



# Disruptive convergence: are you ready?

Transformative trends  
in real estate



Building a better  
working world



Age-old industries continue to collapse as digital disruption dismantles the established order. As industry boundaries shatter, real value is found in the nodes where industry ecosystems meet.

**But how ready is the real estate sector for disruptive convergence?**





# Convergence isn't coming ... it's already here

Convergence – where industry boundaries blur and competition comes from outside the traditional spheres of business – is happening across all sectors of the economy.

Disruptive convergence redefines the “invaded” industry, overthrowing long-held characteristics, democratising information and creating new complexities.

Household examples of convergence are now part of our daily lives. Apple is the world's leading provider of music through iTunes. Fitbit has created a new wearable healthcare market. Netflix is radically altering the movie landscape. Airbnb has reshaped how we think about the hotel industry. And ride-sharing app Uber has recalibrated everything from the taxi industry to how takeaway food is delivered.

An illiquid industry like property, which holds assets that cannot be sold readily or cheaply, may be harder to disrupt than music, movies or mobility. But the centrality of property to the global ecosystem, and the size of the potential prize, are too great to ignore.

Google's smart cities spin off, Sidewalk Labs, is working with 16 cities in the United States to prepare for a future of self-driving cars and ride-sharing apps, and is looking at precinct development opportunities.

Amazon's acquisition of Whole Foods for \$13.7 billion may overcome the

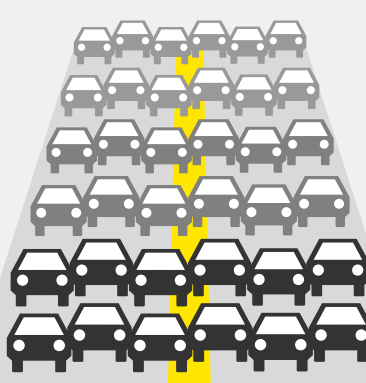
“last mile” conundrum, with 450 new stores that bring together “clicks” with “bricks”.

Facebook has entered the property world with plans to build 1,500 homes in the heart of Silicon Valley. By using modular construction methods, Facebook aims to tackle rising rents with affordable homes that challenge traditional thinking.

And Amazon's Echo and Google Home, voice-activated smart speakers, signal a future where tech giants could be highly invested in the way homes are built.


## What industry is it anyway?

Alphabet's **driverless cars** log  
**12,000,000**  
kilometres per day  
in the virtual world



**Automotive industry  
or mobility industry?**

**5** Indian **telecom**  
**companies** licensed to  
launch payment **banks**



**Banking industry or  
payment industry?**

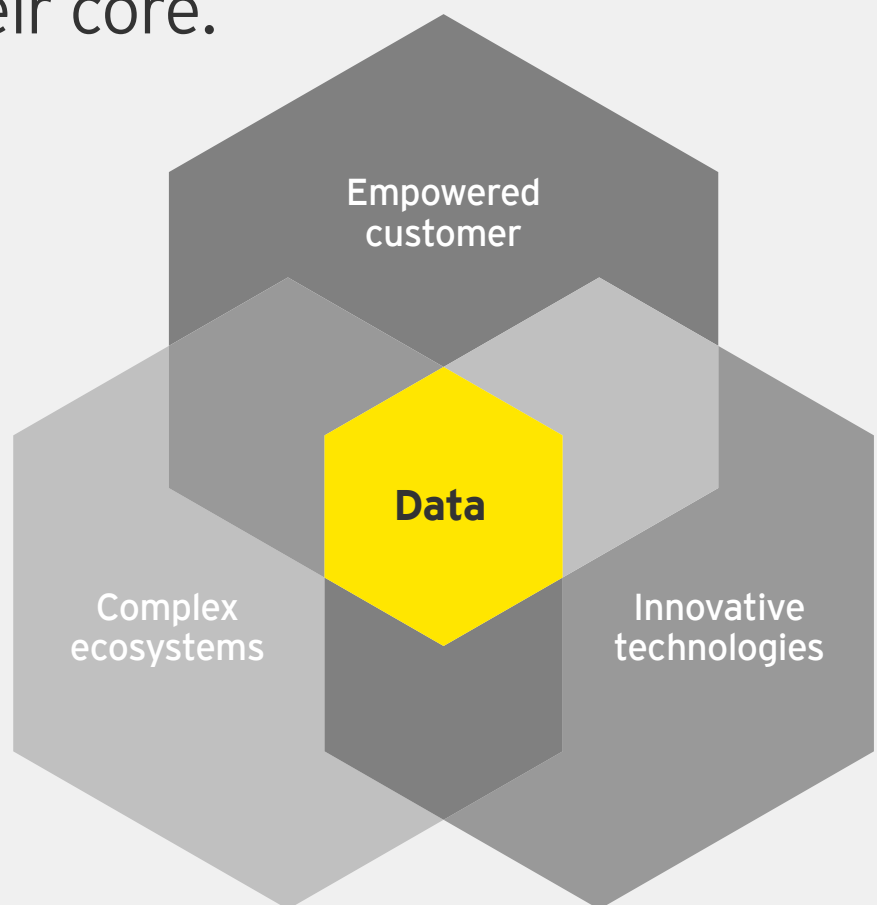
Drug store chain CVS  
reinventing itself with  
**1,150**  
health clinics



**Pharmacy industry or  
wellness industry?**

# What drives convergence?

Disruptive convergence is driven by empowered customers, complex ecosystems and innovative technologies – all of which have big data at their core.

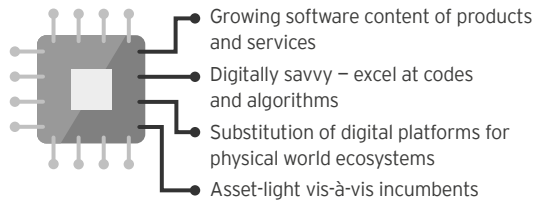


## The three drivers of convergence

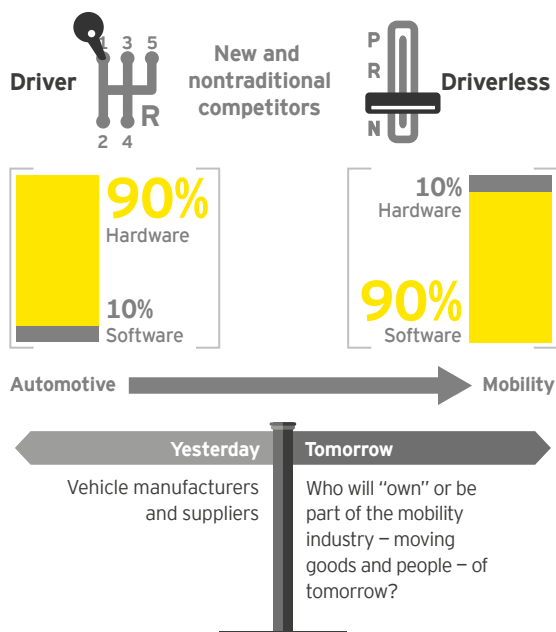
### a. The role of technology

Technology companies – both start-ups and big tech companies – are disrupting industry spaces and uprooting incumbents

#### Tech company advantages:



#### Example: Industry redefined



### b. The role of customer

#### Digital technologies have given consumers:

Democratized access to information

More informed decision-making

Powerful voice

Greater choice

#### Empowered consumers with more choices:

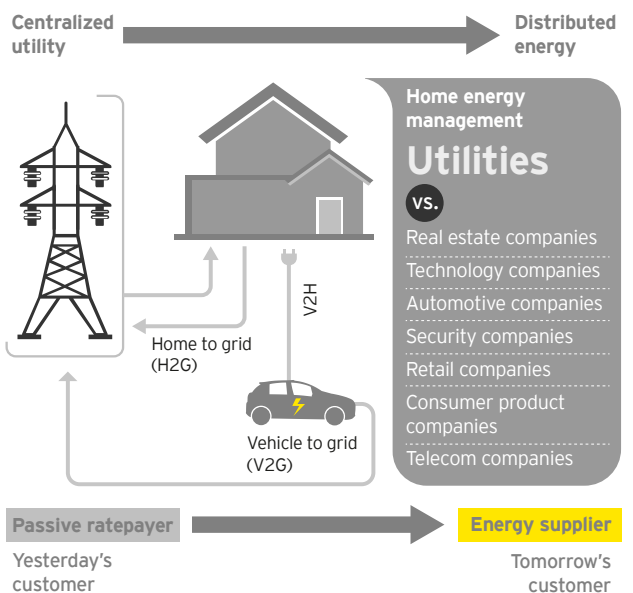
Redefine what's valued

Eliminate industry boundaries

Become center of evolving industries

Traditional industries with high customer pain points are vulnerable to convergence

#### Example: Industry redefined



### c. The role of ecosystems

The world faces big global challenges ...

#### Gender disparity



#### Rising health care costs



#### Climate change



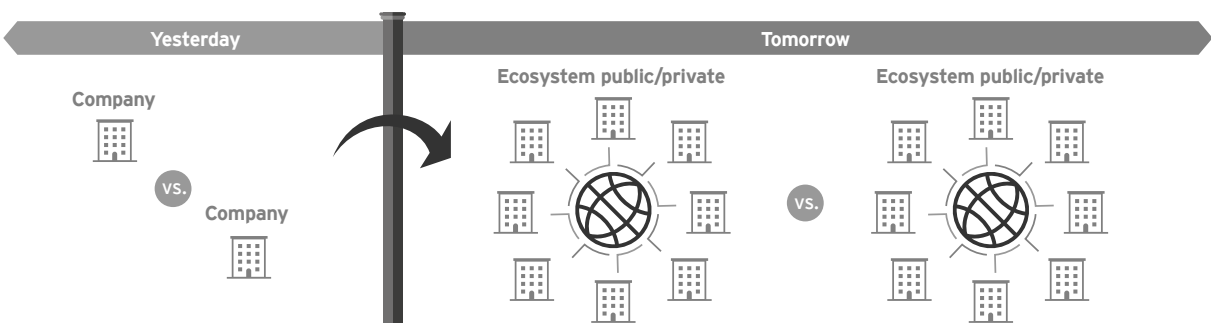
#### Massive urbanization



#### Income inequality



... beyond the scope of any single organization or industry to address effectively, causing the future of competition to shift.





## The rise of the superfluid market

Leading-edge technologies, like cloud computing, artificial intelligence and blockchain, are reducing or even eliminating traditional market frictions, giving rise to superfluid markets.

The power of the cloud means complex data calculations and analysis can be undertaken for a fraction of the cost incurred a decade ago, enabling property companies to solve problems and slice data in different ways.

A prime example is blockchain, a cryptographically secure, shared ledger for recording the history of transactions, which enables decentralised, peer-to-peer commerce. This technology can disintegrate traditional barriers to entry and could open up other revenue opportunities for property companies, from shared ownership in fleet vehicles to microgrids.

# Where do the converge points lie?

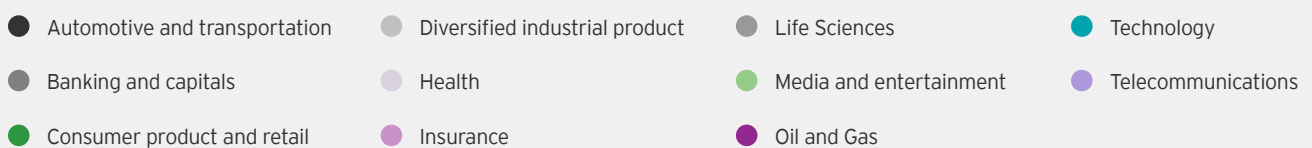
Convergence occurs in the adjacency where industries rub up against each other and where superfluidity creates the opportunity to evaporate barriers.



## Technology

As the role of technology blurs – both within its own industry and as an enabler within other industries – all companies must become tech companies, or they will be consumed by tech companies. Data analytics plays a big part in this as we can now make sense of data in ways that seemed impossible only a few years ago. The growth of technology and consumer product and retail highlights the dominance of the current “Big Five”: Apple, Alphabet, Microsoft, Facebook and Amazon.

The dominance of the “Big 5” will have far-reaching implications for the sector. While at the other end of the spectrum investment in “proptech” – or property technology – is growing rapidly with startups bringing new ideas, technology and disruption to the sector. From 2012-2016 real estate tech companies have raised almost US\$6.4 billion in funding across 17 deals.







## Utilities

Asset owners and utilities are natural bedfellows, particularly as operational costs increase, driven by volatile electricity prices.<sup>1</sup> Enter concepts like Living Utilities, Lendlease's dedicated private utilities business, which specialises in precinct-scale utility solutions such as the embedded network within the Barangaroo South precinct. We expect this trend to accelerate with the impact of renewables, development in battery storage and tech platforms like blockchain enabling asset owners to become utility retailers. Residents of the Park Slope area in New York's Brooklyn can sell power generated from rooftop solar panels via a microgrid enabled by a blockchain ledger that records every transaction made with a local utility.<sup>2</sup>



## Health

The impact of wearables and sensors within assets opens opportunities for owners and developers to differentiate, whether monitoring elderly people in their homes or enhancing employee wellness in the workplace. MIT's Emerald tracks a person's 3D motion using the radio signals reflected from his or her body. The technology eliminates the need for wearable devices altogether, and is being used to keep elderly people in their homes longer as it can detect and even prevent falls by analysing changes to a person's mobility.



## Financial services

A future of "frictionless mortgages" is imminent. LendingClub, the world's largest peer-to-peer lending platform, has more than \$20 billion in loan issuance. Harnessing technology and big data, LendingClub and other platforms connect borrowers to investors faster and cheaper than any bank.<sup>3</sup>



## Agencies

Australian start-up Sello, a fixed-fee property sales platform, launched in August, joining dozens of other start-ups displacing the traditional agency model. This follows on from Domain's public launch of an open application programming interface which will allow companies to tap into its expansive property data.<sup>4</sup>



## Retail

Amazon, with more than 370 million items stacked on its digital shelves, is now double the size of Walmart, until recently the world's largest retailer. In response, Google and Walmart have teamed up to prepare for a future where Walmart customers order via Google Home.<sup>5</sup> Meanwhile, Goodman Group is reportedly investing \$2 billion from a sale of assets to accelerate its use of artificial intelligence, robotics and data collection in logistics centres, and to "benefit and prosper" from e-retailing giants.<sup>6</sup>

1 Turner & Townsend, *Commercial building operational costs increasing at double the rate of inflation*, 22 August 2017, viewed 28 August 2017: <http://www.turnerandtowntsend.com/en/news-and-media/news/commercial-building-operational-costs-increasing-at-double-the-rate-of-inflation/>.

2 Computerworld, *Blockchain used to power Brooklyn microgrid for solar energy re-sale*, 20 April 2017, viewed 28 August 2017: <http://www.computerworld.com/article/3191256/sustainable-it/blockchain-used-to-power-brooklyn-microgrid-for-solar-energy-re-sale.html>.

3 Forbes, *The 4 Best P2P Lending Platforms For Investors In 2017*, 29 January 2017, viewed 28 August 2017: <https://www.forbes.com/sites/oliviergarret/2017/01/29/the-4-best-p2p-lending-platforms-for-investors-in-2017-detailed-analysis/#5eb2e34f52ab>.

4 Startup Daily, *Domain Group launches open API for property developers and startups*, 2 August 2017, viewed 28 August 2017: <http://www.startupdaily.net/2017/08/domain-group-launches-open-api-property-startups/>.

5 New York Times, *Google and Walmart Partner With Eye on Amazon*, 23 August 2017, viewed 28 August 2017: [https://www.nytimes.com/2017/08/23/technology/google-walmart-e-commerce-partnership.html?partner=rss&emc=rss&inf\\_contact\\_key=3ebfd420be387f2568228f867422f60e35fd863c800d177c1af2debb4a5f76bb](https://www.nytimes.com/2017/08/23/technology/google-walmart-e-commerce-partnership.html?partner=rss&emc=rss&inf_contact_key=3ebfd420be387f2568228f867422f60e35fd863c800d177c1af2debb4a5f76bb).

6 Sydney Morning Herald, *Goodman looks to robots to boost demand for warehouses*, 22 August 2017, viewed 28 August 2017: <http://www.smh.com.au/business/property/goodman-looks-to-robots-to-boost-demand-for-warehouses-20170821-gy0k13.html>.





# Look to the adjacencies

In a converging world, all industry spaces will be hotly contested. Executives focused on their core business risk missing a tectonic shift somewhere else in the ecosystem. As boundaries break down, incumbent companies will face competitive threats from tech goliaths, traditional competitors that move fast to find ways to differentiate, and start-ups with disruptive business models.

For leaders in the property sector, the game is rapidly changing as the value levers shift. Easily-assessed attributes like location, asset class and quality must now be considered alongside a host of other factors from connectivity and flexibility to health and wellbeing. Getting ready for disruptive convergence means getting comfortable with discomfort, and creating an innovation culture that is open to new opportunities in a superfluid world.

Every property leader looking to the future must ask themselves the following:

## 1 Customer profile

Who is our current customer? Is this our customer of the future?

As consumer demands shift and deep analysis of consumer data turn the industry on its head, property companies must continually evaluate their role in the customer journey.

## 2 Customer demands

Is our service offering or product evolving to meet the ever-changing demands of our customer?

Property leaders must focus their efforts squarely on customer-centric innovation to stay ahead of the curve.

## 3 Potential partners

Who could we partner with to add value to our customer experience?

Which organisations have complementary skills and capabilities that could help us tap into new markets? In a world with increasingly divergent players, property organisations must think beyond their traditional offerings.

## 4 Competitive analysis

Who will our future competitors be?

With the entry of the Big Five, property is no longer limited to the traditional sector players. Those companies that maintain their market-leading position will be the ones who look for their competitors on the horizon.

## 5 Disruptive opportunities

How can we rethink business-as-usual to bring something new to market?

Big data, technology and new players will all disrupt the market. The question is: will you get there first?

# Contacts

For any questions on the paper, please reach out to our teams. We welcome your feedback and comments.



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APAC no. AUNZ00000774  
PH1730865  
ED None

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