KEYNOTE INTERVIEW

Harnessing data for smarter management

Investors demand transparency as owners and operators deal with increasing amounts of data, says Yardi's Chris Barbier

As senior director at Yardi, Chris Barbier is responsible for investment management solutions. That encompasses everything "from above the operations of the asset through the different types of ownership structures, all the way out to the investors," he says. Barbier has more than 30 years' experience, having started out doing audits for real estate before moving into real estate technology via industry and consulting. He spoke with *PERE* about the trends transforming mixed-use buildings and the growing role of technology in investor relations.

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Q What does the building of the future look like?

The pandemic has created what we feel is a permanent shift toward a hybrid work model. Companies have employed different strategies, but in general, there is a degree of work from home – be it one day or several days a week. As leases expire over the next three to five years, a part of that office space is likely to be reduced and repurposed.

We think of the building of the future – and we're seeing this happen now – as being much more mixed-use, with multiple components. Traditional mixed-use might have multifamily or office with retail on the bottom. We're thinking of this more broadly, such as buildings with retail and traditional office space converting into co-working. For instance, some tenants will need a reduced footprint and will want to make a larger percentage available for collaborative space.

We'll see buildings continue to operate as traditional offices, just with smaller footprints for certain tenants. And then in other cases that unused space will be turned into apartments, residences, condo units, etc. Or certain buildings will have all three, where it's not just an office property anymore, it's an office property with a co-working facility, with maybe a retail component, and then a living component as well. And I think over the next several years we're going to see very different and unique paths that owners/operators are going to look to reallocate space and reuse it to optimize their rental income in a changing world.

Q What will be the impact of these developments on investors and asset managers?

All this is put together with a myriad of technology that now needs to manage everything from member space to residents to visitors getting to the right business office. Leveraging, for instance, the internet of things to drive the efficiencies of a building that now has not just two but three and four asset classes within the same structure changes the whole dynamic of how that building gets managed.

With many different dynamics under one roof, asset managers will have to make sure that they have access to multitudes of information to make decisions and manage properties effectively. And they'll be collecting different types of information about the use of the property than they would in just a single-use building.

Investors want to understand what operators are doing to maximize that space and increase the value, growing the rental revenues that ultimately drive their returns. Transparency around the transformation of buildings and how they're being operated is becoming more and more imperative. Access to data and understanding what's happening financially at a detailed level has become an expectation of investors over the last several years. That trend will continue. If anything, we're seeing it accelerate.

Q What information do investors need today?

They want to understand occupancy, the pipeline for filling space and who their tenants are – not for resident specifics, but for tenant risk; they need increased visibility into the micro risks of a tenant class or firm. Collections and accounts receivable have been a major concern, and how the investment is performing. Investors want to understand more about the operations in a fair degree of detail.

In the past, property owners and operators were being asked for collection information, and they were somehow able to assemble that, usually manually, and get it to investors. Now investors just expect that they can get that level of detail on the operations of their property. There's more of an interest from a risk management perspective in having a detailed understanding of what's happening within the asset itself.

Investors are also increasingly asking for information on the components

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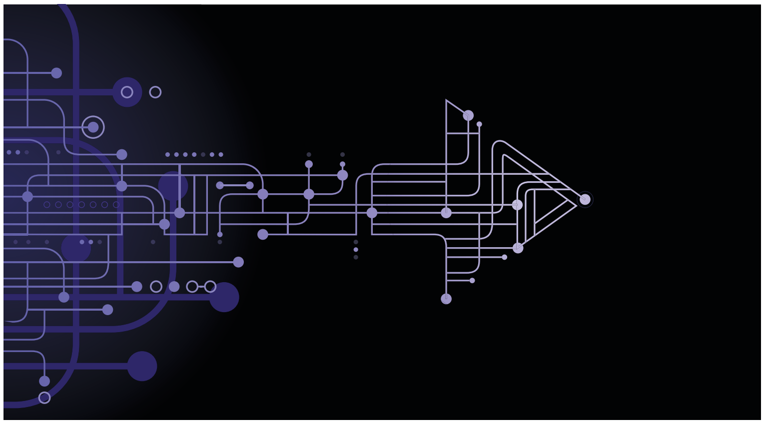

Q How does technology increase visibility in investment decisions and asset valuation?

The efficient operations of the asset obviously play a big part in driving the value. That could be growing the net operating income by increasing rent or reducing expenses. The managers of the organization that owns the property increasingly are having informed discussions with the asset operators.

For fully integrated organizations, these teams may be the same company, or for an investment house, maybe a third party is managing it. In either example, using technology to have real-time visibility into what's happening – and to help drive decisions on leasing, occupancy, energy efficiency and other expenses – is critical. And waiting on a 30- or 40-day lag for that information doesn't allow the owners to make those decisions in a timely fashion. They are requiring access to that information, and investors and owners are asking to take part in key value add processes. To reach this goal, firms are leveraging the benefits of a single source of truth through a single connected platform.

> *"Transparency around the transformation of buildings and how they're being operated is becoming more imperative"*

of ESG – not just buildings' energy consumption, but also the structure of the organizations managing those properties. There's the E piece: what are they doing specifically to reduce the carbon footprint of their assets?

And then there's the S piece, which is a lot more qualitative information about those organizations, their diversity and inclusion and how they're running those efforts within their business. These are quite different questions than just, "How much distribution money do I get back?" or "How is my asset valued now?" And in certain cases, investors are only partnering with organizations that have a clearly defined strategy in those areas. There's a lot of additional information required, not just around the operations but about the operators themselves.

Q What challenges do investors face in accessing the necessary information?

It depends on the organization and how advanced they are in employing technology. How easily accessible is that information internally, and how well are they able to disseminate it to their investors? Those are two different challenges, not necessarily mutually exclusive. But how the data is collected can be a bit opaque to investors.

And it's a large amount of data now that needs to be collected, accessed and reported on, almost on demand. There are certain requirements monthly or quarterly, but again, investors are asking for this information more often. The ability to get that information and push it out quickly is a challenge for some organizations today.

There are other organizations that may be more mature in their adoption of technologies to help make that process more efficient. But right now, the challenge is how responsive you can be to an investor's query. Do you say, "Well, I'll get back to you in a week," versus "I can have that to you today," or can the investor find the answer in a self-service manner?

Q How can technology assist in understanding ROI and the risks of obsolescence?

Return on investment is the ultimate goal. The question to answer is: what efficiencies are driving that? For instance, how are your marketing dollars being spent? Are you getting the most leads that are then driving rentals on the multifamily side or new leases on the commercial side?

Part of the ROI is being able to understand certain operational efficiencies, where money is being spent and what type of return is being generated from that.

And it's not always just a pure dollar return; it could mean reducing turn time or increasing retention of tenants. Each one of those components can drive a way to increase rents or collect rent sooner, or opportunities to drive down expenses.

And then those two components help drive the value of the asset as it relates to obsolescence. That goes back to what's happening with the property and creative ways to use it.

For example, if you're depending upon the asset and the market class, or if you have a leasing issue or an occupancy issue, then the question is: how can you repurpose that space? You must find and identify those risks and then determine the best use of that space, and that's going to be based on the type of asset it is, where it's located, and a lot of other factors.

You're seeing parts of malls becoming offices, internal malls being retrofitted as external malls and an anchor tenant becoming a distribution center or medical office. Similarly, the traditional office building is converting the top floors into condominiums.

There's a reduced footprint coming for a lot of organizations. The benefit from the investment side is that you can be part of a property that doesn't have just one asset type. By having information about the assets, investors are able to reduce their risk and exposure to asset obsolescence. ■