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2022 commercial real estate outlook

Canadian companies are resilient, but must invest more in technology

Commercial real estate (CRE) has proven more resilient than many feared at the start of the COVID-19 pandemic. The consensus now is that employers will continue to need common workplaces, though not for all functions all the time. Indeed, even amid the highly transmissible Omicron wave at the start of the year, employees were returning to offices and retail outlets. And with the Canadian economy projected to grow by 3.4% this year, the industry is poised for a strong recovery.[1]

Based on our 2022 commercial real estate outlook survey of 400 senior CRE executives around the world and 46 in Canada, it seems not enough CRE companies are seizing the chance to rethink their strategy and harness technology to better compete. They should be looking to invest in digital real estate solutions, update their talent strategy, and shift their mindset from being a space provider to being a partner and service provider. CRE companies also need to take concrete steps toward establishing a real-estate-as-a-service (REaaS) model, and would benefit from building partnerships with property technology providers (proptechs) to provide new service offerings to tenants.

Here are some of the other discoveries we made across CRE finance, talent, technology, and operations functions, as well as actions that executives can take to modernize their companies and take advantage of the new opportunities.

Finance: find flexible solutions

The Canadian CRE respondents to our survey expect strong property fundamentals in 2022, with growth in rentals, leasing, transaction activity, and property prices, even as they expect an increase in the cost of capital. The spread of new COVID-19 variants, government infrastructure investments, climate-related regulations, and the need to provide flexible financing solutions could all complicate this sunny outlook, though. It's worth noting that North American chief financial officers (CFOs) expect talent and labour costs and inflation to increase substantially in 2022, too.[2] Deloitte Canada's Economic Advisory team expects an increase in interest rates to tame inflation, even as it could weigh on economic growth.[3] The team projects overnight rates to increase to 1% by the end of the year.[4]

Canadian respondents to our CRE survey believe that finance should support other functions by providing more business insights and services such as advanced forecasting and scenario planning.

Action items for CRE finance executives

- **Maximize portfolio value** by upgrading existing properties, reassessing tenant mix to focus on more profitable tenant types, and identifying properties that can be converted to mixed use. Firms also need to explore merger and acquisition (M&A) opportunities to add new capabilities, assets, and markets.
- **Work with tenants** to devise mutually beneficial arrangements for rent collection and lease terms while keeping long-term relationships in mind. Landlords can create new revenue streams by offering more value-added services, backed by real-time data and emerging technologies.
- **Digitalize the finance function** and use robotic process automation (RPA) to automate repetitive tasks and processes while exploring emerging technologies such as blockchain and artificial intelligence (AI).

Talent: embrace superjobs

The work roles within CRE are evolving. With increased digitalization, leasing executives can automate mundane tasks, such as invoicing and lease abstraction, freeing up time to use data to generate insights for lease optimization and to improve the tenant experience. Canadian CRE respondents acknowledge that the pandemic has accelerated the emergence of superjobs, so called because they require a combination of technical and soft skills and come with a broader set of responsibilities than traditional roles.[5]

CRE companies are feeling the impact of the global "turnover tsunami" and yet most of them are not engaged in educating talent on relevant skills. Further, companies need to do more around fostering diversity, equity, and inclusion (DE&I).

Action items for CRE talent executives

- **Further digitalize work** and automate tasks to enable an increasingly virtualized work environment and to empower employees to focus on higher-order activities. This will not only improve efficiencies, but also make CRE roles and superjobs more attractive to a wider pool of talent.
- **Enhance workplace flexibility** for better talent attraction and retention. Companies need to identify which tasks and roles require a physical presence and which ones could be done virtually.
- **Elevate workforce skill sets and develop an inclusive culture.** CRE companies should focus on hiring talent with advanced technology skills and training current employees to successfully take on superjob roles. They should also improve the execution of DE&I initiatives across the organization, and not limit them to leadership.

Technology: accelerate adoption

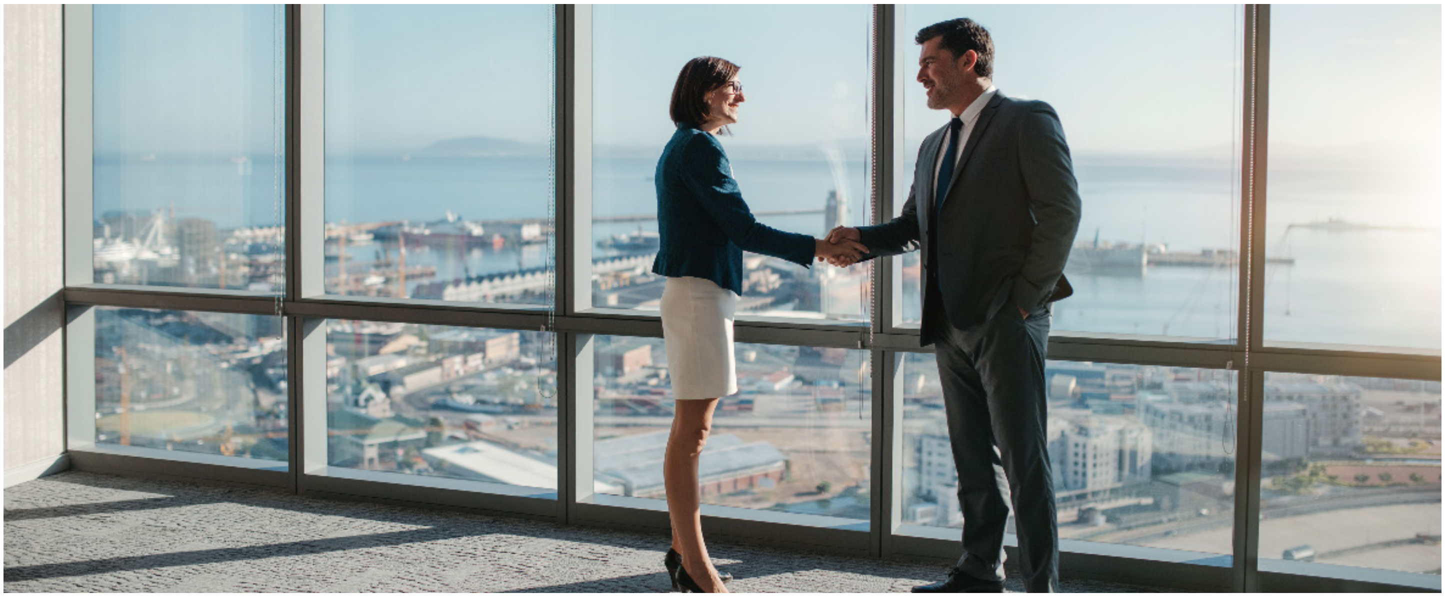
Most Canadian CRE companies depend on legacy technology systems. They need to accelerate their transition to the cloud to not only improve interoperability and efficiency, but also enable digital real estate services and enhance the tenant experience. Technology spending by Canadian organizations lags that of their global peers across most domains, including cloud, mobile, RPA, data analytics, and cybersecurity.

Less than a quarter of the Canadian respondents expect to spend a lot more on emerging technologies in 2022, yet many companies in this country already face challenges with AI, cloud, and RPA adoption. Common problems include a short-term focus on returns, reliance on legacy systems, and the lack of talent with the right technical skills.

Action items for CRE technology executives

- **Expedite the modernization of legacy systems** to improve interoperability and efficiency and to establish a seamless interface with emerging digital technologies. To fast-track the process, companies can procure fully automated migration solutions rather than use off-the-shelf software.[6]
- **Prioritize the adoption of emerging technologies** that can elevate the tenant experience and create a competitive advantage. Many Canadian CRE companies are investigating the use of blockchain applications such as smart contracts for leasing, transactions, and the management of construction and development projects.
- **Augment analytical capabilities** by capturing newly available data on buildings and tenants and deploying AI-backed analytical solutions. Given the challenges of such projects, companies should seek support through strategic alliances and partnerships.

Operations: reimagine real estate



Office spaces could be reimagined based on new usage patterns and a revised value proposition since the pandemic began. Accordingly, owners and operators need to invest in redesign, facility readiness, workplace analytics, and desk hotelling. Based on the responses of CRE companies worldwide, however, most are underprepared.

Climate action is also top of mind for those in the industry. With buildings contributing nearly 40% of global carbon emissions,[7] CRE organizations are being pushed by investors, regulators, employees, and tenants to increase efforts to reduce their environmental impact.

Action items for CRE operations executives

- **Improve agility** by establishing a REaaS model, investing in cloud and analytics, and enhancing cross-functional collaboration. Start by providing flexible and on-demand access to physical spaces, offering customized and scalable technology infrastructure for tenants, and monetizing proprietary data by sharing insights on space usage.
- **Reassess geographical presence** to reflect pandemic shifts, such as relocating staff to suburbs and emerging markets.
- **Embed environmental, social, and governance (ESG) strategies in core operations** to help enhance the tenant experience, create new business opportunities, and build competitive advantage. Three in five Canadian CRE companies plan to prioritize green leasing and invest in innovative climate technology solutions for building and resource management.

With the economy opening up and businesses moving more permanently toward hybrid ways of working, CRE companies must act now, if they haven't already. Those that embrace the latest technology, make better use of their own workforces, and pay attention to ESG factors will be in the best position to thrive in the post-pandemic world.

Endnotes

1. Deloitte, *Economic rebound shaken by crisis in Ukraine,* Economic outlook, March 2022.
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6. Deloitte, "Legacy modernization: A digital transformation," 2019.
7. UN Environment Programme, Building sector emissions hit record high, but low-carbon pandemic recovery can help transform sector – UN report, December 16, 2020.

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