The Inman Files: When real estate vs. tech hit rock bottom

I'm working on a new weekly email featuring my thoughts on the industry and more. Check out last week's here ("Pocket listing + dual agency = home sale horror story")*. Send me feedback at brad@inman.com. And if you would like this in your inbox every Friday, sign up here:*

(function() { var qs,js,q,s,d=document, gi=d.getElementById, ce=d.createElement, gt=d.getElementsByTagName, id="typef_orm", b="https://embed.typeform.com/"; if(!gi.call(d,id)) { js=ce.call(d,"script"); js.id=id; js.src=b+"embed.js"; q=gt.call(d,"script")[0]; q.parentNode.insertBefore(js,q) } })()

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Ten years ago, Redfin CEO Glenn Kelman went on *60 Minutes* (after feeding CBS the story) and skewered the real estate industry.

During production, *60 Minutes* filmed at Inman Connect in New York, capturing a nasty debate between outspoken realtor.com executive Alan Dalton and Kelman.

Redfin CEO Glenn Kelman

It was like the sound of your garbage disposal when a couple of cherry pits rattle around the bottom.

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This was a low point for disrupters and legacy companies. A master at FUD (fear, uncertainty and doubt) Dalton body slammed Kelman, who had every right to start his own company with any business model he wanted.

Equally, Kelman could have exhibited more respect for an industry that does so many things right.

Since, Dalton has taken a lower profile in the biz and Kelman, while still quirky, is a self-depreciating gentleman who acknowledges the importance of traditional companies.

Now taking his company public, he has been consistent about one thing: It is all about the customer.

Bubble bursting?

The latest headlines from Silicon Valley signal lower valuations, flat or declining tech IPOs — Snap, Blue Apron and Cloudera — and a more somber mood in the tech sector in general.

Redfin, which filed to raise $100 million two weeks ago, seeks to buck this trend. Maybe it will. Real estate has been red hot, with record venture rounds at a slew of startups (see $50 million for Placester, $32.5 million for Knock, $65 million for Cadre) and another set of well-funded bets gaining momentum in their efforts to take over the world (see Opendoor, Zillow, Compass).

But as the bloom comes off the Silicon Valley tech scene, it's probably a good time to ask whether the real estate technology petals are browning as well.

The evolution in tech startup-land is survival of the fittest: A category gets hot, money flows, companies mature, and some rise to the top and get funded, but most starve to death.

Yes, a handful are sold at a premium while they are hot, but most shut down entirely when they cannot raise that next round; others are sold at a carcass sale — peddled for pennies on the dollar for the technical personnel.

Like all tech bubbles, the scramble turns into a game of musical chairs.

Other than the instant offer phenom and Redfin, most of the VC-backed real estate startups are trying to take a seat at the digital middleman table — they are selling software, leads or services to agents or their brokers to enhance lead generation and conversion.

One agent told me she gets 10 calls and emails a week from tech company sales reps. The field is getting tighter than the Shinjuku Station metro stop in Tokyo.

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Inman recently reported on Nationstar's efforts to find a new home for Xome, its once-promising platform play. And at least one software company has been shopped around town unsuccessfully for months with no meaningful buyers.

An exec at a big company that does M&A said that a pile of companies "officially and unofficially" are for sale. And many are "fixer-uppers."

For me, the peak in real estate venture came 18 months ago when Commissions Inc. sold for a reported $250 million. The sky seemed to be the limit, and everyone wanted to follow the Commissions Inc. blueprint: Start a real estate software company and become a multimillionaire.

In the old days, a real estate software company was about making money. Suddenly, it became a fantasy M&A dream or an IPO.

Kelman will soon tell us whether a public offering is like a fresh bowl of summer peaches or a hangover after an all nighter at the Hollywood clubs on Sunset Boulevard.

Outside Inman: Is this really true, are you kidding?

The deep economic thinkers at the Federal Reserve Bank of San Francisco love to tackle popular but uninformed debates and add some credible grist to the discussion.

Their latest research looks at what is keeping small-business formation down. Yes, small businesses are not growing as fast as they could be.

The problem: not enough people in the workforce to fill the jobs created by the small businesses. It's counterintuitive, but that gnarly concept called labor participation rates — people not going back to work — keeps popping up. See my previous story on the Netflixation of the U.S. economy.

The SF Fed says the solutions are encouraging more immigration, later retirement or higher labor participation among women.

Hmmm, wishful thinking.

Quotes of week

We make "who-cares-what-they-think business decisions." – Glenn Kelman, CEO, Redfin

"Yikes! $613,300,000.00 deficit! Is venture capital funding a bottomless pit? I bet I could start a business and lose money half as fast." – Realtor Andy Alford on "9 risks that could derail Redfin after it goes public."

Andy Alford · Realtor at Keller Williams Realty
Yikes! $613,300,000.00 deficit! Is venture capital funding a bottomless pit? I bet I could start a business and lose money half as fast.
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Comment of the week

"But someone still has to pick up the phone and make the call. The question is: How many calls will that seller get?" Kevin Hawkins commenting on "Cloud predictive analytics become tomorrow's QR code?"

Kevin Hawkins · Bainbridge Island, Washington
But someone still has to pick up the phone and make the call. The question is: how many calls will that seller get?
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