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Innovative disruptive real estate financing - by Daniel Calano

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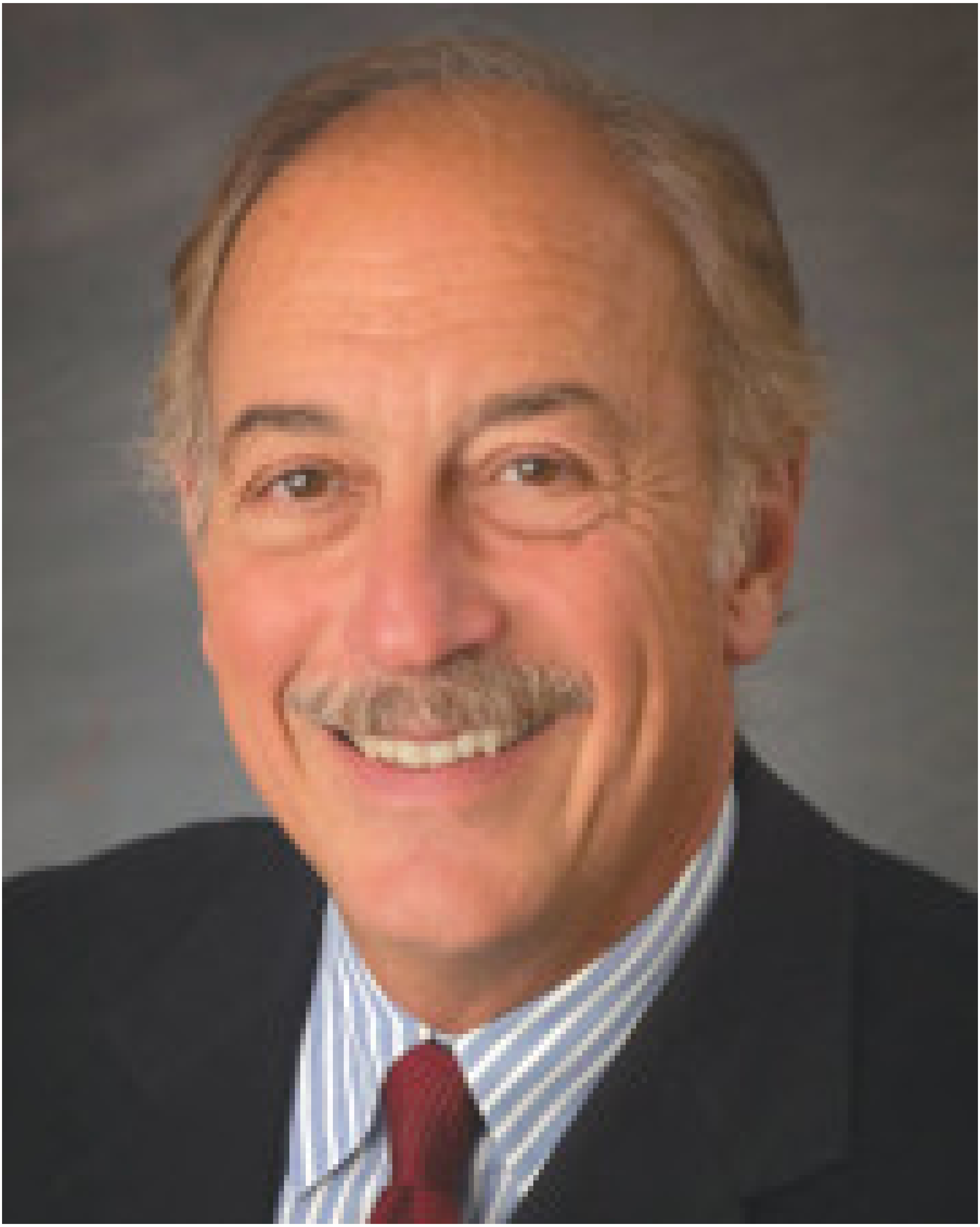

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You've probably heard or used some of the new financial apps or companies that let you buy that computer or TV or car, or maybe even house, without money now but a requirement to pay later. They are called buy now, pay later or BNPL apps.

One of the earlier ones you surely have used is PayPal, but now there are many others such as Venmo Klarna or AfterPay that make it easy for you to buy without funds. All of these programs have some aspects in common: they are often free of costs, no interest, future payment plans quick turnaround, all very easy. They compete on the basis of the mixture, and they make their profits by relationship with the vendors who end up paying cost typically born by the buyer. Although not all are successful yet, they believe they will be because they have better access to algorithms and data, thus facilitating all of the due diligence that used to be done by credit card companies and banks, apparently in a less efficient and slower manner. The apps have targeted millennial consumers, because the group is considered to want or need things now, rather than later, and thus the pay later plan is appealing.

You say why is this different than credit cards or normal bank loans. Again, millennial's appreciate these newer companies because they can respond faster and demand less information and time from consumers, because that information is mostly already known. BYPL is not a new concept, because you already pay credit cards later and your home mortgages over decades, but the process is different, the middlemen are eliminated, and there are lower costs all around. Clearly, the newer models may pose newer credit risks to lenders as well as users.

But this article is not meant to be a lecture on financing opportunities or pitfalls ahead for younger buyers. Fast forward to applications in real estate transactions. Let's go back to the tried and true bank mortgage, actually one of the oldest buy now pay later models. Is it changing? In basic terms yes, bank due diligence is faster through better data analysis, allowing for more timely loan terms, and understanding of interest rate risk, but the changes are more remedial than disruptive.

On the more innovative or dramatic end, there are new companies which are facilitating real estate transactions in very new and disruptive ways. Among the most obvious are companies which actually buy a sellers property, as well as buy the sellers newly desired purchase, enabling both a simultaneous sale and purchase of real estate. Often the first purchase from the seller is without contingencies, required upgrades or improvements, many of the items that slowed or killed real estate deals previously. They are called I-Buyer companies because they act as a true trader, both buying and selling clients' properties. They work directly with consumers eliminating all middle people, this being the trademark of most new financial models. As discussed, they are able to do much of this due to the digital age, better technology, more data, and excellent algorithms utilizing that data. They are all saving time and money; they are disruptive because and only because they are greatly facilitated by the decades of creative technicality. They are streamlining a process that was previously cumbersome. They have made it easy, but is it too easy? Is it building a riskier future? We have seen liquidity bubbles where there is too much money available. Euphoria bubbles for other reasons. Is this a "facilitation bubble," allowing people to transact real estate too fast, too easily? The future will tell, but we will see both success and failure results from both the disruptive companies providing this change, as well as the users. The results are still out, as millennial demand could change, markets can change, interest rates will change, all of which could upset the financial model and the people using it. One thing is sure. Our industry will change based upon the brilliant technology available in these decades.

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