I-Buying Real Estate: Not disruptive, yet. - by Daniel Calano

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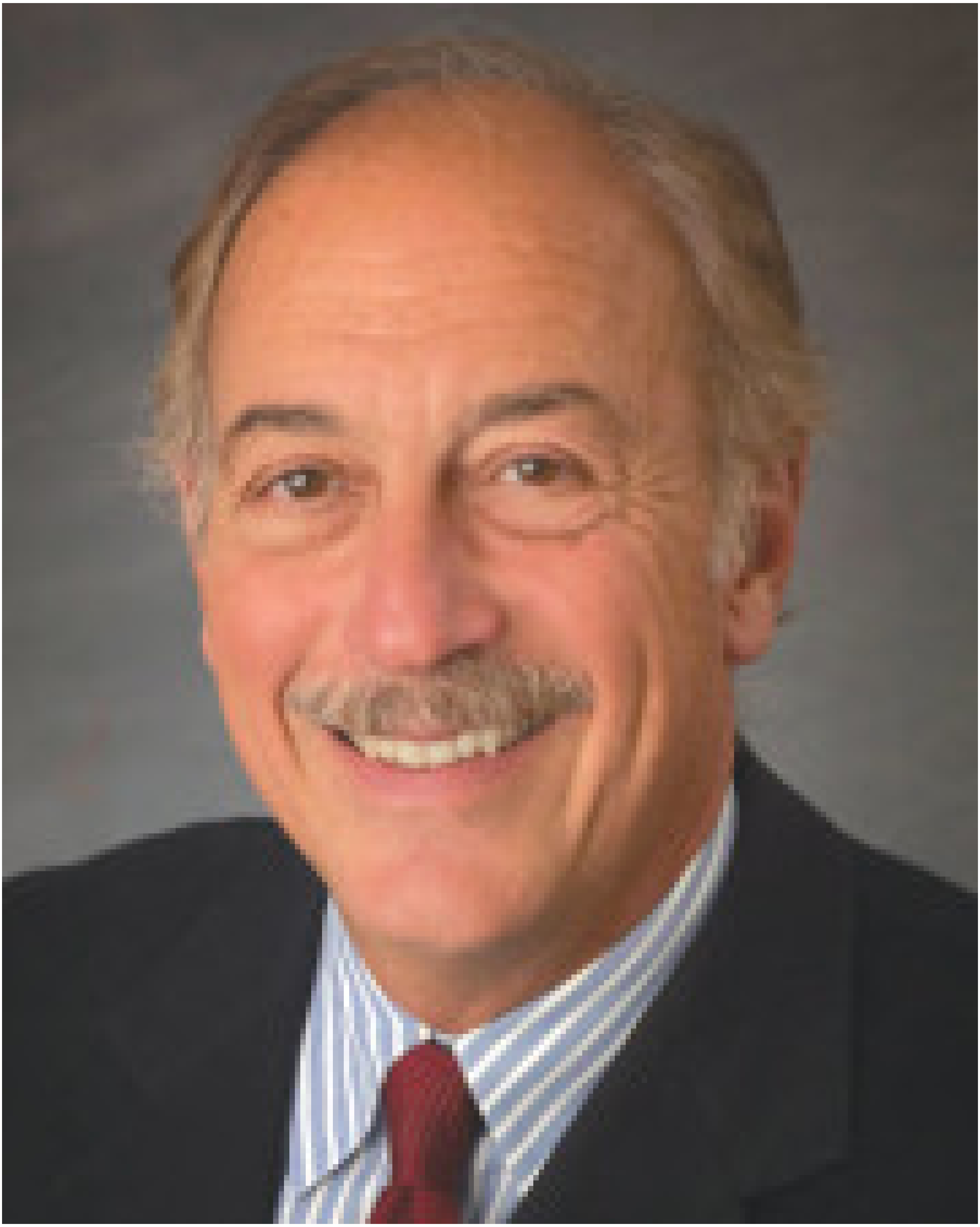

Daniel Calano

Recently, I have had an "opportunity" to invest a small amount of money in real estate "disruptive technology." Specifically, it was a startup in residential "I-Buying," the nickname for instant buying. Not a brand-new technology, companies have tried this since around 2017, with only a couple reaching some success.

Essentially, the goal has been to create a full-service platform where buying and selling real estate could be done seamlessly, and totally managed by one company. The need for individual players, that is brokers, lawyers, appraisers, mortgage brokers etc. would be minimized. The ability to do this was facilitated by working with data scientists and programmers to develop algorithms and strategies which could greatly reduce the time, cost, and frustration of buying and selling property.

In my initial research, I learned that there had been several startups operating as Internet applications that currently offer instant buying solutions. Examples abound including FastHomeOffer.com, WEbuyhouse.com. and so on. Some raised significant funding and went public such as Opendoor and Offerpad. Some tried, but failed to raise an amount needed, such as Ribbon and Knock.

While each approach is slightly different, the common thread is that it would typically involve the company purchasing both a client's existing property, and simultaneously also the newly desired property, while supplying all of the necessary professional efforts to close. The model thus eliminated time and risk from client traditional transfers. In exchange for assuming the risk, the company would be remunerated through buyer and seller commissions, financing and payments/fees normally paid to other professionals. While most companies were started around residential property, it also had promise for relatively uncomplicated commercial property, and was well suited towards tax deferred exchange purchases.

Digging more deeply, I discovered that while some start-ups had achieved high revenues, most had not reached profit level due to excessive expenses. As one of the more successful ventures, Open Door had sufficient progress to become a public company on the exchange under the ticker "Open." Unfortunately, its stock price has gone from around $25/share to $5, clearly signifying a loss of confidence in the company model.

The problem is not complicated. So far, no model has been able to reduce costs enough to have strong profits. The business model requires many employees at high costs. The hope was that science, data, algorithms and artificial intelligence would carry the day, but the evidence shows otherwise. The most recent example you probably have read about is
Zillow, which recently started a new branch of I-buying. As a large and successful real estate company, it certainly had the knowledge, the network, the funds, and interest to purchase properties all over the country. It started an effort that would be more ambitious and aggressive than all other I-buyers. They would simply buy houses all over the country, modestly improve them, and resell them. No client involved. Unfortunately, according to a report by Bloomberg, Zillow realized it had to stop buying houses when it found itself with excess inventory, and the only sale possibility was a

loss. As a result, Zillow needed to sell 7000 houses ASAP. Its stock price declined and only stabilized when it announced closing down its I-buying branch.

While technology clearly has and can continue to benefit real estate activity, not everything works for every aspect. We have made improvements in data collection and analysis, in 3-D design, in Fin-tech financing, remote touring, Zoom and Docu-sign closings. I-Buying is not yet there. People used to say all real estate is local, but that is clearly not true anymore. Our business has been disrupted significantly. Real estate transaction has been improved, and continues to facilitate wide-ranging growth through technology never before envisioned. I-Buying is a great idea and a worthy goal, and aspects will undoubtedly improve. I for one will continue to be optimistic, but, FYI…I did not make that investment!

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