Ahead of the Curve: The Potential of Generative AI for Real Estate

Back in 2022 when ChatGPT first made its appearance, artificial intelligence (AI) was still considered a novelty in many industries. Since then, we've seen a surge in the popularity of AI assistants and, more broadly, in other generative AI (GenAI) tools that can be used across a wide range of applications and business contexts.

With these new technologies starting to settle into general use, the questions that are top of mind for many in the commercial real estate (CRE) industry are: What value can these kinds of tools add to dealmaking? And how is GenAI adoption shaping up in the real estate space?

A GenAI Primer

Given that artificial intelligence is something we've been hearing about for years, the first step in answering those questions is differentiating GenAI from traditional AI.

Traditional or "narrow" AI typically focuses on performing certain set tasks – for example, IBM's 'Deep Blue' grabbed headlines by beating a world chess champion. Other familiar examples would be AI used to diagnose diseases, translate languages, or recommend content on platforms like Netflix.

In a business context, this means traditional AI can be used to make predictions from data sets or to analyze data to find trends or make connections a human might not.

Generative AI takes a more creative approach. Unlike traditional AI, it can create new content, new insights and new patterns, from existing data. This means that GenAI can come up with a new take on something familiar and old – for example, finding ways to optimize project planning or to connect buyers and sellers in a specific market.

GenAI for CRE

These capabilities open up intriguing possibilities for how this technology could be applied across different industries, and, according to a recent McKinsey report, CRE is no exception.

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They note: "Based on work by the McKinsey Global Institute (MGI), we believe that gen AI could generate $110 billion to $180 billion or more in value for the real estate industry."

The report adds that real estate can benefit from generative AI capabilities across several key use cases, including:

- Summarizing themes in lease and other technical documentation and identifying market forces that could affect a particular set of leases,
- Acting as a "copilot" for CRE professionals by providing insights into how to write impactful client-facing communications, or even generating a set of pointers or a transcript for negotiations,
- Boosting rental deals with GenAI apps that can help clients visualize space decorated or outfitted to their specifications, and
- Leveraging vast data sets to identify better investment markets and opportunities.

Importantly, all these use cases still rely on the AI being primed with the "right" data – the carefully selected sub-set of information that a CRE professional has deemed relevant to the analysis. In that sense, the tech can't replace a "broker's eye" for what's important.

What it does do, however, is pull out new insights to make CRE operations and dealmaking that much more efficient.

McKinsey summarizes: "In our own work with AI, we have seen real estate companies gain over 10 percent or more in net operating income through more efficient operating models, stronger customer experience, tenant retention, new revenue streams, and smarter asset selection."

Gen AI Adoption in CRE

Despite the potential of the tech, at present, the use of GenAI in most commercial real estate firms is still very limited. With that said, this promising new tool is starting to make its way into top proptech solutions, including many of the tools already used in the CRE community.

Property management platform RealPage, for example, recently announced a project to train GenAI to streamline leasing, and analytics firm Markerr is rolling out an "AI data scientist" that can help with rent forecasting and uncovering novel investment strategies.

Other applications, like using GenAI to reduce risks and improve the level of service and customization available to tenants, are also starting to make their way into the industry, as real estate and tech professionals alike begin to realize the potential this tech has for transforming the way the industry does business.

Looking Ahead

With all the above said, it is worth sounding a note of caution. One of the challenges currently facing GenAI is that the technology is still not completely reliable – and is prone to inaccuracies and "hallucinations."

This means that the information produced by these tools should be carefully vetted and that they certainly aren't a replacement for due diligence on what makes a sound deal or investment.

What they can be, however, is a copilot for brokers. GenAI has the potential to not only remove some of the tedium from time-consuming tasks but to also add value to day-to-day operations and the industry at large.

As McKinsey sums up: "GenAI represents a fresh chance for the real estate industry to learn from its past and transform itself into an industry at technology's cutting edge."