AI-Powered Alternative Data Drives Extreme Real Estate Market Research Disruption
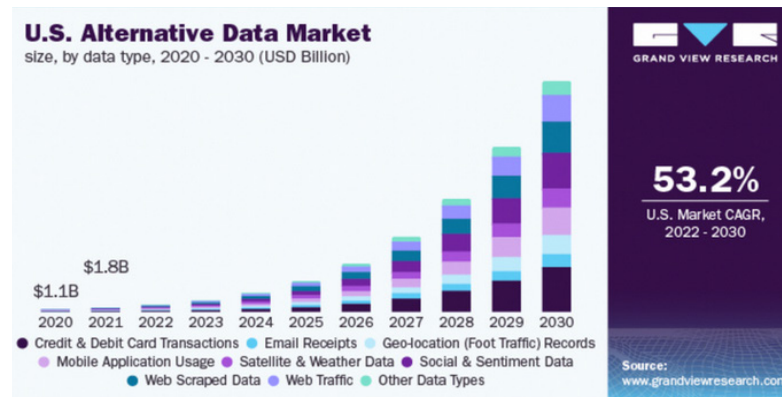
By Merilee Kern, MBA

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Numerous indicators make clear that the next five years will usher in extreme transformation for a multitude of commercial and residential real estate sectors, banks and lenders as well as the global economy at large. This begs the question: what is driving such significant and rapid change? This big question just might be answered in two words: alternative data. Real estate and banking-related companies that are slow to incorporate alternative data into their research and development, marketing, investment, risk analysis and other key processes expose themselves to extreme opportunity loss at best and operational peril at worst.

For example, active investment management firms — including hedge funds and even private equity funds — risk being outmaneuvered by competitors leveraging alternative data in their securities valuation and trading signal process. Alternative data has emerged as an essential tool for investment manage-

The last decade has seen a wealth of new data.

ment firms seeking market outperformance, known as "alpha."

As an ever-evolving methodology, the last decade has ushered in a myriad of new types and sources of alternative data. Unlike traditional data made available by financial exchanges and indexes, SEC filings, financial statements, corporate filings, analyst predic-

tions, press releases, management presentations and other well-entrenched mainstream sources, today's breed of alternative data sets are being compiled from wide ranging and disparate sources. These include financial transactions, satellites, sensors and IoT-enabled devices, e-commerce portals, public records, mobile devices, social media, web traffic and more. However, web

scraping and financial transactions are, by far, the most common methods of alternative data procurement.

The economic upside of alternative data assets is so lucrative that the category is experiencing a veritable gold rush mentality that is driving extreme growth worldwide across practically every industry sector. The global alternative data market size is expected to reach $143.31 billion by 2030 — a staggering increase from $2.7 billion in 2021 — with the category forecasted to expand at a compound annual growth rate (CAGR) of 54.4% from 2022 to 2030, according to Grand View Research.

For example, investment firms are actively expanding their informational advantage by incorporating alternative data into their investment and risk processes. An EY Global Alternative Fund survey found that 70% of hedge fund managers and 56% of private equity funds currently use, or plan on using, alternative data to support their investment process.

Beyond banking and financial services and insurance, other alternative data early adopters include online retailers, SaaS purveyors and hospitality. These and other such industries are tapping the power of this alternative intel for an array of projection activities, such as predictive and algorithmic modeling, demand and trend forecasting, lead generation and competitive intelligence.

"There are numerous categories of alternative data, and the businesses who fare best are those with the capability to mine insights from the collected data and cross reference and combine it with other types of data, thus enabling investors to identify profitable trends and strategic opportunities," said Julia Valentine, managing partner at professional

Digital data requires agility.

services firm AlphaMille.

According to the Alternative Data Global Market Report 2022, the main categories of alternative data — the non-traditional type from conventional sources that can serve as an indicator of future performance — are credit and debit card transactions, email receipts, geo-location (foot traffic) records, mobile application usage, satellite and weather data, social and sentiment data, web-scraped data and web traffic.

"The driver behind this phenomenon is twofold: investors' appetite for using the data and the providers' willingness to sell credit card transaction data," Valentine said. "Moreover, data providers have been enhancing their capabilities of sorting credit card transaction data by gender, age, seller, geography and other metrics."
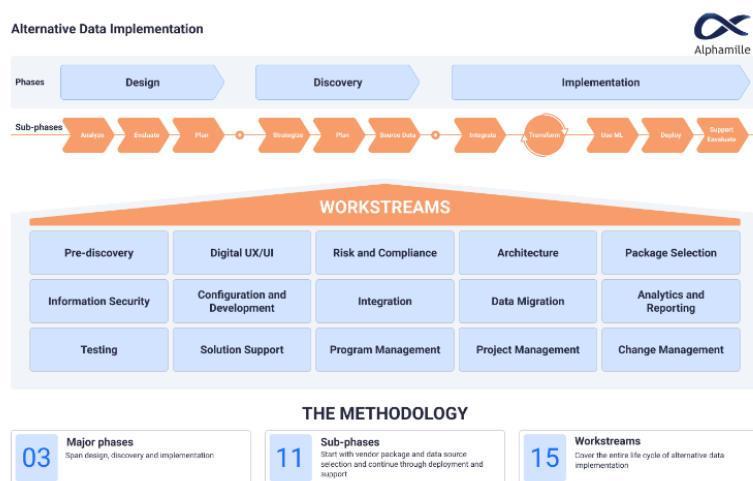
These types of drill down insights can make it much easier to identify and evaluate opportunities, especially when advanced analytics

and data science are applied to examining alternative data sets. The offerings produce a crucial differentiator generating alpha for buy-side entities, like hedge funds, mutual funds, private equity funds, pension funds, unit trusts and life insurance companies, according to Valentine.

The benefits of employing alternative data are seemingly innumerable. "Among the most important is its ability to derive proprietary real-time signals providing alternative viewpoints, unforeseen insights or perhaps both," noted Valentine. "The ability to go beyond standard financial data to understand company performance, market dynamics or consumer behavior is extraordinarily valuable for companies and investors who desire to plan and execute in a calculated, enlightened and intentional way with mitigated risk."

Even amid the extreme upside, a number of challenges plague processes for incorporating alternative data into the investment and risk models. "As compared to the traditional

Alternative Data Implementation

THE METHODOLOGY

03	Major phases	11	Sub-phases	15	Workstreams
	Span design, discovery and implementation		Start with vendor package and data source selection and continue through deployment and support		Cover the entire life cycle of alternative data implementation

Analyzing alternative data can be complex.

financial data collection, alternative data assets are known to be unstructured, lack specific patterns and given its high collection frequency, require significant storage and processing resources," said Vita Koreneva, AlphaMille managing partner.

"Collecting and analyzing alternative data sets certainly requires navigating any number of difficulties or outright obstacles," Valentine warned. "This includes the procurement of expert personnel and cutting-edge technologies like analytics, fluid data architecture and data science platforms, as well as testing tools to actually leverage meaningful insights gleaned from the data. For example, AI tools such as ML and Natural Language Processing (NLP) are used for analyzing alternative data, unlocking its insights and value and boosting the growth of these assets. ESG (Environmental, Social, Governance) data is an key example of alternative data where multiple providers in the public markets are supplemented with the use of multi-modal AI to collect data used by private markets that is unavailable through existing data providers."

According to Valentine, starting or enhancing

an alternative data platform involves multiple steps: design, plan, source data, integrate, transform, use ML, deploy, support and evaluate. A shorter, five-step implementation model is also available for entities that are ready for a fast route to value creation.

With such specialized tools and skillsets involved with mining and distilling alt data, many understandably outsource the function. "A few key considerations for a prospective professional services partner involve their ability to quickly integrate new solutions with existing infrastructure. The cost of data feeds and proving what they deem to be optimal, uncorrelated data sets, genuinely add quantifiable value rather than noise," she said.

Valentine further recommended that they should also demonstrate an aptitude for key requirements of an alternative data platform, such as the rapid and efficient onboarding of data sources; combining structured, semi-structured and unstructured data sets, and data preparation and normalization.

"Data mastering is fundamental to gleaning insight from this seemingly limitless universe

of information," noted Christian Robertson, CEO of Datasynthesis. "It means tracking the data lifecycle from its source — be it real-time or historical, structured or unstructured — through a strict, rules-based validation process generating actionable data used to feed the various business intelligence tools used in decision-making. However, to distill meaning from so much information, one must adopt an active data-mastering approach, which can only be achieved by leveraging the latest open-source technologies with capabilities that far exceed anything possible with existing legacy systems."

Preconditions and complexities aside, AlphaMille Chief Revenue Officer Rick Lutz is keeping an optimistic eye on the big picture. "Alternative data hasn't nearly reached critical mass as of yet and there is tremendous growth ahead in this space," he said. "The big winners will be those that onboard the right 'kind' of caliber of experts who can adeptly navigate this highly specialized and ever-changing field. Done right, the financial upside is stratospheric."

Digital transformation demands agility. Having the ability to adeptly procure and process alternative data provides a tremendous advantage, especially for those needing to pivot in the short term: to empower an organization to expand quickly and cost-effectively, to save costs by realizing it is more profitable to outsource non-critical functions to expert providers or to utilize cutting-edge cloud, cybersecurity and data science tools to increase productivity. The profit promoting outcomes are seemingly endless.

No matter the industry in which you operate, now is the time to design a sound and scalable alternative data plan to ensure that your company can keep pace in the 21st century Digital Age.

Photos courtesy of Merilee Kern