Driving INNOVATION *with* data

Having the right people and processes to govern data and its transformation will determine the long-term winners in a rapidly changing environment.

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Innovation is taking place first and foremost through digital transformation with data at its heart. Over the next 10 years, it is predicted that over 80% of companies will invest in digital transformation at an accelerated pace. Utilizing big data and advanced analytics will drive change in new frontiers for competitive differentiation. Innovating with data is the ultimate disrupter for value creation, while failure to engage with data can become a real threat to the survival of an organization.

Loosely defined, data innovation is a system, process or product that has not yet been invented but will meet a measurable need or provide an effective solution. There is a clear business case for the real estate investment management industry to capitalize on data insights. For example, digital strategies in the built environment include advanced analytics, AI and machine learning for real-time asset valuation, capital raising and portfolio optimization, technologies for property management and leasing, improving the tenant experience, 3D virtual property tours using augmented and virtual reality, blockchain technology, smart buildings and more. What will the future's most successful companies look like if every business is a digital business at heart? They will embrace data innovation and technology and new ways of working. Those that do this at scale will be the winners.

From boutique real estate investment management firms to global REIMs, harnessing data to drive innovation, improve performance and achieve a competitive advantage are the best ways to keep ahead of the digital transformation curve. At its core, REIMs need to change how they engage with technology to innovate. A great place to start is with their data. Innovating with data in an ever-evolving environment will prove essential for real estate investment managers to ensure long-

term competitive growth. The critical areas of productivity needed to achieve digital transformation include people, processes and technology. Beyond defining a data strategy, focusing on the people and processes governing the data will be critical for digital transformation.

Key driver: People

Recruiting the right talent to achieve digital transformation is not only a good investment — it is essential. Data literacy is a core competency in the transformation journey. Without the necessary instincts and experience to operate in a digital domain, reskilling will be vital. Scale through automation, a shift in resources and digital agility are substantial challenges to overcome. At the same time, hiring those with deep expertise is critical.

For larger, global REIMs, experts in systems thinking, artificial intelligence (AI), machine learning (ML), data scientists and talent with advanced analytic capabilities in building complex algorithmic models may need to come from the outside, even beyond the real estate industry. While AI and advanced analytics talent are valuable resources, engaging a data scientist team is not a prerequisite to innovating with data — identifying and retaining individual contributors with the competencies to drive advanced analytics, insights, business intelligence, reporting, data governance and visualization will be essential for REIMs of all sizes.

As the focus shifts to building predictive and prescriptive models for data innovation, having high-performing talent to achieve competitive differentiation becomes crucial. There are already real estate investment managers using data insights to make

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decisions rapidly without human intervention. All organizations, regardless of size, should include a chief data officer (CDO) or head of analytics in their data transformation planning to ensure disciplined governance, a key role in driving the success of innovating with data assets. It is difficult to outsource this function entirely, although there are companies that will refine an organization's data and analytic functions, and establish and lead their data governance programs. Data literacy, an essential component of a data-driven culture, must become a core competency of leadership within the enterprise, even if the CDO role is outsourced. Safeguarding proprietary data assets in REIMs, both large and small, is critical.

Deriving a competitive advantage requires REIMs to leverage and manage their data sets' quality and exclusivity regardless of structural size. A sustained commitment by the leadership is imperative. A team of skilled advisors with the experience and technical resources to help organizations design and implement their programs is also especially valuable to achieve success.

Key driver: Processes

Better internal data management leads to better decision-making. Technologies and tools help with workflow solutions for advanced, predictive and quicker decisions. Numerous studies show that

data and analytics are critical to an investment management solutions process. For real estate, data insights include information regarding capital formation, fundraising, acquisitions, leasing, operations, tenant experience, disposition management, portfolio management and financing for a holistic view of the real estate investment management landscape.

Before embarking on any transformation project, structuring and defining data innovation will be essential. Foundationally, data governance needs to be developed and embedded throughout the data innovation process. Those that have not engaged in the process need to do so as soon as possible. Data governance is an iterative process continually applied within the organization. It refers to the policies and processes by which an organization defines the use, quality, consistency, usability, security and availability of its data and information.[1] Arguably, how an organization gathers data and intends to use information will be integral in determining its strategic direction.

Standards for governance, which are crucial in assessing the risk profile, need to be raised. Minimizing risks associated with poor data management is just as integral in the governance model. A great investment manager must identify emerging trends and understand its customers' changing needs. Stakeholders and investors continue to demand transparency of information as the industry moves toward real-time valuation and reporting. Access to third-party and non-traditional data sources will power an investment manager's insights. A data-driven organization must have a continuum of clean core data and a robust roadmap to innovate.

Hurdles to adoption

Data can transform the way REIMs do business at all levels and processes. Data offers unparalleled insights and predictive abilities, but only if leveraged. For many REIMs, obtaining value from data is a challenge. A primary hurdle to innovating with data includes the lack of a data-driven decision-making culture. Such a culture questions return on investment challenges such as complexity, IT support, governance requirements and legacy systems; project costs can escalate unpredictably. Quality leadership and management's active role in driving data innovation in business models and across the enterprise are critical to success. Data innovation rarely performs well in isolation, and a data evangelist is needed to scale the strategy across all business functions.

Outcomes key to data innovation include better underwriting, superior analytics and access to more significant capital for real estate investment managers. Advantages of scale are not achieved if data is not optimized. The more data one can gather and analyze, the better the potential for new products and the greater the ability to attract customers at scale. Managers have to continuously repeat this process, lest they stagnate or fall behind. An open and inclusive platform that takes advantage of an entire ecosystem of data, while critical, does not change the fact that competitive advantage lies in proprietary data, leveraging the information and more differentiated decisions. As rapid digitization exposes systemic risks and technology surges worldwide, protecting, governing and innovating with data are ever complicated by an evolving digital landscape.

Additionally, the pressure on technology professionals has increased. Under the guise of Covid-19, cyber threats have increased, and becoming more proactive across all of IT infrastructure has become a leadership mandate. Beyond technical and talent challenges, ensuring the right internal culture is vital. Data-driven transformation cannot be attained without exceptional leadership, skill and a governance process.

First and foremost, leadership, especially the C-suite, must play an active role in leading data management strategies throughout the enterprise. While only 20% of data drives key insights within an organization, 100% enterprise participation is critical to ensure a data-governed platform. There are best practices for governing data, and not all strategies include adopting the most advanced technologies. Embedding a data steward within and across business units and portfolio companies has been shown to optimize the data. In organizations of all sizes, utilizing this best-in-class model, which ranks business units one against the other, is a strategic way to enhance outcomes further and improve performance. Education, data literacy and reskilling at all levels will also be imperative to success. Key performance indicators (KPIs) to monitor individuals and business units, accountability, and real-time compliance are becoming essential. Those with the best data capabilities and systems win.

In larger managers, a central team can keep the management team informed and engaged in the governance framework and process. In smaller firms, management must engage and seek this information. Beyond the need for transparency and effective data governance, data regulations,

particularly those protecting private information, are imperative.

Solutions for REIMs

AI and ML are in the foundational stage in a long-term shift in societal and business decision-making. Both large and small REIMs must implement strategies to innovate with their data assets to compete in a rapidly changing world. Replicating human intelligence is not the goal, but utilizing AI and ML can produce sustainable competitive advantages. Investing in data and technologies is a necessary step in the innovation revolution. Predicting outcomes improves when proprietary data and emerging, nontraditional data sets are applied to complex problems. Determining a solution is not a singular function. It requires a deep dive into data and its implications across platforms and customers.

Data innovation can be applied successfully to diverse areas such as data science and experimentation, robotic process automation, advanced analytics and data management. It also applies to data quality, data optimization, business intelligence and dashboarding, predictive modeling and insight operationalization. The insights gained through data innovation will enable REIMs to optimize performance and improve ROI. Firms that formulate and utilize innovative approaches and have leaders actively engaged with enterprise-wide data-driven techniques will improve predictive outcomes and become market leaders. ◆

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