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Powering on

Proptech 20 fundraising gains momentum as inflation storm looms

KEYNOTE INTERVIEW

Navigating choppy conditions with new technologies

Nuveen Real Estate's Jeanne Casey says proptech is as important as ever in a challenging macro environment, with the sector set to emerge stronger than before

Jeanne Casey, global head of proptech and innovation at Nuveen Real Estate, has over a decade of experience in venture capital in sector-specific investing roles. She now has a dual mandate: investing directly in the best real estate start-ups and working with Nuveen Real Estate sector teams to prioritize proptech initiatives and make connections with proptech startups.

Casey explains why it is a good time to be involved in proptech and why it is important to work with sector teams to identify potential solutions and more efficiently evaluate new vendors and technology companies – either to become customers or strategic partners.

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Q What are the most interesting areas in proptech right now?

I am bullish on proptech overall, but there are three themes I am particularly excited about. The first is data.

Nuveen Real Estate is a massive company with the potential to improve its investment and operational decisions by leveraging the data that our own footprint organically generates. Helping real estate firms, or any player in the industry, tap into the data that their portfolios is producing is a really interesting space.

Accurate data makes investors smarter and more efficient and also helps to better manage the assets that we own. Data solutions can manifest in different ways, whether it is a software platform to manage deal processes so there is better transparency throughout due diligence and investment, or a sensor platform within a building that monitors energy use and provides that feedback in real time.

The second area I am most bullish on is the intersection of sustainability and proptech: tools that facilitate decarbonization projects, as well as those that measure and manage the energy and carbon footprints of real estate portfolios. This is more of a nascent space that is quickly evolving due to push and pull from regulators and investors. There are a lot of sticks and carrots emerging for real estate investors to set and meet decarbonization goals.

European LPs are leading the way in demanding more progress and reporting on decarbonization milestones, but LPs around the world are starting to incorporate GPs' achievements in this area into their underwriting. At Nuveen Real Estate, we are targeting 2040 to be net-zero carbon, so tools that will help us measure and then manage and proactively decarbonize our footprint in the coming years are very top of mind.

The last area of opportunity is a little more amorphous, but potentially the one I am most excited about, and it is particularly relevant to the choppy macro environment that we are in: the shift from real estate thinking of itself as a product to a service. That means prioritizing the customer experience and making the space more flexible and user-friendly, especially for more challenged sectors like office, where we see a flight to quality.

Tools that will enhance that end-user experience are getting a lot of attention and being prioritized in budgets. It is budget season now, so we are talking a lot about those types of initiatives. I am very bullish on this trend continuing to play out in the coming years.

Q What can we expect from proptech looking forward?

There is a lot of uncertainty ahead and that is likely going to be prolonged, not transient, whether it is inflation or other macro factors that are impacting the real estate industry. What we are seeing in the world of proptech venture capital is a reset of valuations that peaked in late 2021 into early 2022 after an exuberant few years.

The stock market has come down quite a bit from its peak, and private markets have followed. We see this especially in later-stage private company valuations. Venture capitalists are still investing, but they have really slowed their pace.

This is true throughout the startup world, and it is also relevant to proptech. Deals are taking longer to get done, there is more thorough due diligence, and it is harder to fundraise. There is greater focus on business fundamentals and so there is going to be a culling of the startup field. The best companies will continue to get funded,

Q What is an example of how proptech can improve operations?

Data and automation in the transaction process is a massive opportunity within proptech and one that I am most bullish on. Because real estate transactions are so multifaceted, there are lots of opportunities for technology to automate workflows and improve the quality of data.

To give a tangible example, we have partnered with Dealpath, a transaction management platform. We are in the process of rolling out the platform globally, so it is an exciting live example of a big technology initiative we are undertaking.

Dealpath enables our teams to access one cloud-based platform where all deal-related information lives – spanning early opportunities in the pipeline through to the management of our portfolios. All of our investment and asset management professionals are going to be able to access the same sources of data through one seamless interface, increasing the efficiency of their day-to-day workflows.

It is exciting to be able to use technology to improve the customer experience of our tenants within our assets. It is equally exciting to empower our own teams with tools that improve how they work on a daily basis.

while those that are less focused with lower quality fundamentals will have a harder time raising money and recruiting and retaining top talent.

But many proptech companies are still growing – they are still closing rounds and selling their products into real estate firms. There is still a lot of excitement around the intersection of tech and real estate more broadly. So, overall, I see this next phase of proptech as a healthy reset.

I expect Q4 2022 into 2023 to still be a slower pace for fundraising and more friction for proptech companies selling new products to real estate firms. Because of the macro environment, there will be a greater focus on controlling costs and maintaining revenue, as well as more deliberate prioritizing of what proptech initiatives make it into next year's budgets.

Over the last two years, during covid and the boom in proptech, there has been a tendency for real estate firms to chase after the next 'shiny object' that they see in the proptech market. I expect to see more discipline and thoughtful prioritization as conditions continue to be challenging.

Looking out a little further, over the next 12 to 24 months, I expect proptech fundraising to accelerate. We are still coming off a record period of fundraising for venture, so there are many VC firms with dry powder to make new investments. I also expect to see a lot more M&A activity. The IPO window will likely remain closed in the coming quarters, which also supports the case for seeing more M&A events.

Startups who acquire other startups with new revenue streams accelerate their growth inorganically, and they are having an easier time identifying companies willing to be acquired. Even fast-growing startups are finding M&A a more palatable option since fundraising is more challenging in this environment versus the bull market of last year.

I think consolidation in proptech will lead to stronger and larger companies, as we see a more disciplined ethos by founders and funders overall. These trends make me believe proptech will emerge even stronger than before.

"Because of the macro environment, there will be a greater focus on controlling costs and maintaining revenue"

Q How does proptech fit into an overall strategy, heading into a potentially prolonged period of uncertainty?

Even in a choppy macro environment, proptech is as important as ever. It still makes the shortlist of executive-level priorities.

That is especially true in some of the more challenged sectors, with the intense focus on end-users of space and their customer experience. But the proptech world has become familiar enough to the real estate industry that there is a wider recognition that technology can help generate revenue and reduce costs and firms that don't embrace proptech will be left behind.

The current environment is going to prioritize proptech that helps achieve those short- and medium-term goals of efficiency and savings. Longer-term real estate firms have also recognized that proptech will be important to remaining competitive – both as an investor and in operations and asset management. So technology is key to winning tenants and customers and to growing businesses.

Another repercussion of an uncertain macro environment is that larger real estate firms are going to shy away from engaging with and becoming customers of very early-stage companies. Products from young startups are a tougher sell in an environment where those companies will have a more challenging time sticking around for the long haul. Many won't be able to raise money and ultimately may not be here in five years.

It is important for real estate customers to have confidence that their vendors are going to stay in business. I do see that as a potential challenge for early-stage proptech companies. But I don't think that is going to be an absolute hurdle, it is just going to force earlier-stage startups to be very specific about the value proposition of their software or solution they are selling.

They must be able to clearly communicate that to their real estate customers. In the short-term, value propositions that will resonate the most will have clear ROI or cost savings associated with the technology or solution. ■