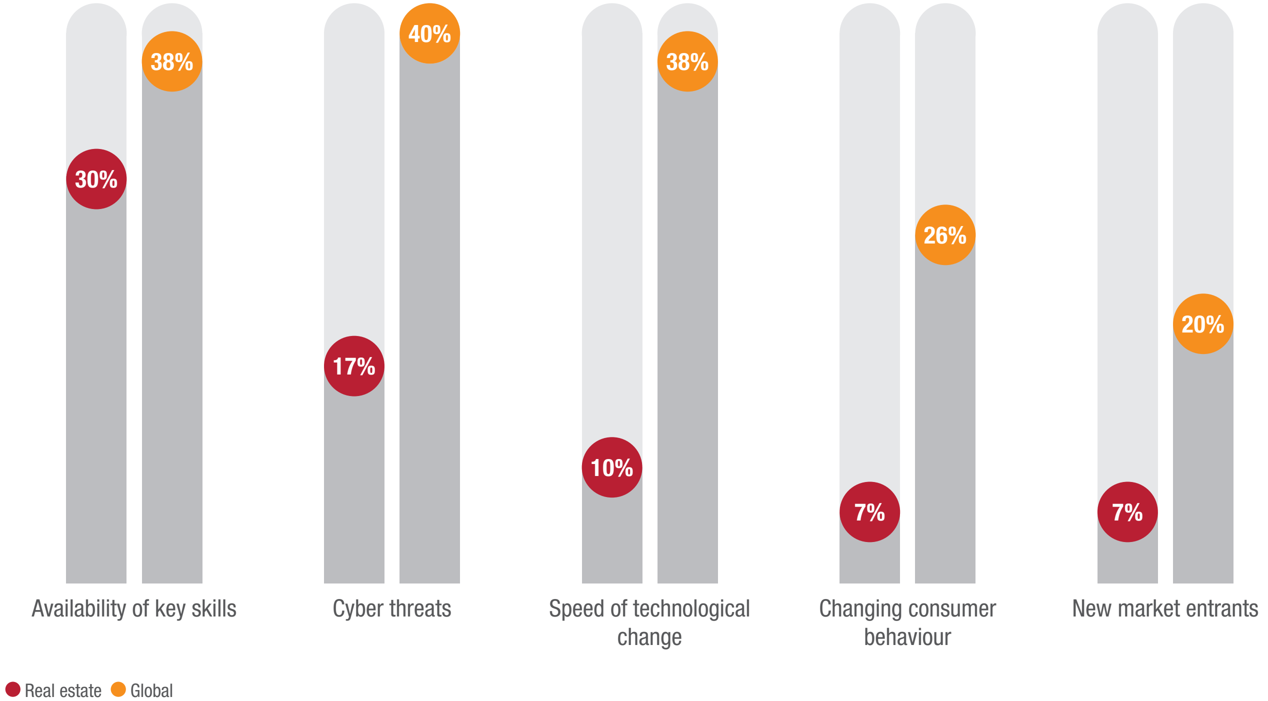
The survey findings reveal that real estate CEOs are much less concerned than CEOs in other industries by the threats posed by rapid technological advances, radically changing consumer behavior, cyber threats, and new market entrants. Only 17% of real estate CEOs, for example, report being extremely concerned about cyber threats endangering their growth prospects, compared with 40% of all CEOs surveyed (see exhibit 1). Likewise, 10% of real estate CEOs view the speed of technological change as a threat they are extremely concerned about, compared with 38% of all CEOs. And only 7% of real estate CEOs consider both changing consumer behavior and new entrants to be threats to their growth, compared with 26% and 20%, respectively, of all CEOs.

Exhibit 1

Real Estate CEOs are less concerned than global counterparts about business threats

Q How concerned are you about the following business threats to your organisation's growth prospects?

Chart shows percentage of respondents who stated 'Extremely concerned'



Source: PwC, 21st Annual Global CEO Survey. Base: Real estate respondents.

These findings are all significant as new technologies transform the way we use and value real estate. Rapidly evolving and more sophisticated customer (occupier) demands, heightened competition for assets, and new entrants from the technology and services sectors are forcing a fundamental change in real estate business models – a key finding of PwC's recently published report, "Emerging Trends in Real Estate –The Global Outlook."

Not all real estate businesses are well-positioned to seize the opportunities that arise when an industry reaches such an inflection point. Real estate is asset-rich and employee-light, with a relatively poor record of diversity and inclusion. In consequence, real estate CEOs are often less exposed to the feedback loop that a larger, more diverse group of employees would provide. And an unprecedented period of economic prosperity, capital flows, and low interest rates may have lulled real estate leaders into the belief that they can safely proceed with business as usual.

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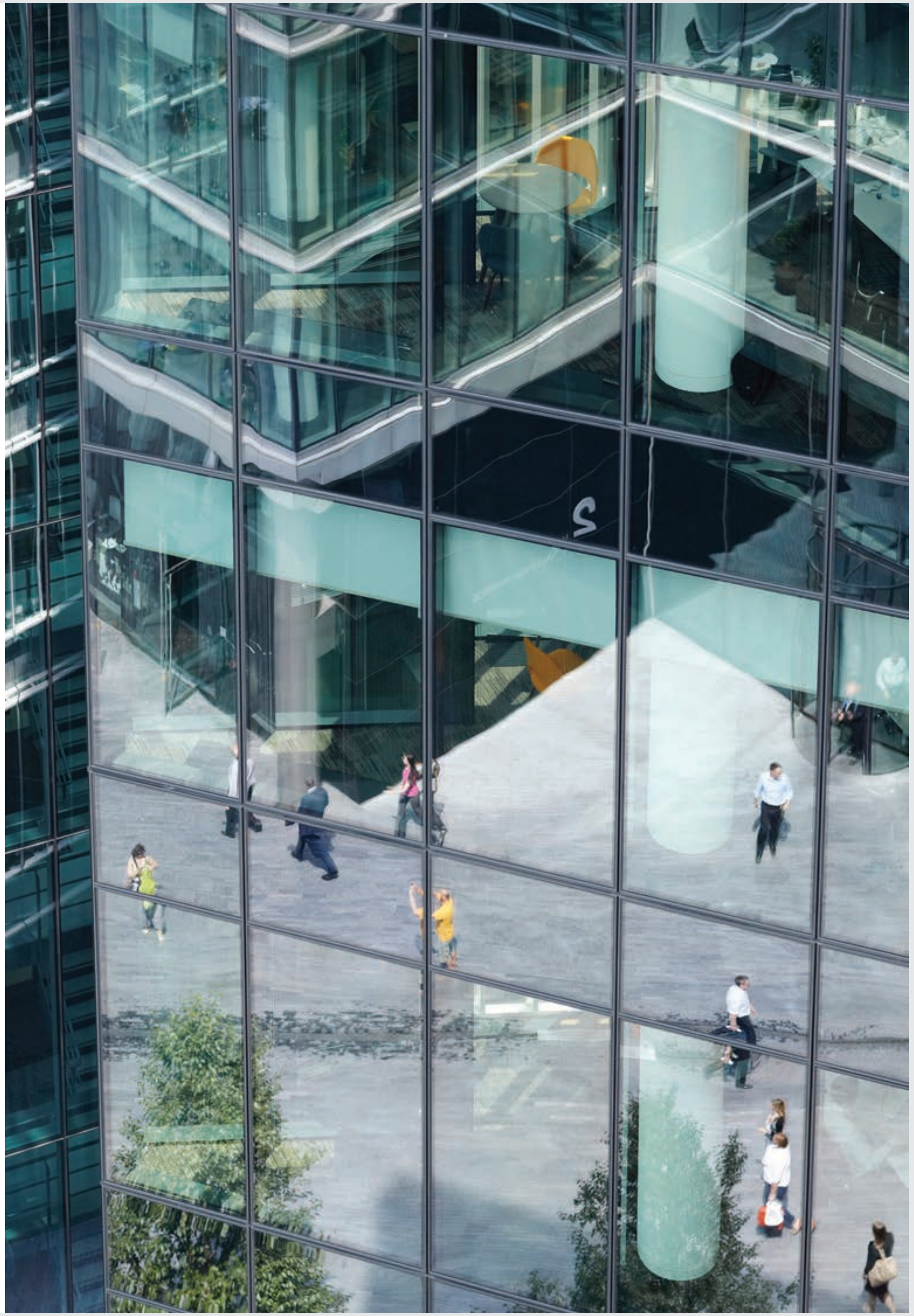
From assets to outcomes

Complacency is a dangerous mindset. Technology and a scarcity of opportunities are driving the development of new business models. As huge amounts of capital continue to flow into alternative assets and real estate in particular, competition for returns will grow increasingly competitive, and those companies that are able to exploit technology and innovative business models will have an edge. As these processes play out, real estate is also evolving toward a business that is less about assets and more about outcomes – 'space as a service', if you will.

Space as a service is a catch-all term encompassing a range of factors that have produced a shift in emphasis from real estate's role as an asset class to a service. Of course, real estate is clearly both an asset class (the world's largest) as well as a crucial service that provides the space in which we live, work, study, and spend our leisure time. So while it might seem like common sense to some, the view of real estate as a service is a concept that is gaining much more traction in recent years.

The growing prominence of space as a service is driven by technological developments such as the internet of things (IoT) and artificial intelligence (AI), social and cultural shifts such as the sharing economy, rapid urbanisation, and resource scarcity, which have all converged to form an inflexion point. A prominent example of this phenomenon is WeWork. Founded in 2010 and already reported to be valued at around $21 billion, the company provides shared workspace to gig economy workers and larger businesses looking for flexible workspaces, but it is loath to call itself a real estate company and instead pitches itself as a lifestyle and community business.

Picking up on that trend, some forward-looking real estate companies are using software to optimise energy efficiency, thus reducing costs and providing a selling point to potential occupants. Others are tapping IoT to improve building operations and control maintenance costs. Still others are developing AI applications to speed the due diligence process and reduce costs, or building analytical capabilities to manage real estate portfolios more efficiently and maximise their returns.



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Need for digital skills

Technology alone, however, will not enable real estate companies to adapt to their new environment. The industry needs digital talent to understand the impact that technological advances will have on the business and bring to the table the customer-first focus that characterises successful and influential technology and service businesses. At present, only 20% of real estate CEOs said they clearly understood how robotics and AI can improve customer experience, compared with 47% of the global CEO sample.

Despite these findings, when asked to think about their people strategy for the digital age, only 43% of real estate CEOs agree or strongly agree that they are rethinking their human resources function to attract the digital talent they will need to succeed. This is compared with 60% of overall CEOs.

Similarly, only 37% of real estate CEOs say they're modernising the work environment to 'a large extent' to attract or develop digital talent, compared with 44% overall (see exhibit 2). And only 20% of real estate CEOs say they are improving compensation and benefit packages 'to a large extent' to attract or develop this talent, compared with 26% of all CEOs. However, real estate executives are ahead of the curve on implementing new flexible ways of working, such as remote working (40%), compared with their global counterparts (35%) and at relocating closer to available talent pools – albeit at a small amount (17% vs. 14%).

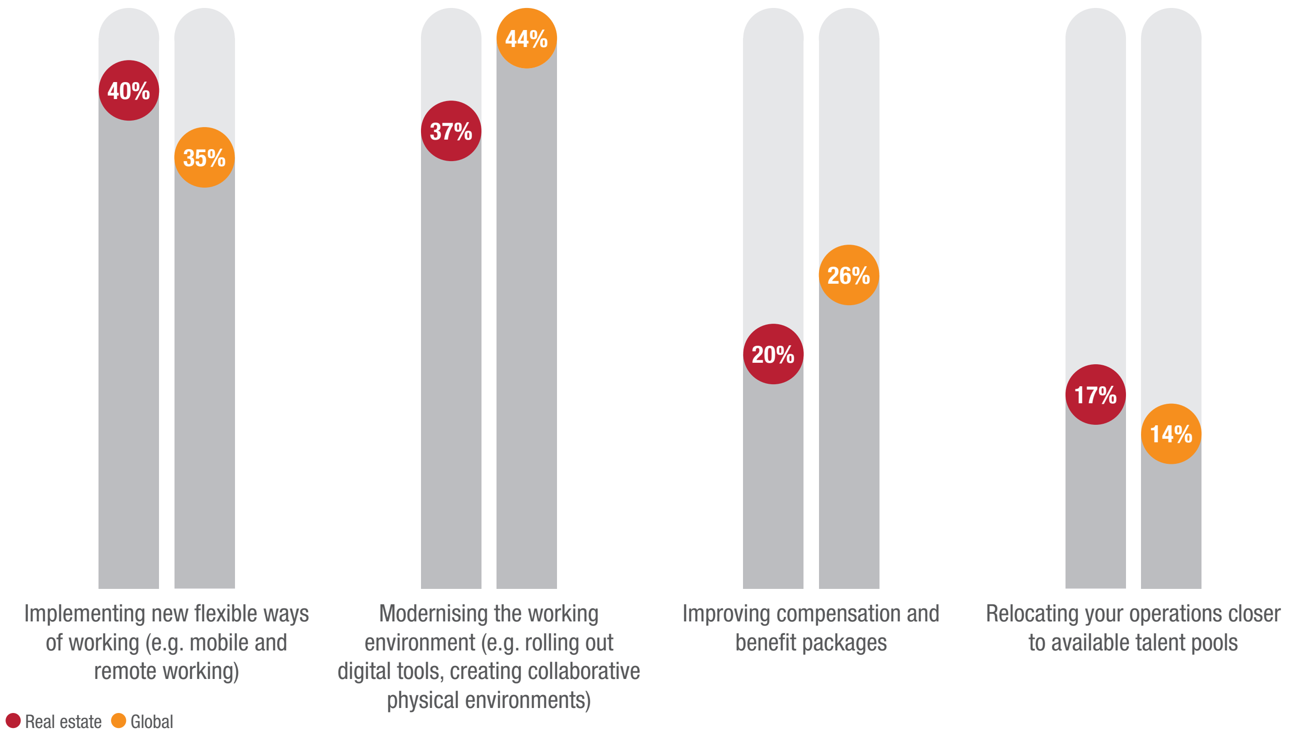
These findings make clear, real estate companies are at risk of falling behind competitors that recognise the need for more diverse skills and expertise. Those competitors are already hiring people with backgrounds in technology or venture capital to help them understand how to evaluate and apply their technology investments, pairing them with real estate experts who can identify the applications and innovations that will be of real value to the business.

Exhibit 2

Real Estate CEOs are implementing new flexible ways of working to attract digital talent

Q To what extent is your organisation using the following strategies and tactics to attract or develop digital talent?

Chart shows percentage of respondents who stated 'To a large extent'



Source: PwC, 21st Annual Global CEO Survey. Base: Real estate respondents.

Conclusion

It's clear that real estate CEOs have a long road ahead if they are to continue to grow their businesses and meet digital disruption head-on. There are steps that industry leaders can take to put them in a better position to monitor and then respond to external developments and market signals, any strategy must strike the right balance between risk management, innovation, and entrepreneurship.

Many real estate investors are accessing innovation through M&A activity. But this carries risks and in many cases is only feasible for the real estate giants. Large-scale investment in new technology is also a way forward, but has its own risks.

The most profitable and low-risk area of investment that real estate businesses can make is in people. CEOs must attract people with a more diverse range of skills and backgrounds than currently exists in the industry, whether that be data scientists or behavioral experts – those with skills from outside real estate. This new talent must work alongside established real estate professionals and bring new ideas that will help evolve existing strategies and service lines organically.

As our CEO Survey findings make clear, real estate companies are at risk of falling behind competitors that recognise this need for more diverse skills and expertise in their company.

With the real estate cycle entering its late stages and capital expenditures poised to rise, investors and owners that can best use technology and talent to improve the performance of their assets will emerge the winners.

21st CEO Survey Methodology

In the second half of 2017, PwC conducted 2,223 quantitative surveys with CEOs based in 85 countries. Most of those surveys (77%) took place online, with the remaining by phone (11%) or by post or face-to-face (12%).

Of those 2,223 responses, 30, or 1% were from the real estate industry.

The profile for real estate respondents:

- 63% had 1–5 years tenure
- 90% were male and 10% were female
- 57% were younger than 50

Their companies:

- 50% were privately owned, most commonly owner managed
- 7% had government ownership or backing

Notes

- The overall report on the CEO survey uses only 1,293 responses, not 2,223, in order to achieve a representative global sample.
- Not all figures add up to 100%, due to rounding and the exclusion of 'neither/nor' and 'don't know' responses.
- The base for figures is 30 (all real estate respondents) unless otherwise stated.

We also conducted face-to-face, in-depth interviews with CEOs and thought leaders from five continents over the fourth quarter of 2017. Their interviews can be found on our website at ceosurvey.pwc.com, where you can also explore responses by sector and location.

The research was undertaken by PwC Research, our global centre of excellence for primary research and evidence-based consulting services

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