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Outlays for new technology: What owners get in return

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Most would agree that one key to successful investing is adjusting your strategies as market conditions change. In today's volatile and uncertain market, real estate companies must be extremely cautious in committing resources to bring telecommunications services to their tenants and technology solutions to their business operations.

They must diligently assess whether potential technology suppliers are solid and will generate sufficient real earnings to ensure their viability. They must also analyze whether their technology investments are truly worthwhile.

Real estate companies typically accomplish this type of analysis by assessing whether an acceptable rate of return on investment (ROI) can be achieved. However, owners may have difficulty quantifying the value of technology investments and, in particular, the return on such investments.

Often, determining the ROI from real estate technology investments is more an art than a science and more a guesstimate than a mathematic calculation.

Certain real estate technology transactions do generate measurable monetary returns, such as the revenue-share arrangements often included in video and high-speed data service contracts between owners and providers and the license fees paid by providers to owners for rooftop antenna rights.

The benefits produced by most real estate technology investments, however, are not as easily identifiable or quantifiable.

It is virtually impossible to develop a methodology applicable to all property owners for measuring the benefits of a technology investment because real estate owners often operate using different revenue models, each of their properties presents different issues and each market offers different challenges.

Computing technology's benefits

To assess the value of their technology investments, real estate companies generally must look beyond immediate monetary rewards to the "softer" and less directly quantifiable benefits realized by their specific portfolios and achieved by their business operations from those investments.

Owners who devote financial resources to quality communications services for their tenants will keep their properties marketable, enhancing their ability to compete.

Given the sophistication of most tenants today when it comes to high-speed connectivity and other essential communication services, few property owners can afford not to spend the money to ensure that high-level and reliable communications services are available at their properties.

The impacts of lost rental opportunities and the failure to retain tenants are difficult to measure but are nonetheless factors owners must consider in determining whether to devote resources to essential communications capabilities.

On the flip side, the customer satisfaction from providing reliable communications services not only results in increased tenant attraction and retention but also may offer owners opportunities to push rental rates to higher levels.

From the business operations perspective, technology investments in software applications and Web-based solutions can generate measurable costs savings for property owners.

For example, applications that help multifamily owners determine the creditworthiness of prospective residents by assessing payment records and other credit indicators can result in a quantifiable reduction in collection losses.

Most of the rewards real estate owners can achieve through investments in technology are more difficult, if not impossible, to quantify.

When used effectively, technology can yield tremendous increases in operational efficiencies, including streamlined procedures through the integration of different applications onto single platforms and increased coordination among geographic locations.

Increased employee productivity and even employee job satisfaction (resulting in employee retention and reduced human resource costs) can result from the integration of technology.

One method of assessing the return from these investments is to examine the extent to which a technology is being used within the company. If employees are using technology that owners have implemented to get their jobs done faster and more efficiently, then one can credibly surmise that related financial benefits are accruing.

The importance of staying plugged in

Real estate companies must adjust their approach to technology investments in light of current market conditions.

It would be natural, given today's economy, for companies to hold off on technology investments for the foreseeable future. However, this tactic is not necessarily the most advantageous and could ultimately have long-term adverse consequences that dramatically effect the value of an owner's portfolio.

Owners must keep up with technological advances that benefit both their tenants and their business operations in order to sustain the competitive advantage of their assets.

Instead of avoiding the technology sector in its entirety, real estate companies should continue to strategically devote resources to technology and telecommunications solutions, but do so with strict scrutiny.

When evaluating the potential return on their investments, owners should keep in mind the monetary as well as nonquantifiable benefits to be realized from these investments.

Soft benefits are difficult and sometimes impossible to quantify, but they can be as compelling as hard cost savings and hard revenue impact.

Owners should begin their investment analyses based on the hard cost savings and revenue achieved, if this data is available, and then overlay any identifiable soft benefits to obtain a more complete view of the total return from the technology investments.