CRE Tech Talks

Episode #19

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Announcer: Welcome to "CRE Tech Talks." This podcast series is brought to you by Building Engines, providing web and mobile property management software to innovative commercial real estate owners, managers, and the clients they serve, for over 14 years.

Now, I'll introduce a man who bears an uncanny resemblance to the Massachusetts State House's gold dome, Building Engines Senior Vice President, Scott Sidman.

Scott Sidman: Welcome to this episode of the CRE Tech Talks podcast. I am Scott Sidman, Chief Marketing and Strategy Officer from Building Engines, and your host. I am super excited about today's podcast and speaking with our guest. We usually record our guest remotely, but our guest today happens to work one floor above me. I will get into the background of that in a minute.

He's also someone I've worked with and have gotten to know well over the past couple years. It's really great for me personally. Today, also a little bit differently, we're not going to focus on a single, specific topic or angle like we've done in the past.

We're going to have more of a wide-ranging conversation covering our guest's observations and perceptions of the CRE tech space as well as some things about the company he works for, an industry giant you're all going to know and recognize and some things unique about them you might not be aware of.

Without further ado, I am pleased to welcome to the podcast Shaw Lupton, Managing Consultant with CoStar's Portfolio Strategy Group.

Shaw Lupton: It's amazing to be here, Scott. You've been a great friend and supporter of the real estate community since the early days. I'm really excited to be sitting here speaking with you in Building Engines' gorgeous new space in downtown Boston, where we recently became neighbors, one floor apart at 33 Arch.

Scott: That's right. You and I first met when you were kind enough to accept my application to join the Boston ULI Tech Council. That was prior to our moving in here, so now we're neighbors. Besides running into each other, we're on the same conference circuit. We see each other pretty regularly.

Shaw: You were kind enough to join us, Scott.

Scott: [laughs] Yeah, that's a great group. I think, perhaps, at another time, we might even do a podcast about the group and the mission there. I think that might be another good thing for us to talk about.

Why don't we get started by telling our audience a little bit about your professional background, how you got to CoStar, and, as always, we like to do something unique and interesting about yourself.

Shaw: I've been a strategy consultant to institutional real estate investors for over a decade. I certainly didn't think I'd be sitting here saying that when I entered real estate right out of undergrad. The market was hot when I started in '05, sort of like it is today, but with much lower cap rate spreads, more leverage, and less attractive market fundamentals.

When I was a student at Brandeis, I had been an assistant to an incredible professor named Ed Bayone. Ed inspired me and countless other students to enter the field. In fact, Ed was such an inspirational teacher that I think I would have gone into whatever subject he was teaching. If Ed had been a guitar instructor, I'd probably be in a rock band today.

An interesting fact about myself is that I now teach a class at Brandeis, where I've hopefully inspired a few students to go into the very exciting and rewarding field of commercial real estate.

Scott: That's terrific, really good story. From that starting point, when did you get to CoStar and what was the path there?

Shaw: Definitely. Having received some really great training at Brandeis and having worked very deliberately, when I was a student, to build out a network in real estate, I landed a great gig with the finance and capital markets team at Boston Properties. I worked and learned from the best over there for a couple years before leaving to help start up a private equity joint venture with Prudential.

Like a lot of people, I discovered the meaning of cyclicality when the credit crisis that started in residential mortgage-backed securities found its way to the CRE market. Around that time, deal volume dried up because no one knew how exposed the banks were, including the banks themselves, and no one could get debt. One interesting outcome of the credit crisis was a renewed interest in risk management. One of the few real estate firms that was hiring during that

time was a firm called Property and Portfolio Research, which started in the mid '90s, as the consulting industry was really coming into its own and several Boston-based consulting firms were rising to prominence.

PPR, as it was called, through the leadership of a visionary founder named Susan Hudson-Wilson, carved a niche for itself as the leading strategy shop for institutional real estate investors.

PPR rose to prominence during a time when there was relatively little commercial real estate data available. When PPR was acquired by CoStar, shortly after I joined the team, the amount of data suddenly available to us and our clients was game changing.

Scott: Really interesting. I think that's probably a story that most of us aren't familiar with. I think certainly the PPR firm, but then that piece of CoStar's business. Everybody knows who CoStar is, right? If you're in the commercial real estate business, you know who CoStar is.

Maybe then tell us a little bit about what CoStar Portfolio Strategy does, who they serve, who their clients are, and what your role is in that sector.

Shaw: Definitely. CoStar Portfolio Strategy is real estate strategy consulting on steroids. We provide data, analytics, and advice that helps solve investors' most common problems ranging from fundraising and investor relations to acquisitions, development, and asset and portfolio management.

Since we don't invest capital or broker deals, the advice we give is a hundred percent objective. We've told clients not to do deals. We've challenged the investment theses in clients' pitch decks. We've highlighted to clients the underperforming assets in their portfolios.

We're compensated purely on our ability to help our clients make the best decisions possible. As a result, over 90 percent of our client base comes back to work with us year after year. This has remained true through the ups and downs of market cycles.

Of course, we also help our clients look good. For example, we apply custom analytics to identify off-market opportunities that fit their investment criteria. We accelerate their fundraise with bespoke investor collateral. We help them figure out where they can push harder on rents. Our team augments both the offensive and defensive capabilities of the firms we work with.

Scott: That's really interesting. Primarily, owners, investors at that level, maybe a little bit more. What's the relationship, then, between the Portfolio Strategy Group and CoStar, and the data that CoStar has? Are you using CoStar data to do that, or are you going outside and finding additional data sources to help your clients?

Shaw: Absolutely. We have at our disposal the most complete building-level database of every commercial property in the United States. That's our proprietary data, and we augment that data with third-party economy data and capital markets data.

Scott: Maybe now let's transition a little bit to thinking about the commercial real estate technology community, or CRE tech as it's being called these days.

Share a little bit about your thoughts of how the community should think about CoStar, whether it's CoStar, the parent/mother company, or the CoStar Portfolio Strategy Group, and how they might think about working together cooperatively.

Shaw: CoStar has historically been a prolific acquirer of companies. We have a unique platform that is the go-to place for property listings as well as real estate market news, data, and analytics. We continue to watch this space very closely for great businesses whose data complements our own.

I constantly meet startups whose work complements the work we're doing at CoStar Portfolio Strategy. I'm particularly interested in solutions that address the problems building owners face. We recently partnered, for example, with WiredScore on a research piece that blended their data with ours, with some interesting takeaways for building owners.

Scott: Yes, I saw that news. Maybe tell me a little bit more about how that came about, what the observations were from the experience, maybe what the goals were, what you learned, and did it meet your expectations?

Shaw: Sure. WiredScore and CoStar have been working together since 2014 as data partners. Buildings that achieved WiredScore are showcased on CoStar so that our users can identify properties that have the best Internet connectivity.

I knew that Internet connectivity was an issue for tenants through conversations with startups. They often have to sacrifice building quality in return for a great location. WiredScore is interesting to me because they found a solution to the problem of understanding a building's digital infrastructure.

In doing so, they're generating previously unavailable data that helps us measure how the marketplace values Internet connectivity. Our report, which focuses on the Manhattan office market, has three main takeaways.

The first one, we found that buildings with Wired Certification receive higher rents than their peers. Secondly, we found that companies who depend on creative talent -- so-called TAMI firms, which stands for technology, advertising, media, and information -- are more highly concentrated in buildings with Wired Certification.

Our third finding was that Wired certified Class B properties, so awarded three out of five stars on CoStar's building rating system, generate the biggest lift in rent compared to noncertified properties.

This makes sense to us since we know that Class B buildings have a broad quality spectrum. Wired Certification sends a much needed signal to the marketplace.

Scott: That's really interesting, both from the perspective of a company providing real value in the marketplace -- they could make a direct connection to the owner value that you talked about before -- as well as what you're doing with it and how you're thinking about that.

For our listeners, I did a podcast a year or so ago with Arie Barendrecht, the CEO of WiredScore. If you're interested in listening to that, that is available on our podcast page as well.

I'm going to jump back up to a question momentarily here that I missed. Given what you do and how that relates to the CRE tech movement, I've obviously had the chance to see you operate and understand your passion. Maybe talk about why you're so passionate about the CRE tech movement, and maybe the CRE tech startup movement in particular.

Shaw: First of all, consulting is becoming increasingly data-driven and increasingly focused on analytics products. We offer a very high-touch service that blends the CoStar technology platform with a team of advisors.

The way we deliver solutions to our clients has accordingly evolved. Because our business model is essentially to apply data and analytics to answer our clients' questions, we have a unique perspective on the problems real estate investors face.

In working with many of the world's smartest owners and lenders through several cycles, we've identified common themes that we can address more efficiently by building analytical products. We've just recently started delivering these solutions via the CoStar client portal.

In addition to working at an extremely innovative tech company and helping lead the evolution of the consulting business to become more product-focused, I'm really inspired by and enjoy working with founders in this startup space.

A few years ago, my friend, Sara Shank, and I co-founded the Urban Land Institute, Boston's real estate technology counsel, which we launched to give startup founders a support network in real estate and also to give everyone in the real estate community access to innovation.

As the head of portfolio management at Beacon Capital, Sara is ideally situated to advise startups, especially startups aimed at serving building owners. Sara and I see a lot of potential for the technology and real estate communities to help each other and to solve some of the toughest problems that are out there today.

These solutions will have broad implications for the built environment ranging from the more efficient use of urban land to less congestion on the roads, less pollution, structures that are more resilient to climate change, healthier work environments, and smarter financial risk-taking.

Scott: As I know Sara Shank pretty well because Beacon Capital is a client of ours, a long-time client, she is absolutely one of the rock stars on the business side of the commercial real estate technology scene.

I think she's been solely and individually responsible for driving a lot of the excitement around the CRE tech space and bringing the industry with her, which I think is one of the great things that she's done really well, and, obviously, now in partnership with you and the things you're doing. That's great to know that background.

Thinking about your exposure to the marketplace and what you've been observing recently, are there any companies, technologies, or initiatives you've seen that you find particularly interesting or things that you're getting excited about?

Shaw: There's a growing ecosystem of both established and newer players that are springing up to deliver solutions to the industry. I think what Michael Beckerman is doing with CRE tech around news, events, and, now, advisory is really exciting. I was at one of his events a couple months ago. It was like a giant real estate tech love-fest.

WiredScore, which we spoke about already, has honed in on a very focused and widely adopted product that I think sends a much needed signal to the marketplace. There are so many smart, dedicated investors out there providing the fuel to grow at different stages.

At the accelerator stage, Aaron and the team at MetaProp come to mind. At the VC stage, Brad and the team at Fifth Wall. There are a whole bunch of Boston trailblazers doing great work as well, such as my friends Jesse and Travis at Borealis, Karin at coUrbanize, Gaby at LeasePilot, Dave at Trade Hounds, and Andrea and Steve at MIT.

Scott: That's great. I think you answered one of the questions I had a little bit about the perception of New York City being the epicenter of commercial real estate technology right now. Certainly, Boston is, I think, on the rise. We may be a little bit biased, but maybe just a little. That's interesting to hear. Any other thoughts about the Boston community and what you see happening here?

Shaw: New York is definitely a hotbed for real estate tech. I'm fortunate to work with many clients based there. I get to visit frequently. At the same time, great ideas can happen anywhere. They deserve a place to grow. This is the philosophy that drives much of our work at ULI. To use Boston as an example, though, the city isn't really important because the formula is replicable in other cities.

We're working on a program for the next national conference that will see about 7,000 ULI members come to Boston. The program will showcase a handful of early stage real estate tech companies that all started here in Boston.

We're going to ask them what it was like launching a startup here, how they've scaled beyond Boston, and how their companies might look five years from now. We'll see what the startups have to say about starting business in Boston.

Scott: That's great. It's great to know. I think that's an important point, just in general, about ULI, because of having been in the space a long time.

When you talk to technology companies or observe where they participate, they tend to focus on events and organizations that are very specific to operations of buildings or the leasing brokerage side of the business, so everything from BOMA to CoreNet, to Realcomm, and forget about ULI.

Maybe not forget, but are unaware of ULI as this great opportunity to reach a whole different audience or a broader audience because of the scope of what ULI does. I think that's a great point

that people should consider. The Boston event is a great opportunity for them to participate. Thanks for sharing that.

Want to go back a minute to what you talked about with regard to MetaProp NYC and Fifth Wall. One of the trends we're seeing, which is really interesting, is direct investment from some of the larger commercial real estate firms like Brookfield, Hines, Boston Properties into these funds as a limited partner, participating with those.

Then you have incubators like Techstars. MetaProp was actually started as an incubator, but now they've raised a pretty significant $40 million fund this week. Why do you think that's happening? What's going on? Why are these firms getting so directly involved with dollars in terms of funding startups?

Shaw: The C-Suite at real estate companies is increasingly viewing their business as a technology business. I think the real estate industry, broadly speaking, is hungry for innovation. Investing in startups lets companies access that innovation very directly. It also gives them a crystal ball into how their businesses will look in the future.

Scott: That's great. I think that's exactly right. Maybe the one thing I'd add to that is a little bit of risk management by doing that as well. I don't know if you agree with that.

They can count on just a little bit of mutual assurance in the success of the companies that they get behind if the biggest players are backing those. Do you see that as something that might be driving it as well?

Shaw: For sure. There is definitely an element of future proofing.

Scott: Yeah, so we'll keep an eye on that to see if that pans out, but that's certainly something I think we shall keep an eye on. Coming back to you, in your role, in your passion for this space, how do you see your role, and how you want to contribute to the CRE tech community, whether it's startup or established companies like us? What do you see personally for yourself?

Shaw: I've been incredibly lucky and consider myself really fortunate to have started in the industry by working for some leading real estate institutions and to have built a career at CoStar, which is interesting, challenging, and rewarding every single day. I'm really excited about continuing to help the consulting business at CoStar grow, and building more products geared toward data analytics.

I'm also really excited about building on our work within Urban Land Institute. Startups often have experience building products and scaling companies, but they need help understanding the real estate industry and connecting with advisers, customers, and investors.

ULI is the largest network of real estate and land use experts, so we're in a unique position to engage with the startup community, advise on best practices in a way that delivers the ULI mission, and accelerate the adoption of the most promising technologies.

Scott: That's great. My advice to anybody who's at a conference and has the chance to meet Shaw, if you are a CRE tech startup or a company involved in the space, that you should actually seek him out.

Absolutely seek him out, and have the chance to talk to him. Listen to what he has to say, because his observations are often spot on. I have perceived a tremendous amount of value talking to him over the years as well.

Let's wrap it up with a bonus question, something we always like to leave our audience with. Based on your experience, your observations, three or four takeaways you would leave with a CRE tech company -- whether it's a startup, whether it's an established company -- about thinking about their business, and how they deliver value, particularly to the customer's use for beyond an investor?

Shaw: Sure. I've had the pleasure of meeting dozens of founders and startup CEOs in real estate technology, in addition to serving many more, shall we say, established CEOs who oversee massive real estate portfolios.

One thing that I think all the great CEOs I've met have in common is the ability to listen, really hear outside perspectives, whether those perspectives come from advisers, customers, or investors. I think that ability to listen, to empathize, that's the first step in the design thinking process that they teach you in entrepreneurship class.

As an early-stage founder or someone bringing a new product to market, take the time to really empathize with your customers. Define the problem as they view it. Ideate without boundaries. Get to a minimum viable prototype as rapidly as possible. Test your business model.

When you're the inventor of an idea that you really believe in and commit yourself to fully, I think it's easy to forget that not everyone you need to convince necessarily shares the same understanding or passion for your idea.

Speak with the people who share your knowledge and passion, but also find the people who don't. Embrace the skeptics and the casual observers. Use their feedback to make your product better.

Scott: Great advice, great guidance, and certainly something I think that we adhere to here and can always remind ourselves of as well. Regardless of the stage of your business, that's always good advice.

With that, I want to thank you very much, Shaw, for participating in the podcast. It was a personal pleasure to do this with you. I hope we have another opportunity. I'm sure we'll have another opportunity to do it again.

Also, we discovered a mutual affinity for good vodka. Shaw was kind enough to give us a housewarming gift of Russian Standard vodka that he and I will, maybe not right after this podcast, but surely crack open and celebrate with as well. Thank you for that. I really appreciate it. That was very kind.

Shaw: Scott, it's been a pleasure spending time with you. I always really enjoy our conversations together. I expect to have a lot more of these now that we're neighbors.

Scott: Absolutely. Finally, what's the best way for people to learn more about CoStar Portfolio Strategy and to connect directly with you?

Shaw: Definitely check out our company page on costar.com, where you can navigate to CoStar Portfolio Strategy under Products, as well as reaching out to me over LinkedIn Messaging.

Scott: Terrific. We'll have both of those links in our show notes with the podcast available for you as well. With that, I want to thank Shaw again. Stay tuned for our next episode of CRE Tech Talks. As always, thank you.

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Announcer: Thank you again for listening to this broadcast of CRE Tech Talks. We hope you found today's session valuable. Remember to visit our podcast page at www.buildingengines.com/cretechtalks to download today's transcript and some takeaways, as well as listen to other sessions and share with colleagues. We'll see you next time on CRE Tech Talks.

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