Client Advisory

Proptech in Real Estate: Opportunity or Threat?

The adoption of Property Technology (Proptech) solutions has accelerated this year as companies and consumers continue their activities under restricted travel and physical interactions.

The demand for technological platforms has spiked, notably with remote working from home now widely accepted and online shopping becoming even more commonplace. Both are here to stay, despite a likely pullback to a more balanced approach once the pandemic subsides, and this will result in further waves of Proptech innovations.

This has been, and will continue to be, a great enabler across the globe, but Real Estate owners must consider the risks. The threat posed by cyber-crime, and the potential damage it may cause, has never been greater. As buildings become smarter, they must therefore also be more prepared for increased cyber-risk.

Proptech: A Powerful Tool for Malls

Many exciting Proptech solutions can be seen in the modern built environment, from home controls to drones in property management. For property owners, these lead to more efficient property management and reduced building administrative costs. They also provide for improved monitoring, technical maintenance and support.

Proptech is also a powerful tool for companies to improve engagement with employees and customers. This increased value of data permeates the Real Estate industry and shapes the way we work and carry out leisure activities. In other words, Proptech is a defining competitive feature in Real Estate.

Technology has long been in use across the retail sector, for example, particularly in catchment area analysis and the use of footfall metrics. Big Data and the Internet of Things (IoT) are also used to provide deeper insights into consumer behavior within malls, and even beyond to track where people go after leaving the mall, and when. Harnessed correctly, this gives mall owners valuable insights to shape their tenant mix and mall layout to capture a greater share of the consumer wallet. As physical retail becomes more experience-based, with many product purchases shifting online, these insights are critical.

Data collection, through sensors and IoT devices, is one of the main practical benefits of PropTech, making data, typically stored in the cloud, incredibly valuable to mall owners and tenants. However, this also presents numerous opportunities for cyber criminals to exploit. Cyber risks are inevitable and it is the responsibility of technology adopters to identify these risks, mitigate them, and/or transfer them where appropriate. Should this not be addressed adequately, data loss, data theft and eventual business interruption may ensue.

Technology: Defining the Future of Offices

Technology also underpins greater efficiency and sustainability in modern office buildings, which can deliver both operational savings for owners and an improved user experience for office tenants. This is a key element in a building's "value proposition" in a competitive marketplace, and is one that has become even more relevant given the current economic challenges.

Office tenants are now presented with a greater choice of vacant space to choose from and increasingly opt for buildings with these attributes. In particular, large international occupiers view sustainable and wellness credentials as critical components when deciding their office spaces. To illustrate, technology can improve airflow and natural light access in buildings, and the results are proven to improve employee wellbeing and increase productivity. In the Bloomberg European HQ in London developed in 2017, technology features heavily to harness natural ventilation and smart airflow through the widespread use of sensors, delivering an annual saving of 600–750MWh. The company also claims it achieves a 73% saving in water consumption and a 35% saving in energy consumption compared to a standard office building.

Technology is now an important consideration for a building's resilience; price and location have long ceased to be the only competitive features. It is important to realize how reliant we have become on technology and to take steps to ensure that it is safe and secure. Moreover, we need to ensure that if something does go wrong, a full recovery can be made as quickly as possible.

Managing the Risks of Using Technology

Technology is a powerful necessity for modern competitive real estate, but we must manage its risks. Cyber security breaches have costly consequences for Real Estate owners and users. Rather than being viewed as an IT problem, this should be treated as a notable business risk.

The proliferation of IoT devices offers numerous entry points for a cyber attack to gain access to a buildings ecosystem and infrastructure, potentially leading to business interruption, a ransomware demand, or significant health and safety concerns.

Attacks that include data theft and/or data loss also carry major cost implications due to the burgeoning privacy regulatory environment. In a complex industry such as Real Estate, implementing effective data protection controls into daily operating procedures is a major challenge. Close alignment is required across people, processes, and technology to enable controls across all the three pillars and to mitigate new emerging risks. It is worth noting that breaches resulting from general human errors or social engineering account for more than 90% of cyber-attacks.

PropTech presents incredible opportunities for the Real Estate industry but it is critical that the associated risks, and their business implications, are understood and identified. Only then can they be managed and mitigated, by implementing controls across people, process, and technology. Residual risk can be transferred through cyber insurance.

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Conclusion

Clearly, both employees and companies want more from Real Estate and tech solutions are employed in response. Given the changes in how we work and shop, a greater corporate emphasis on Economic, Social and Governance (ESG), and the need for improved efficiencies in a competitive landscape, the implementation of technology solutions across Real Estate can only intensify. As this happens, the risks also increase and mitigation measures become more important.

Property owners looking to take advantage of the opportunities presented by Tech disruption, and deliver on users' expectations, need to implement a robust cyber security strategy, bearing in mind the following key points:

- Business relationships are built on trust and Property owners have a responsibility to maintain the security and privacy of data.

- All stakeholders within an ecosystem must ensure alignment with the established security and privacy requirements.

- Cyber incidents are inevitable and resilience is only achievable through a proactive approach focused on preparedness.

- Every new technology comes with new cyber risks. There are no technologies that are risk free.

- Cloud service providers abide by a shared security responsibility model, where the client retains some responsibility for the security of applications, data, containers, and workloads in the cloud.

Marsh provides cyber advisory and risk transfer solutions, including the identification of cyber threats, developing likely loss scenarios, quantification of the loss exposure, and evaluation of appropriate insurance limits. We help clients better understand the financial impacts of cyber-attacks and reduce the likelihood of a serious loss.

For further details on how Marsh can help Real Estate become cyber resilient, please contact:

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