



Canada can't take our real estate reputation for granted



The trends encircling Canada's real estate CEOs are as diverse as the industry itself. Still, KPMG's *2019 Canadian CEO Outlook* reveals common strategies and concerns shared by developers, owners, and managers alike.

Leading the pack

Confidence is high among Canada's real estate community – and rightfully so. Many of our construction firms have a reputation for bringing innovative approaches and technologies to highly sophisticated projects around the world. We are also home to developers and asset owner/managers who are pushing boundaries on smart building designs and implementations. Our institutional investors are among the largest, most active and sophisticated in the world.

For these reasons, real estate CEOs are among the majority of Canadian leaders in the *2019 Canadian CEO Outlook* who believe they are positioned to be market disruptors, and of the three-quarters of respondents who are actively encouraging cultures of innovation within their organizations.

On the construction side, the desire to innovate has manifested in more sophisticated and collaborative building techniques, the use of unmanned aerial vehicles (UAVs, or 'drones') for site surveillance, the integration of Internet of Things (IoT) sensors on equipment, and more advanced and integrated project management systems.

Innovation is also taking shape for Canadian companies that are designing and building 'smart' assets with more automated and inter-connected systems, predictive maintenance, eco-friendly systems, and technologies, which give tenants more control over their environments. Certainly, both residential and commercial tenants are flocking to properties that can keep up with their tech-savvy requirements, and Canadian developers are following suit.

Drilling down

The spirit of innovation thrives among Canada's builders, but it is less apparent in other pockets of the real estate community. This is likely the reason that KPMG's **2019 Global Construction Survey** finds only 20% of Canadian and Global firms confident in calling themselves 'Innovative leaders' and a majority (60 percent) are more inclined to say they are 'Followers.'

Not everyone can be leaders in this regard; particularly those with fewer resources, or less experience with new technologies compared to those who are more 'hands-on' players in real estate. Nevertheless, the **2019 Global Construction Survey** offers insights into what those self-proclaimed 'Innovative leaders' are doing to stay ahead. These tactics include embedding innovation and creativity as a core part of their cultures, fostering an employer brand that can attract and keep the next generation of talent, and seeking outside support (e.g., strategic alliances, acquisitions, joint ventures) to acquire technologies and capabilities that are otherwise too onerous to develop internally.

As Augusto R. Patmore, Partner for Global Infrastructure Advisory, KPMG in Canada, notes in the report, "It's a good idea for companies to bring in people from outside of their industry to help them adopt technology and create a culture of change."

Cyber foundations

Cyber security is a recurring source of anxiety for all real estate players. This is reflected in the majority of Canadian CEOs (60 percent) who believe it is only a matter of time until they become the victim of a cyber incident of attack, and the 42 percent who admit they feel less prepared than previous years in their ability to prevent or recover from a cyber incident.

If the consultations with our construction clients are any indication, this is an issue that is not going away. In some respects, cyber security concerns are even more pronounced in many smaller construction firms and real estate entrepreneurs who do not yet have the infrastructure or leadership to support a robust cyber security strategy. Larger asset management firms or institutional investors are further along in this regard. The more sophisticated of the two being organizations who have integrated data privacy and cyber compliance controls into their systems, and are using tools like artificial intelligence (AI), predictive analytics, and automated systems to bolster their physical and virtual defenses.

It is no wonder that cyber security is top-of-mind among the real estate community. From attempts to steal proprietary data to ransomware extortions, and privacy hacks to malicious attempts to take over smart building controls, asset stakeholders are vulnerable to attacks on many fronts. The challenge moving forward for real estate players is to apply the same focus on enhancing operations and services while protecting themselves and their clients.

The talent crunch

Few are feeling the talent crunch like Canada's real estate employers. Companies from all corners of the industry are competing for individuals who can optimize and maintain today's technologies, spearhead innovations, and take their organizations further into markets around the globe.

"You can bring technology and innovation into project controls, but what about people? You have experienced professionals with experience in schedule and costs, and a young generation that is tech savvy but may not understand the basics," notes Geno Armstrong, Global Sector Leader, Engineering & Construction, KPMG in the US.

"The challenge is how to give the new guard more skills and how to get the old guard to better understand technology."

Developers are among the hardest hit by lack of skilled talent. The shrinking volume of skilled trades' individuals in high-priced housing markets such as Vancouver and Toronto is only adding stress. In combination with tariffs on key materials (e.g., steel, drywall), labour costs have upped the cost of construction by an estimated 1 percent per month over the last two years.

No doubt, it is not simply a labour shortage issue, but access to labour with the right skills to work with new and ever-more sophisticated building technologies. Combined, these factors are driving up prices for developers and making it harder for builders to maintain their high-quality standards.

What can be done to turn the tide? It is the same across all industries. CEOs of every stripe must do more to position their companies as a place where talent can grow and prosper. They must reach out to future talent early in their education, and engage under-represented demographics (e.g., women, immigrants, Indigenous workers). Lastly, they need to look at what their competitors are offering and invest in incentives, career opportunities, and workplace cultures to match.

Just a dress rehearsal

Today's disruption does not hold a candle to what is to come. From the movement towards 'smart' cities, the inevitable impact of automated vehicles on commercial and residential developments, the societal outcry for cleaner building technologies and equipment, or the demand for stronger data privacy and security, much of what the industry is facing now is a dress rehearsal for the real show. Continual innovation, and a focus on cyber security and securing talent, will be critical to keeping Canada successful.

Contact us

Lorne Burns

National Industry Leader,
Building, Construction & Real Estate

KPMG in Canada
lburns@kpmg.ca
604 691 3144