What’s behind skyrocketing real estate tech investment?

NEW YORK — Our parent company’s Inman Connect NY 2018 (ICNY) conference concluded on Friday with Capital Connect, a panel discussion dedicated to the massive influx of private investment into real estate tech.

The discussion, which took place in a conference room at the Marriott Marquis hotel in Times Square, featured prominent venture capitalists, lenders and marketers, who weighed in on how the real estate industry is financed. From new technology investments to advances in mortgage lending and marketing, the men and women behind the money outlined the industry’s near-term economic forecast.

Drawing the real estate tech ‘heatmap’

Three-quarters of all real estate investment by venture capitalists since 2016 has gone toward companies intent on disrupting. But the financing has gradually shifted from the challengers to the facilitators — that is, those offering tech that serves traditional Realtors and lenders.

That was the message from Matt Harris, managing director of Bain Capital, the Boston-based global alternative investment firm. In December, Bain announced the formation of a new real estate arm focused on real estate tech investments.

“The money is going to next-gen technology,” Bain said. “It’s actually back to next-generation listing marketplaces that serve Realtors, that serve the industry by facilitating traditional transactions.”

Investment in real estate in the past five years has grown dramatically, from 0.2 percent in 2012 to 3.3 percent last year, in part due to the recognition by venture capitalists and growth equity investors that the industry can support massive corporate expansion. Previously, a majority of real estate investments had been on a far smaller scale, Harris told the Inman crowd.

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"The driver here is mega financings," said Harris. "Venture capitalists and growth equity investors have come to the conclusion that not only is real estate no graveyard, but real estate is the place where you can build massive companies.

"Real estate is an industry where you can confidently put $100 million, $200 million — up to, apparently, $4 billion in capital — and expect to triple your money," Harris added, continuing:

"On one hand, that actually makes intuitive sense: There are few bigger industries globally, as well as here in the United States, than real estate. If you define it broadly, it's 10-12 percent of the GDP that touches either commercial or residential real estate, so why shouldn't it be a corresponding percentage of the venture industry, and why shouldn't there be massive funding?"

Credit: Pedro Correa/Inman

Landing the big round: Is there more to come for real estate tech?

Innovations in retail, food, fashion, banking and travel have far outpaced those in real estate, an industry that, until recently, has responded sluggishly to new technology, Compass Chief Operating Officer Maëlle Gavet charged during a Capital Connect talk on Friday.

Gavet envisions a business model not dissimilar to that of tech behemoths like Amazon, in which the real estate industry's ecosystem will be transformed entirely by the most ambitious companies. Agents will utilize so-called smart tools to connect the digital world with the real world with innovations far more advanced than smart locks and next-generation thermostats.

Last year, 1,200 companies existed in the real estate technology space and $3.5 billion was invested in the sector, up dramatically from 10 years earlier, when just 120 such companies were operating, or five years ago, when $220 million was invested, according to Gavet.

"The reinvention of real estate by technology, I believe, is inevitable and unstoppable," Gavet said. "You may not believe in the future of Compass — and that's OK — but you need to ask, 'What makes real estate immune to everything happening in every other industry out there?'"

Credit: Pedro Correa/Inman

Mortgage the future

Experts from different sides of the mortgage industry discussed how technology will change mortgages.

Williston Financial Group CEO and Chairman Patrick Stone joined Blend co-founder Erin Collard on stage with moderator Matt Harris, a managing director at Bain Capital.

“Why is the mortgage industry not as automated as other industries?” Stone said. “Truthfully, it is automated within a lot of different verticals … but there’s no integration across the board.”

In the future, the panel said, agents will look for tools that provide new kinds of integration to close transactions faster. Blend is working in that space as a startup that powers more consumer-friendly software for mortgage lenders behind the scenes.

“The lenders that embrace that will win,” Collard said. “There’s a big difference between working with something easy or working with something that takes too long.”

Collard told Inman in a separate conversation that his company was able to obtain lots of non-

personally identifying data from borrowers, and from this data, it could determine interesting insights, such as the fact that lower-income borrowers were more likely to use mobile devices to apply for a mortgage online than those with higher incomes.

Building a better mousetrap

The big brokerages and the real estate upstarts are closely watching how technology will disrupt the real estate industry, but what about the players on the side?

Adwerx CEO Jed Carlson and HomeLight vice president for business Devu Gandhi shared their perspective on what's next in real estate with moderator Clelia Peters of the real estate tech accelerator Metaprop at Inman Connect New York's Capital Connect on Friday. Adwerx automates advertising for brokers and HomeLight matches clients with real estate agents.

Companies like Adwerx and HomeLight aren't interested in moving into real estate itself or in replacing agents.

"If you can create an advantage through technology, the question becomes, are you also the right company to harvest that advantage?" Carlson said. "I don't want to be in that line of business. I don't want to be a brokerage. We want to build technology."

But for both companies, their technological innovation relies on the assumption that agents and brokers will be involved.

"Our model's based on brokerages and agents still being around," Carlson said. "As long as buying a house is the biggest purchase of your life, you're going to need your agent Sherpa in the process, or at least the option."

All in all, the panelists agreed that the future for real estate tech investments was bright and just getting started.

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