

Real estate innovators

Deploying technology for differentiation

Luke Graham



HEAD OF
RESEARCH



According to Everett Rogers' *Diffusion of Innovations*, innovation adopters can be broken into five categories: (i) innovators, (ii) early adopters, (iii) early majority, (iv) late majority and (v) laggards. You have likely seen these categories visualised over a normally distributed bell curve. Since the 1960s, Rogers' theories have been deployed across numerous disciplines, such as political science, marketing, economics, education and

technology. Rogers offers a list of common characteristics within each category. When it comes to innovators, one such characteristic is an ability to cope with uncertainty.

Uncertainty and real estate

Uncertainty in the context of real estate innovation is a curious concept. One might argue that real estate is about as certain as an asset can be. Retail (non-professional)



investors are said to gravitate to real estate assets because they can see and touch them. Among other things, institutional investors are attracted to real estate as an inflation hedge. Although a US bank can cease to exist overnight, it's highly unlikely a plot of land will disappear (well, unless you live on an eroding coastline). Any other inherent uncertainties in real estate are usually mitigated by insurance (fire, flood, damage) or financial engineering (depreciation, sinking funds). One might therefore conclude that uncertainty avoidance is a powerful force within the real estate industry.

Real estate and tech deployment

At Pi Labs, we have been researching technology deployment in real estate at a higher intensity over recent months. As our portfolio comprises early-stage PropTech start-ups recently graduated from our accelerator and growth programmes, as well as maturing scale-ups attaining Series C investment rounds and/or M&A, we have been able to observe the varying rates of adoption throughout a product's lifecycle. We have also been interviewing dozens of real estate professionals. In this process, we have found a notable distinction between real estate groups. This refers back to Rogers' categorisation of innovation adopters as being tolerant of uncertainty. Consider the contrast between the below quotes, both of which were attained from members of innovation departments within large real estate firms.

<p>“Reputation and reliability are key. I don't think we'd choose a system without a track record or when there are questions about whether they'd last long term... Frankly, early-stage companies would be a little too embryonic for us.”</p>	<p>“We are very ambitious and want to provide a premium. This requires us to be one of the early movers, always pushing for the next thing. We mitigate the risk through our trial process. Some trials won't make it to full deployment.”</p>
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The transformation of real estate

Although uncertainty avoidance may have worked for the real estate industry for generations, a common viewpoint yielded from our interviews was that this era had passed. Just a few short years ago, an employee at an established real estate group may have seen their colleagues balk when their desktop computers were replaced with laptops. Today, an increasing proportion of real estate groups are boasting chief technology officers and innovation teams, and those teams are growing in influence. Aside from innovation specialists, real estate firms are also involving traditional departments in their innovation strategy and supporting them through working groups targeted at bridging the gap between their colleagues and specific technologies relevant to them. Some seek to mitigate the uncertainty by engaging external consultants when drafting their innovation strategy, while others have adopted a blue-sky approach to testing as many

viable solutions as time and resources will allow. Notably, many technologies have begun transitioning from being a source of competitive advantage to a necessity for survival.

“A successful deployment requires an entrepreneur with an intimate understanding of real estate pain points”

Sorting the wheat from the chaff

Our research affirmed an existing perspective in some real estate circles: an attribute shared among successful technology deployments was an action-inspiring problem statement. Paradoxically, one of the limiting forces impacting some real estate operators was the expectation for immediate results. This indicates that a successful deployment requires an entrepreneur with an intimate understanding of real estate pain points, as well as a real estate firm with the patience to see the full benefits of the deployment materialise. The former brings into light Rogers' concept of the 'lead user' – somebody affected by a pain point who seeks out to resolve it for themselves and then for others. A salient example of this comes from the founding story of LandTech. When trying to self-build a home in London, LandTech co-founder Andrew Moist struggled to find information on vacant lots he walked by in Shoreditch. After combining forces with Jonny Britton to solve this problem, the pair grew LandTech to become the UK's eminent planning data platform, boasting clients such as JLL, CBRE, Cushman & Wakefield, Savills and more than 1,500 others. This case study, among others, is detailed in our recent white paper (you can download this research at pilabs.vc/insights).

Enabling a culture of innovation

Among the real estate professionals who were interviewed for our research, the most common theme that emerged for executing a successful technology deployment was support, buy-in, and even role modelling from senior leaders. Senior leaders usually possess several sources of power which can enable change within their organisation. The most obvious is coercive power (do what they say and you may get rewarded; don't do what they say and you may get punished). Another is referent power: the ability to win the trust and commitment of others through one's virtues. Senior leaders are also often well-networked, enabling them to leverage the power of others. Combined, these sources of power promise to navigate many barriers to innovation adoption within real estate organisations.

Luke Graham is the Research Lead at Pi Labs and a researcher at the University of Oxford's Future of Real Estate Initiative. His research interests integrate innovation, social change and real estate economics.