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## FINANCE & INVESTMENT

# Ten-X Deal Might Be the Beginning of CRE Tech M&As

*The sector will likely enter an “era of consolidation,” with midsize and large companies turning to M&As to expand their tech offerings.*

John Egan | Aug 28, 2017

**The more than \$1 billion deal** private equity firm Thomas H. Lee Partners struck recently to take a majority stake in online real estate marketplace Ten-X heralds further investment in and growth of commercial real estate technology.

Founded in 2007, Ten-X operates an online marketplace that lets investors buy and sell residential and commercial real estate via desktop, laptop and mobile devices. During its 10-year existence, Ten-X has facilitated more than \$50 billion in residential and commercial real estate deals.

“Ten-X is another proof point that people are, in fact, online, doing real estate-related activities,” says Jonathan Wasserstrum, co-founder and CEO of SquareFoot, a start-up that operates an online marketplace for leasing office retail and industrial space.

David Ellermann, founder and managing director of commercial real estate brokerage SperryCGA-Ellermann, says he expects more players to enter the online space in commercial real estate in a bid to capture the sort of success that Ten-X has seen. Companies already in that space “are reinventing, partnering, acquiring and/or suing each other” as they vie for a share of the technology pie, he says.

Research firm RE:Tech notes that as real estate tech matures, the sector will likely enter an “era of consolidation,” with midsize and large companies turning to M&As to expand their tech offerings. In mid-2016, tech research firm CB Insights identified more than 50 start-ups involved in commercial real estate technology.

To succeed in the tech segment of commercial real estate, companies like Ten-X must successfully bridge the online and offline realms, according to Wasserstrum.

However, Wasserstrum and other observers strongly doubt the old-fashioned networking and handshaking that have so far characterized commercial real estate deals will vanish as technology exerts more influence on the industry. In commercial real estate, “I don’t believe that somebody will do something completely soup to nuts online,” he says. For instance, Wasserstrum doesn’t envision an investor purchasing a \$100 million office building “just from the comfort of their own home.”

“I think relationships will always be important [in commercial real estate],” he notes. “I think how they’re formed and how they’re maintained [is] already changing and will continue to change more over time, and the internet and technology enable that.”

The Ten-X model is “a good mousetrap for certain assets,” particularly those requiring fairly loose due diligence, according to Alex Zikakis, founder and president of Capstone Advisors, a real estate investment, development and management firm. But the amount of upfront due diligence often required of an investor using the Ten-X platform in hopes of being the top bidder makes it a less attractive option for more complicated asset purchases, he adds.

Aside from Ten-X, companies using technology to drive commercial real estate transactions include five operators of investment-oriented online platforms: Cadre, CompStak, CREXi, Fundrise and RealtyShares. High-profile investors back all five of these start-ups. And all five companies—as

well as other tech start-ups serving the commercial real estate sector—could be M&A targets as industry players seek a high-tech advantage over their competitors, or as savvy investors sense a chance to turn a profit.

One of the emerging investors to watch is Fifth Wall Ventures, a new venture capital firm targeting the commercial real estate sector, including tech start-ups. Fifth Wall raised \$212 million for its initial investment fund, with backing from industry giants like CBRE, Equity Residential, Hines, Host Hotels & Resorts and Macerich.

One of Fifth Wall's early investments was in VTS, which offers a leasing and asset management platform for commercial real estate landlords and brokerages. Last November, VTS merged with a rival, Hightower, to form a company with an online portfolio now encompassing more than 5 billion sq. ft.

Even amid the growing presence of companies like Ten-X and VTS, some commercial real estate firms are still playing a game of catch-up with their residential real estate brethren when it comes to technology, as the residential sales sector is ahead of the curve in the form of tech-powered, consumer-driven enterprises like Redfin and Zillow. For decades, the multi-trillion-dollar commercial real estate industry has leaned heavily on the tried-and-true spreadsheet, notes Steve Weikal, head of industry relations at the MIT Center for Real Estate.

While it's happening slowly, more and more commercial real estate companies are embracing technology as some old-school businesses get over their "status-quo bias," according to Wasserstrum, and as a generational shift means those who influence decisions within those

companies are becoming increasingly comfortable with technology.

“With the average age of a broker in commercial real estate at 60.1 years old, we as professionals are certainly not the first to jump on the technology bandwagon,” Ellermann says.

Wasserstrum says the relatively bullish market in recent years has helped stall adoption of technology in commercial real estate, with some companies not feeling any sort of urgency in that regard. But he suspects that once the market experiences a correction, more commercial real estate owners and operators will be hunting for efficiency-empowering tech tools.

Another factor hampering tech innovation in commercial real estate is that start-up investors have been more inclined to chase tech deals in residential real estate, Wasserstrum says.

Overall, commercial real estate has been “shockingly late” in making technological advances, says Capstone Advisors’ Zikakis, while noting that a tidy sum of capital is flowing into commercial real estate tech. Zikakis says the ongoing tech evolution in commercial real estate will let him boost efficiency and grow his portfolio without necessarily beefing up his staff.

“As a commercial real estate owner, I am very excited that this tech effort is finally coming into my industry that will give better, more timely information with less direct input from me and help make sure that I don’t have gaps in operations of the company,” he says.

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