

Rise of PropTech in Texas

Transforming Commercial Real Estate

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When real estate professionals think about a robust tech sector, California is probably the first state that comes to mind. Surprisingly, Texas comes out on top in the number of tech jobs added and second in the number of tech businesses started in 2021 according to InnovationMap.

With nearly 800,000 high-paying tech jobs, Texas has provided real estate licensees with a continuous stream of companies that buy or lease commercial space. PropTech, an industry segment that is increasingly impacting how real estate is traded and operated, adds even more to the story.

What is PropTech?

PropTech represents the technology and innovation real estate professionals use to do their job. According to research by JLL, investment in this emerging sector has increased by over 300 percent during the past ten years. A report from the Center for Real Estate Technology & Innovation noted that venture capital investment in PropTech nationwide reached \$13.1 billion in the first

Takeaway

Today's workplace has been transformed by the pandemic and workers who are more technologically proficient than ever. This transformation has ushered in PropTech, an industry seeking to merge innovative technology with the commercial real estate industry.

half of 2022, up 5.7 percent from 2021. Considering the speed at which technology is evolving and how computers, artificial intelligence, and intelligent buildings interconnect everyday objects, real estate professionals in Texas face both opportunities and threats.

The intersection between the built environment and technology surged into the mainstream when the pandemic forced companies to address the future of work. Before 2020, technology was used to monitor, manage, and control access to building operations. Such practices are now status quo. Today, thought leaders are pushing the envelope much further with 3D visualization and



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printing, robotic process automation, deep learning, and the metaverse. Real estate investors are viewing real property more in terms of the property's advanced technology usage than just its physical space.

Just as fossil fuels powered the last industrial revolution, data now fuel the information economy. Real estate is notoriously opaque, with market knowledge creating a competitive advantage for those who possess it. Much of the information is collected manually and siloed within disparate systems. The industry also lacks standardization, and information is guarded fiercely in a business where knowledge is power. As a result, PropTech faces an efficiency crisis that has slowed its momentum.

Compare this with the efficiency of the NASDAQ, where over four billion shares often trade daily in a transparent marketplace. Participants share a common language and have immediate access to information and analytics to make sound decisions. Comparing the two industries, one sees the opportunity for data-driven technology to disrupt arcane real estate practices and create enormous profits for new entrants. Data are one of the most significant impediments to adoption, but creating the necessary data infrastructure is only a matter of time.

As with any emerging technology, the speed of PropTech acceptance is fueled by tech advancements in other areas. These include cloud computing, the "Internet of workplace things" (i.e., connecting electronic devices in the workplace to the Internet, thereby connecting the devices to each other), open-source software, the sharing economy, and the proliferation of mobile devices. These make up the foundation on which PropTech is being built. However, future trends will accelerate PropTech acceptance.

One example is data fabric, which provides data across platforms available to those who need it. Another is distributed enterprise, a remote and virtual-first experience for consumers and workers to support products and work modalities. According to Future Market Insights, when advancements in financial technology (FinTech) are considered, PropTech is poised to become an \$86.5 billion industry by 2032 (see figure).

Why Should Real Estate Professionals Care?

PropTech demonstrates a shift in mindset. Fifty-six million millennials are in the workforce, making up about 35 percent of the total. Born after Internet usage became commonplace, they will represent

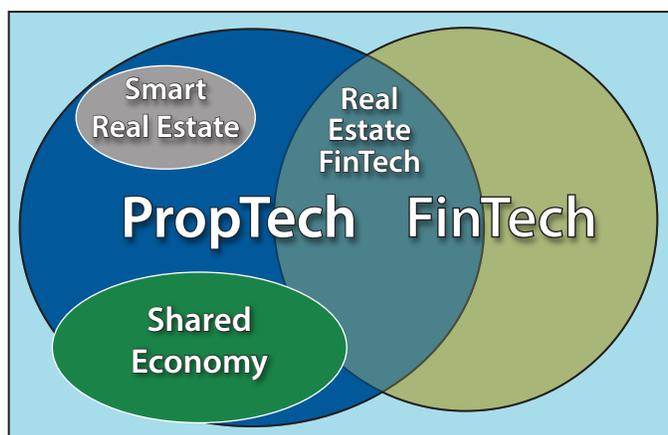
75 percent of the workforce by 2025. Add an additional 53 million Gen Xers and the result is a labor force whose native language is technology. The shift in remote work during the global pandemic—along with environmental, social, and governance (ESG) priorities—will accelerate a broad transformation within the real estate industry. PropTech will be the catalyst and the beneficiary of this massive shift.

PropTech can be sorted into several buckets that describe the function of the technology within the real estate environment. Many PropTech applications are accessed via the Internet using software as a service (SaaS), which allows users to implement specific technology for a fee. This subscription-based model is low-cost, easy to use, and takes advantage of the information economy.

Another way to classify PropTech is by the technology sector it serves. Many companies help improve building operations with automated access controls, video surveillance, parking management, and building management systems. Others enhance energy management, improve transactions and portfolio management, and provide intelligent building solutions. Each technology solves a problem within that slice of the real estate industry to assist professionals in saving time and money while mitigating risk.

Two more significant real estate value chain contributors are data and capital. PropTech requires data to operate and capital to grow. The capital investment in PropTech will come from angel investors, founders and entrepreneurs, venture capitalists, and limited partnerships. Many large traditional real estate companies, including Cushman & Wakefield, JLL, and CBRE, are entering corporate venturing by investing in innovative start-ups along with their core businesses.

Intersection of Financial Technology and PropTech



Source: Andrew Baum, "The Future of Real Estate"

PropTech in Texas

Texas is home to 125 PropTech firms, ranking third nationally. Within Texas, Austin leads all municipalities with 42 firms, followed by Dallas with 27, and Houston with 17. Capital backing these firms has continued to increase, with more than \$500 million invested in Austin-based PropTech firms alone since 2018, according to online commercial real estate locator and messaging service theBrokerList.

The diversity within these firms touches practically every real estate sector, impacting all phases of a property's life cycle. Companies such as Dallas' Dottid and Austin's Tenant Cloud are rapidly changing the tools brokers use to manage existing leases. Firms such as AnthemIQ and Billd—both based in Austin—have streamlined billing management during construction. They also connect the market for trading properties once the properties have been completed or listed. Finally, Austin's SwivelMeta is bringing the metaverse to commercial real estate, allowing companies to build and manage their digital advertising campaigns within a built environment that is a fully digital, immersive experience.

PropTech in Texas continues to grow and mature, with established firms already capitalizing on their specific disruptive technology. The firms, whether old or new, represent an extensive range of market participation. Here are some, categorized by type of service. (Editor's note: These firms are provided as examples. Their inclusion here is not intended as an endorsement.)

Asset Management

Dottid provides a workflow tool that optimizes office, retail, and industrial portfolios. Its platform provides users of their SaaS technology with real-time insight into occupancy, deal activity, lease rolls, and other key operational data points.

Founded in 2020, Dottid secured a strategic partnership with Lincoln Property Company, an international real estate firm operating as a developer, owner, and brokerage shop. The firm provides value-add strategies for both commercial and residential properties.

RexTech Ventures covers multiple real estate sectors, acting as investor, innovator, and leader in traditional real estate investment space as well as PropTech. Founder Peter Rex has established nearly a dozen companies within the PropTech space.

Rex's companies impact real estate investment not only directly through property ownership but also by providing

technology solutions for contractor payments, project management, crowd-sourced (fractional) property ownership, and property insurance. In addition, RexTech Ventures has built a platform for developing, deploying, and growing new PropTech businesses.

Valuation

Bowery provides appraisers with software that streamlines the valuation process. Its appraisers are able to quickly and carefully assess a property and its comparables so Bowery's professionals can spend more time on the nuances of each building. The Bowery platform also provides access to property and market information on demand, generating consistent, high-quality, professional reports.

Lowry Property Advisors provides a full suite of property valuation and appraisal services for the office, industrial, and commercial sectors as well as for an array of unique properties, such as those purchased for transportation-related uses (e.g., road construction).

Lowry has successfully expanded its office presence to include eight Texas markets.

Brokerage

Austin-based AnthemIQ (AIQ) streamlines workflows within the transaction process to save real estate brokers time. AIQ tracks deals, builds surveys, and schedules tours through an intuitive deal dashboard that stores all transactions in one place. This SaaS application allows executives to monitor their team's performance against goals and provide transparency into their deal pipeline. AIQ currently serves over 1,000 users worldwide.

Founded by Bobby Bryant and Chris Norton, DOSS is a real estate technology company that has developed an Intelligent Personal Assistant that empowers users to speak, text, or type any question about any property to get accurate, easy, and instant answers. Their objective is to serve the entire lifecycle of homeownership by being there before, during, and after a person buys/sells a home.

Based out of Houston and founded in 2016, DOSS has raised a \$1.65 million Family and Friends Round. Currently, they are raising a \$5.5 million Seed Round. DOSS is backed by major technology companies like Amazon and Google.

Finance

OwnProp, one of RexTech's newest ventures, provides newly accredited investors with the opportunity to



knowledgeably invest in real estate through the tokenization of real estate assets, a process that replaces sensitive data with unique identification symbols that can retain all the essential information about the data. The platform provides investors with property details, financial analysis, and virtual tours. Each investment is recorded on the blockchain, providing users with increased security and liquidity.

Venture Capital

PerotJain focuses its investments on the early-stage development of innovative companies spearheaded by entrepreneurs. Their expertise and experience with entrepreneurial technology gives them unique insight into which firms to sponsor and helps guide their expansion.

By design, PerotJain is not structured as a fund, so their investment decisions can be free from all artificial capital constraints. In this way, the firm can focus on firms that align with their core principals. Hillwood Development Company is an affiliate of PerotJain. Together, their mission is to help shape the future development of real estate in Texas.

Crow Holdings is a vertically integrated global real estate business with \$30 billion in assets currently under management. Elie Finegold is the managing director at Crow Holdings, leading their new venture and technology investment practice. Finegold has worked as an entrepreneur and leader at the intersection of real estate and technology for nearly 20 years. In addition to his work with Crow Holdings, he serves as a venture advisor at MetaProp, the leading early-stage PropTech venture capital fund.

Next-Generation Telecom

Aerwave is a connectivity platform providing intelligent, private Wi-Fi for residential projects. The company works exclusively with real estate developers, owners, and operators in the multifamily, student living, built-to-rent, and single-family rental markets.

Aerwave's platforms provide smart, instant-on Gigabit and Gigabit+ Internet service over a unified network infrastructure using patented HomeWiFi™ technology. This provides unique users private connectivity across a single property-wide network. The system powers smart-home and smart-building technologies to improve efficiencies, conserve resources, optimize production, and enhance interaction between virtual and built environments.

Where to Start

Now is the time for investors and real estate professionals to learn about and engage with the PropTech industry.

The first step is to develop a roadmap. Start by asking what problems waste time and money or introduce greater business risk. Next, identify the job to be done and how this will benefit the firm's customers or employees. Finally, think through the experience the firm is attempting to create. Once the problem and experience have been identified, study the technology landscape, and request a demo of two or three applications within the area of the value chain the firm is attempting to improve.

At that point, technology can be integrated into the firm's processes. Create alliances with key stakeholders to facilitate adoption. Change is hard, so start small and anticipate pushback. Adopt a "listen, learn, and iterate" process, and communicate often to let stakeholders know their input is being incorporated. An integrated plan will include education, training, and sponsorship. The goal is improved business performance, so getting managers on board is essential to success. Celebrate small wins, and reward those who champion the new technology. 🇺🇸

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