Yardi - Refurbish or Rebuild?

Five big questions in response to the big trends reshaping real estate



Last year's big story was the increase on cost of living and high interest rates. As the dust settles, owners are looking to reposition their assets in a market that has been turned on its head.

Office Overhaul

Hybrid working is here to stay, with over 40% of UK companies adapting to this model since the global pandemic and nearly 80% of employees expressing satisfaction. The demand for smart, safe and flexible office spaces remains at an all-time high.

Retail Rethink

COVID-19 triggered an e-commerce boom across Europe, upending traditional retail and unearthing new space requirements for everything from dark stores to micro fulfilment centres. Looking forward, asset owners that deliver immersive retail experiences will elevate shopping to new heights, but the shift from transactional to experience retail requires a rethink of space.

Industrial Innovation

Industrial, logistics, warehousing and manufacturing companies have demonstrated their central role in maintaining supply chains in an era of uncertainty. Demand for distribution and warehouse facilities will continue to fuel the industrial sector in 2024, especially in last mile locations. These warehouses will need space for advanced automation technology and, importantly, energy efficiency.

How can owners of existing assets make the most of the trends? Is it time to refurbish or rebuild?

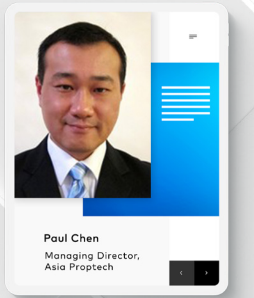
Health & Wellbeing

Smart Systems

Flexibility First

Experience Economy

Climate Action



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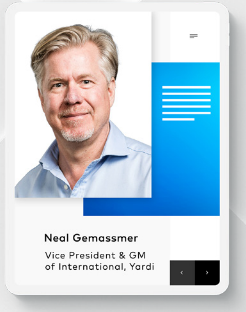

"Flexible space will also be adaptable to climate change, pandemics, shifts in customer demand – you name it. The big question for asset owners is: will my building be able to flex and adapt to these big changes ahead?" - Neal Gemassmer

Views from the Top

This paper draws on the expertise of two industry specialists.

Paul Chen, Founding Partner, Asia Proptech
Paul Chen established Asia PropTech with his cofounder Leo Lo in 2016 to help companies grow from concept to market, and to connect proptech players with the real estate industry.

With more than 25 years' experience in the real estate industry in North America and the Asia Pacific, Chen has worked with pension and sovereign wealth funds, global private equity firms, investment managers and real estate investment trusts.

Chen is also an active mentor of start-ups and is the managing director of Radiant, a strategy firm specialising in innovation for the real estate industry.

Neal Gemassmer, Vice President & GM of International, Yardi
Gemassmer is responsible for managing operations across Europe, Asia Pacific and the Middle East. Having lived and worked in multiple locations, Neal has a deep understanding of the industry, combined with an undying passion for innovation, technology, real estate and the human spirit.

1. Is my Building Healthy?

Healthtech is on the rise. According to a Shifted 2023 analysis article, early stage health tech startups throughout Europe have raised $7.7 billion in funding.

As investment in healthtech ups the ante on consumer expectations, everyone – whether an office tenant or a shopper at the local mall – will want buildings *"to have health and safety tech and protocols in place,"* says Paul Chen. Tracking apps and touchless sensors, air quality controls and shared data platforms will all support health and wellbeing – and will become the beating heart of our buildings.

"There can be no doubt we'll see increased investment in smart building technology as people look for reassurance that their spaces are healthy," adds Neal Gemassmer. *"The question is then – can I create a smart spine in my existing asset?"*

Fast facts

90%

THE AMOUNT OF TIME MOST PEOPLE SPEND IN BUILDINGS

30%

THE PERCENTAGE OF BUILDINGS THAT ARE MAKING US SICK, ACCORDING TO THE WORLD HEALTH ORGANISATION

35%

THE PERCENTAGE DECREASE IN SHORT TERM ABSENCE AFTER DOUBLING VENTILATION RATES

2. Is my Building Smart?

Smart buildings are the backbone of smart cities – a market that analysts predict will reach USD $3.84 trillion by 2029.

Think sensors and smart devices connected to the Internet of Things. Building management systems and software that can measure and monitor air quality, noise and comfort levels as well as lighting systems that can be controlled and managed remotely. Then there are 5G, digital twins and smart materials.

"Digital twin technology is gaining traction in the real estate market and will play a significant role in allowing asset owners and developers to experiment with different designs and play out scenarios in a digital setting," says Chen.

Smart building technology can deliver immediate cost savings, driving down energy bills, reducing maintenance costs and boosting staff retention. But Chen and Gemassmer both agree: a smart building is not about technology, but about people.

"The metrics for value are shifting from square foot-based to bundled services that deliver flexibility, employee wellbeing and more productive use of the space. The challenge for owners is to shift their models to deliver more than just square feet," says Chen.

"Ultimately, a smart building is equipped with the right tools to understand and respond to customer preferences and to deliver a better experience," Gemassmer adds.

3. Is my Building Flexible?

The demand for office space across Europe in 2023 experienced a drop of 28.7%. This decline underscores the challenges confronting the office sector amidst the current uncertainty. However, one undeniable trend emerges during these challenges – the permanence of workplace flexibility.

"The office will still be a place to get work done – but the definition of getting work done might change," says Chen. *"A one-size-fits-all-approach will no longer work. Increasingly, the market is demanding ready-to-use spaces on a pay-as-you-go basis."*

In turbulent times, many organisations opt for flexible space as a solution that allows them to respond to market conditions. Throw in the shift to remote working, and it is easy to see why JLL predicts that 30% of office space will be flexible by 2030. But don't make the mistake of confusing flexibility with coworking, Gemassmer warns.

"Flexible space will also be adaptable to climate change, pandemics, shifts, economy and in customer demand – you name it. The big question for asset owners is: will my building be able to flex and adapt to these big changes ahead?"

29% of businesses say they have seen a profitability or performance gain of at least 11 percent from investments in data and analytics.

4. Can I Create a Great Experience?

Influenced by everything from Instagram to online purchases to exceptional customer service, consumers' expectations are evolving rapidly. Real estate companies are now in a rapid race to give building occupants more than just what they want. They must also anticipate their future needs.

While digital has elevated consumer expectations, "*experiences will be driven more by human interaction than by technology,*" says Chen.

"*A workplace is increasingly a place to connect and collaborate, rather than a place to 'do work' – and that means creating an experience that entices people into the office,*" Gemassmer adds.

"*Building owners need to start thinking like theme park operators – creating an emotional experience that appeals to the five senses but is backed by data that reveals exactly how people are interacting with their spaces.*"

In the retail sector, shoppers will gravitate back to bricks-and-mortar, but they will demand a seamless and customised shopping experience, much like the one they enjoy online.

"*Shopping malls have always been meeting places, but the best ones will be repositioned as village squares – as places for social interaction, trading, working and celebrating,*" Gemassmer says.

$1.5
TRILLION USD

THE INVESTMENT OPPORTUNITY OF GREEN BUILDINGS OVER THE NEXT DECADE.

$4.2
TRILLION USD

VALUE OF CLIMATE BONDS REACHED AT THE END OF 2023, ACCORDING TO THE CLIMATE BONUS INITIATIVE.

15%

INCREASE IN PARTICIPATION IN GRESB IN 2023

146
ORGANISATIONS

28
CITIES

6
REGIONS

SIGNED ON TO THE WORLDGBC'S ADVANCING NET ZERO PROJECT.

5. Is my Asset Climate Ready?

The green revolution is still gathering pace. Since the pandemic, sustainable principles and working practices have become a priority for many businesses. More than 60% of people base their purchasing behaviours on sustainability and ethical criteria - and this is growing by 10% each year.

Buildings may be responsible for 39% of the world's greenhouse gas emissions, but more than $8.8 trillion of assets under management are now aligned to GRESB, the global benchmark for sustainable real estate.

"*COVID has brought more awareness of the environment around us,*" Chen says. "*We've seen a significant uptick in sustainability and impact investing. Green bonds have also fared well recently, with a growing market in Europe.*"

Chen envisages a time where assets reach "*sustainability obsolescence*", and "*highest and best use might include environmental and social factors,*" he says.

Gemassmer points to "*clear evidence*" that green buildings are higher-value, lower-risk assets with lower energy consumption and costs. Green buildings routinely achieve higher sale premiums and attract and retain more tenants. They can also help investors and owners manage the risks as they transition to a lower carbon economy.

But whether to retrofit or redevelop requires careful consideration. WorldGBC data shows 28% of building emissions are from operations - the remaining 11% comes from materials and construction. "*This means the embodied carbon impact should be a central part of your decision-making,*" Gemassmer advises.

Crunching the Numbers

The question to rebuild or refurbish is one that burdens most building owners at one time or another. Many factors come into play – the age and condition of the asset, budget, costs, time, financing – as well as the loss of income during rebuilding or the opportunity cost from refurbishment.

How do building owners make the best decision?

"*Ultimately, it will come down to economics,*" says Chen. "*Owners will still think highest and best use that maximises returns for their investment risk profile. The 'if you build it, they will come' approach no longer holds. Underwriting and investment forecasting models need to incorporate rapidly shifting market demands. How you use toolsets to collect the right data, do the right analysis – and to do it quickly – matters a lot in the current environment.*"

Case Study 1: Cousins Property makes Confident Construction Decisions

If your choice is to rebuild, how do you move forward with confidence?

Atlanta-based Cousins Properties currently manages a 21.8-million square foot (two million sqm) trophy office portfolio in the high-growth Sun Belt markets of Atlanta, Austin, Charlotte, Dallas, Tampa and Phoenix.

Yardi's Construction Manager solution has helped Cousins Properties to manage an entire portfolio across six markets in one user-friendly platform.

Cousins previously struggled to gain visibility on projects across the entire team, or to analyse individual construction builds within a portfolio. But Construction Manager now helps the team to track a wide variety of tasks.

From the smaller volume "tenant improvement-type" jobs, as CIO Brandon Van Orden describes them, to vast vertical buildouts up to one million square feet (93,000 sqm).

"Construction Manager is providing more visibility and easier trackability across the entire portfolio," Van Orden says. The result? Actionable insights that drive confident, fact-based decisions.

Case Study 2: Rexford Industrial gains Insights with Ease

Whether you refurbish or rebuild, efficient management of the leasing process keeps the money flowing.

Rexford Industrial, a Los Angeles-based real estate investment trust, owns 234 properties with around 28 million rentable square feet (2.6 million sqm) and manages an additional 20 properties with one million rentable square feet (93,000 sqm).

Rexford Industrial's previous leasing pipeline system was separate from the company's Yardi Voyager real estate technology platform. Deal information had to be replicated and transferred into Voyager – a time-consuming and labour-intensive process.

By adopting Yardi Forecast Manager, forecasting and leasing pipeline systems can now communicate. It's easy for Rexford Industrial to determine the financial impact that decisions will have on leasing.

"Our forecasting is correct the first time and easy to see on a dashboard. I can add acquisitions and quickly get a snapshot of what the acquisition will do many quarters out. All this used to take days, and now it takes 15 minutes," says Alex DeHaven, vice president of corporate finance for Rexford Industrial.

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