

Prop-tech takes off in New York City

Technology designed for use in the real estate industry—known as prop-tech—is catching on, particularly in global real estate capitals such as New York City. The global prop-tech market is expected to grow from \$18.2 billion this year to \$86.5 billion in 2032, according to the market research firm FMI. In hot demand are technologies designed to create a better experience for tenants or to help landlords with investments or property management.

“Over time, prop-tech has become a global phenomenon comprising a broad array of technologies that drive innovation in the real estate market,” says Morris F. DeFeo, Jr., a partner and chair of the corporate department in the law firm Herrick.

Prop-tech technologies are improving operational efficiencies and data analytics, reducing expenses and enhancing the leasing and ownership experience for customers, DeFeo says, as well as facilitating the sale, leasing and financing of real estate. They also are improving the ability of owners, operators and financing sources to extract and optimize value from real estate, he says.

DeFeo recently shared his insights with **Crain's Content Studio** on how the prop-tech boom is affecting the New York City real estate market.



MORRIS F. DEFEO, JR.

Partner and Chair of Herrick's Corporate Department

CRAIN'S: When did prop-tech take hold in New York City?

MORRIS DEFEO: The real estate industry is not the first sector one thinks of when envisioning cutting-edge technology and innovation. In the past 20-plus years, however, participants in the New York real estate market have embraced various technology solutions that are designed to improve their overall value proposition and thereby create competitive advantages. New York is the world's preeminent real estate market in virtually every segment of the industry. It is also the most competitive.

The dramatic increase in investment capital directed at the industry has accelerated these trends, as investors seek out real estate market participants that stand out from the crowd. Numerous prop-tech companies are active in the New York real estate market, such as Common Living, NeueHouse, EasyKnock, Latch and Realm.

CRAIN'S: How are technology solutions coming into play as a competitive factor?

DEFEO: Despite its apparent conventionality, the real estate market has evolved significantly and at an increasingly rapid pace. The industry has become more institutionalized, with enormous inflows of capital, resulting in a closer convergence of the industry and capital markets, particularly private equity. Covid, inflationary pressures and rapid technological changes have been additional catalysts for consolidation and differentiation in the industry and, consequently, a vastly more competitive real estate market.

In response, real estate owners, developers, operators, financing sources and other industry participants are looking to technology as a means to reduce costs, improve operating

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efficiencies and profitability, improve visibility into the needs and preferences of owners and tenants and identify potential growth opportunities, including potential acquisition targets. In addition, landlords and developers can use the prop-tech tools available to them to create more desirable spaces and creative environments with the balance in hybrid work environments that we have seen after Covid. Prop-tech can now be seen more fairly as a competitive necessity and not a luxury.

CRAIN'S: What new tech developments are most significant for this sector?

DEFEO: Unsurprisingly, much of the focus has been on technology targeting the

expense side of the ledger. This includes solutions that are designed to identify and eliminate or streamline the numerous inefficiencies found in real estate, such as processes in project management, development, construction, maintenance and tenant services.

There is also an intense focus, however, on technologies that are designed to target opportunities to grow revenue and market share. These include, for example, solutions that help market participants gather and analyze data to identify market trends, enhance the experience of tenants and other users of real estate, and target potential marketing opportunities and acquisition candidates.

Trends that we see emerging include closer collaboration and integration between real estate businesses and tech companies in the form of joint ventures, consortia and other similar relationships, as well as a potential increase in business combinations between prop-tech entities and businesses focused on real estate ownership, construction, management and development.

In addition, as has been widely reported, nearly 40% of the world's carbon dioxide omissions come from real estate both as a result of building operations and construction. Private equity, venture capital and other major sources of funding continue to raise and invest an enormous amount of capital targeting relating to environmental, social

and governance technology companies that focus on real estate. Investors are anticipating that owners of real estate will need to make significant capital expenditures to reduce their carbon footprint and reduce energy costs.

CRAIN'S: How can real estate investment trusts position themselves for success in this environment?

DEFEO: Like all real estate market participants, REITs should seek out and assess

the full range of prop-tech solutions available and under development as part of their strategy to strengthen their competitive position. No two REITs are the same, so the challenges they face and the opportunities presented will call for different solutions. An increasingly dynamic and differentiated market calls for a more innovative and proactive approach to improving profitability and seeking out opportunities for growth. Prop-tech solutions can and should be one weapon in that arsenal.

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