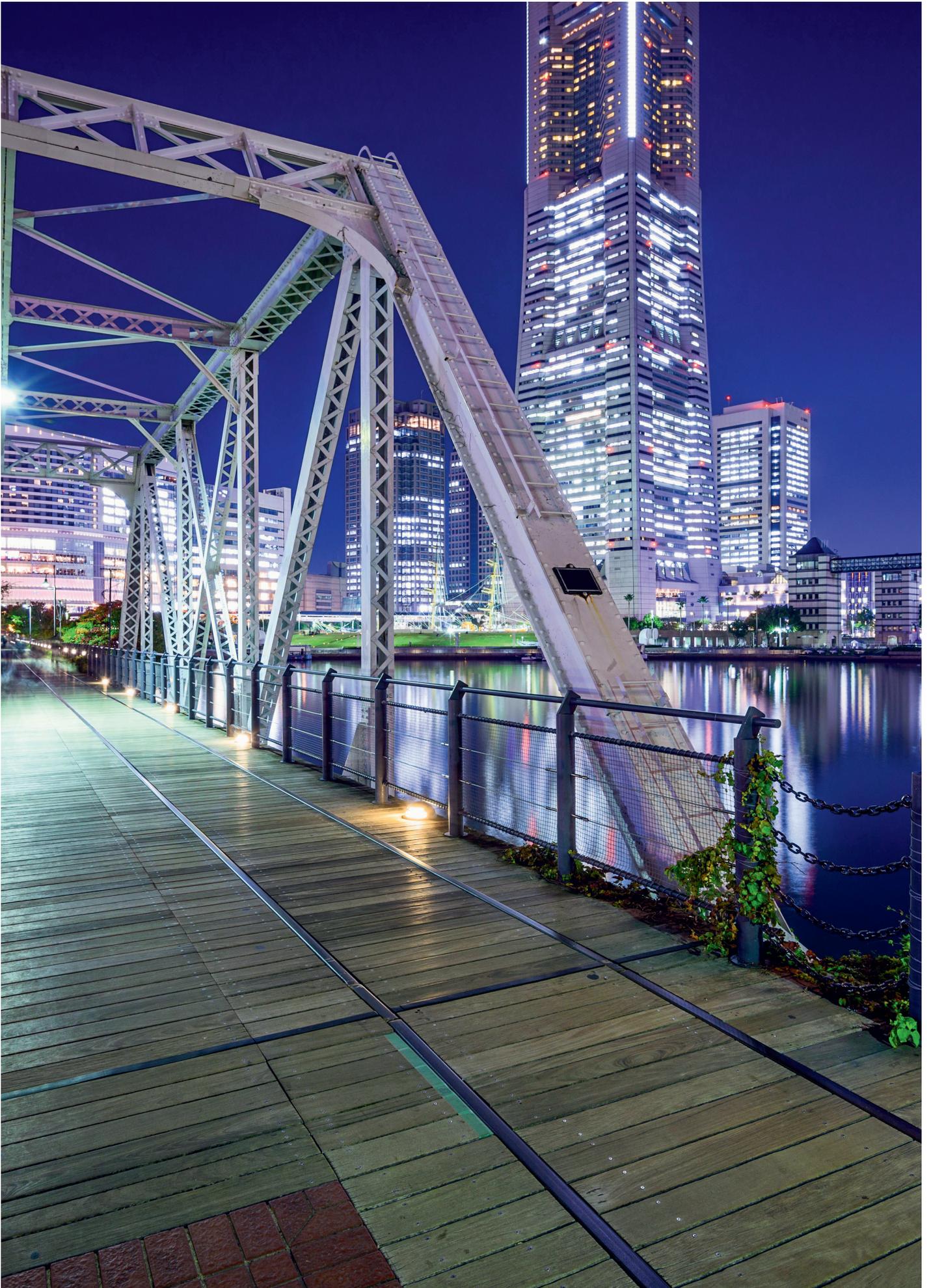




Real Estate Predictions 2022

The future of the housing business

**Future requirements for the property
management of multi-dwelling units**



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Future requirements for the property management of multi-dwelling units

Inadequate management of ageing multi-dwelling units has become a social issue. Digital transformation can help property management companies to address concerns in this field, so they can benefit from the opportunities of an increasing demand.

The challenges of existing housing stock

For a long period after World War II, Japanese governments aspired to increase the housing supply and raise its quality. This changed when the population started declining in the 2000s. Policy switched towards using existing housing stock. However, one of the problems in utilizing stock is the inadequate management of ageing multi-dwelling units. The owners, or those who inherit a used property in a multi-dwelling unit, often do not understand the value of such a property that has been left vacant. They fail to sell or lease it to others, or do not participate in the consensus-forming for repair or rebuilding the property.

This problem is not limited to Japan - it is a social issue shared by countries all over the world. Management systems for multiple-dwelling complexes in major countries in Europe and the US are similar to those in Japan. The framework details differ, but the complexes in these countries also have management associations composed of all unit owners, with decisions made at a general meeting. Sometimes, management is outsourced to a management company. In Japan, for example, the tasks outsourced to management companies include support for general meetings and association management, accounting, caretaker duties, cleaning, and maintenance and inspection of buildings and facilities.

Digital transformation can help property management companies to address concerns about inadequate management,

so they can benefit from the opportunities of an increasing demand. This requires four measures: (1) digitalization of property management, (2) division of property management specifications into standard and optional, (3) support for self-management of multi-dwelling units, and (4) collaboration between players in the industry.

Digitalization of property management

Property management services today include participation in and running of general and board meetings and other face-to-face duties, and duties that require human labour such as cleaning, inspection, and patrols. Because of the personal nature of the services, digitalization has not progressed in the industry as a whole. As the problem of labour shortages becomes increasingly severe, property management firms seeking to shore up their top-line revenues will need to improve efficiency in order to increase the number of condominium units handled and managed per employee. The digitalization of property management will improve efficiency in three specific ways.

First, simply as a replacement of labour, by means of e.g. cleaning robots, IoT technology for inspections and patrols, and chatbots for handling complaints. All of these will help keep down personnel costs. Human employees can then focus on added value areas where the human touch is preferable. Moreover, the personnel freed up by these measures can be used to increase the managed unit capacity.

Second, by improving the existing inefficient workflow. Examples are online distribution and storage of general and board meeting materials, conducting resident surveys online, digitalizing inspection and maintenance records, and introducing an accounting system. In particular, the distribution and collection of paper materials is inefficient and expensive in terms of labour as well as distribution costs (postal, transportation, and storage costs). Additionally, switching to online exchanges between the head office and managed properties will reduce the number of site visits by head office staff, freeing up time for them to make door-to-door on-site visits.

Lastly, the data accumulated in these digital operations can be used to improve the quality of services - and resident satisfaction. By introducing IoT equipment, for example, the air conditioning and lighting environment in common areas can be optimized, and upkeep and predictive maintenance can be performed based on the state of wear and tear of equipment and devices in order to fulfil residents' needs.

It is likely that new digitalized services will continue to be introduced for various aspects of property management. But even before that, the introduction of a number of services that already exist is expected to proceed. Whether or not property management is digitalized is a key factor for competitiveness.

Division of property management specifications into standard and optional

The second measure is to classify property management specifications as standard and optional: defining the provided property management services based on factors such as the multi-dwelling unit grade, resident demands, and management and outsourcing costs (see Figure. 1 below). Currently, the quality of property management, and especially resident satisfaction, greatly depends on the quality of the representatives and management staff. This means that even if the property management agreement itself does not change, and there is no difference in the provided services, the skill in handling of the duties by staff will likely impact resident satisfaction. By clearly articulating in writing the kinds of services to be received, it is easier to meet the expectations of residents.

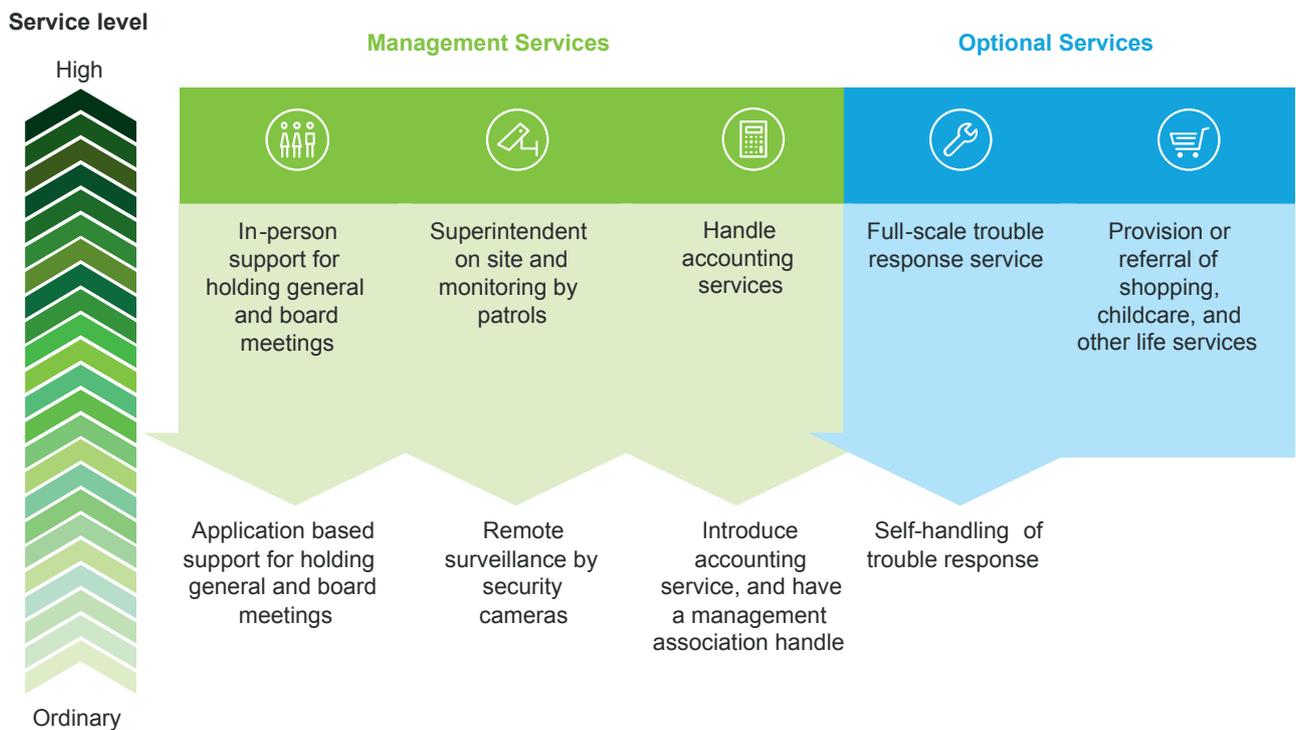
In the case of a high-grade multiple-dwelling complex, the emphasis will be on face-to-face communication, with a building superintendent on permanent duty as in the past. Some of the digitalization initiatives introduced in (1) may be incorporated. Optional services can be added relating to the frequency of inspections and patrols, the extent of assistance with running management association general and board meetings, and the promptness of response to emergencies such as loss of keys or water leaks. Other possibilities are the provision or introduction of services such as housework and house cleaning.

In the case of a middle-grade multiple-dwelling complex, digitalization could take the place of face-to-face communication. This will reduce management costs. For instance, by introducing robots and sensors, online notifications and announcements to residents.

Depending on the kinds of services demanded by the management association and the upper limit on management and outsourcing costs, it might be interesting to consider the possibility of switching to self-management.

Looking at the future of property management, the services provided by the management company will likely match the services expected by residents. Communication with residents will be key to determine the level of property management needed and how much residents are willing to pay for this.

Figure 1: Example of standard and optional multi-dwelling unit management services



Support for self-management of multi-dwelling units

The trend of rising multi-dwelling unit management fees may well lead more management associations to look closely at the third option: self-management. Rather than distancing from those associations that choose this option, we can expect demands for providing support for self-management, making use of the digitalization of property management introduced in (1) and of the division of management specifications into standard and optional as discussed in (2).

Possible ways of supporting self-management include provision of support applications and other software. Even if the management association lacks specialized knowledge and experience in property management, the costs and trouble of management can be reduced if the association can provide one-stop assistance for tasks such as keeping track of contracts with service providers and of orders, organizing occupant and owner information, and managing repair reserve fund income and outgo. Leading management firms have released self-management support applications in recent years. Also, companies offering similar services have appeared among Real Estate tech companies, so it is likely that competition will heat up for self-management support applications.

Even in highly specialized areas such as drawing up long-term or large-scale repair plans, there are expectations for advice and consulting from third-party standpoints. By leaving basic property management up to the management association and providing only highly specialized services as options, it should be possible to provide high added value and high unit price support.

Although self-management support itself may not lead directly to big profits, actively engaging in such support is important for maintaining good relations with management associations performing self-management. Group companies will reap profits when future large-scale refurbishments or rebuildings are being carried out.

Collaboration between players in the industry

Another important measure is to strengthen collaboration between "competitors". Companies that insist on providing services on their own may increasingly find themselves coming up short on resources and costs. They could outsource them to other companies in the industry by classifying property management services into standard and optional, and carving out a portion of these services. At the same time, a company might take on certain management

services on a BPO basis for the managed properties of other firms, in service areas or locations where it has an advantage. By focusing its own resources on its strengths, it will be able to manage operations efficiently.

Such collaborative relations are also possible from the viewpoint of digitalization of property management discussed in (2). Companies that develop digitalization tools, could introduce their own tools to other companies, obtaining rental or usage fees, and reducing their maintenance costs through scale. The tool users, meanwhile, can keep down system development costs and reduce their management costs.

There are limits to what a company can do on its own in the face of the severe problems of labour shortages and rising personnel costs. By actively pursuing collaboration with "the competition" while making the most of a company's own areas of specialty, the multi-dwelling units management industry as a whole benefits and develops.

This paper is an excerpt from the report "The Future of the Housing Business—Prescriptions for real estate companies during the housing transformation era" presented in June, 2021.

<https://www2.deloitte.com/jp/en/pages/real-estate/articles/re/future-of-housing.html>

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