


The 2021 Emerging Models in Real Estate Report

MD

2021



Introducing The Emerging Models in Real Estate Report

I'm fascinated by the opportunity in real estate tech. The process of buying and selling houses is complex and uncertain, with many opportunities for improvement. Smart entrepreneurs and innovative companies around the world are launching new models, fueled by massive amounts of venture capital.

In this report, I cover the major trends that are shaping the industry and the major players gaining market share. The scope is global, because we all have a lot to learn from each other, no matter where we live.

Mike DelPrete
July 2021



Table of Contents



1. Overview
2. Disruption in the U.K.
3. The Rise of iBuyers
4. Power Buyers
5. Comparing Top Models
6. Real Estate Psychology
7. The Role of Agents
8. Key Learnings

Overview

One key question has guided this research.

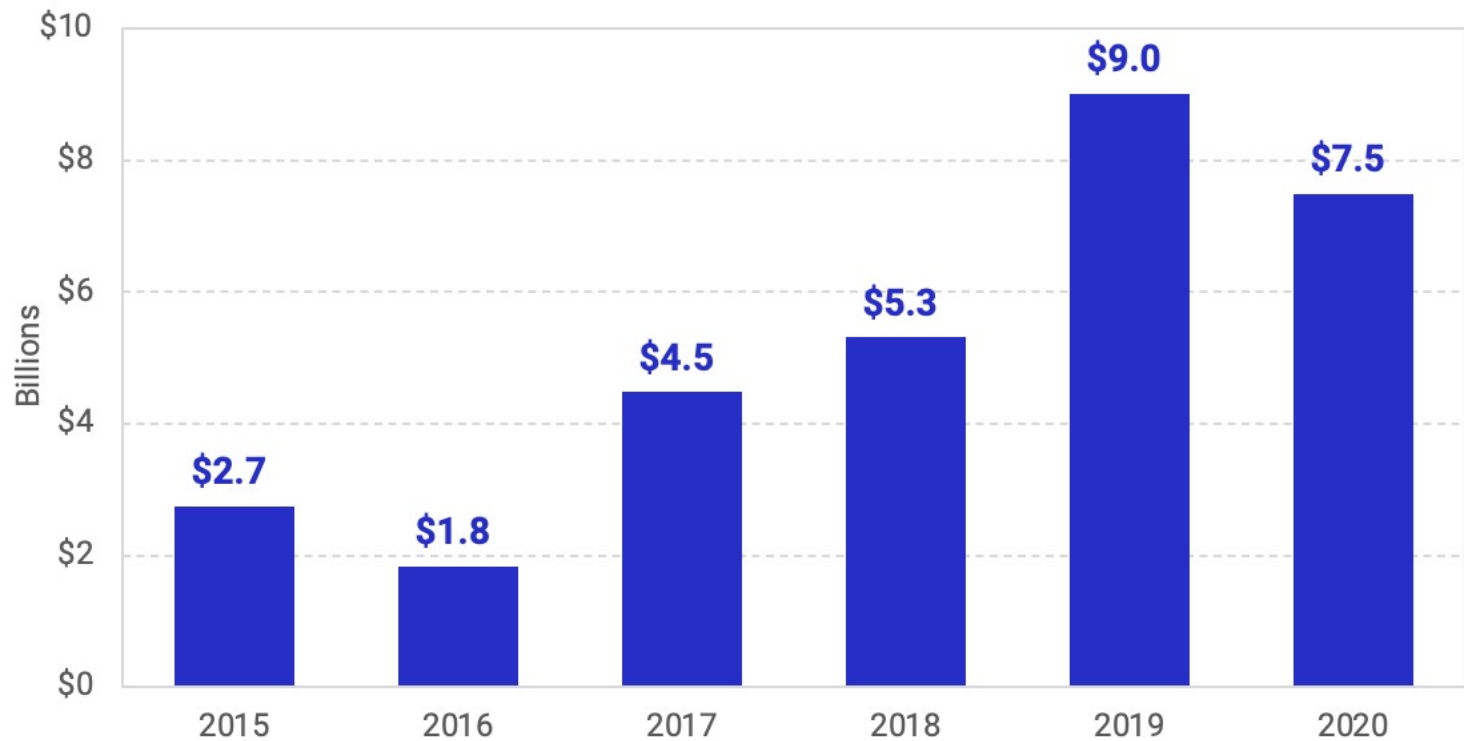
What are the new models gaining traction that are changing the way people buy and sell residential real estate?

This report is focused on the fastest moving, biggest trends in residential real estate tech.

- The research is a market scan that pulls out facts, highlights insights and draws conclusions. It's meant to be representative, not comprehensive.
- Many examples come from the U.S. market, because it is the epicenter of real estate tech disruption – driven by unprecedented amounts of venture capital.
- The scale between the U.S. and other markets is different, but the trends are the same. Disruption in real estate appears to follow similar paths globally.

Disruption in real estate is being driven by unprecedented amounts of venture capital.

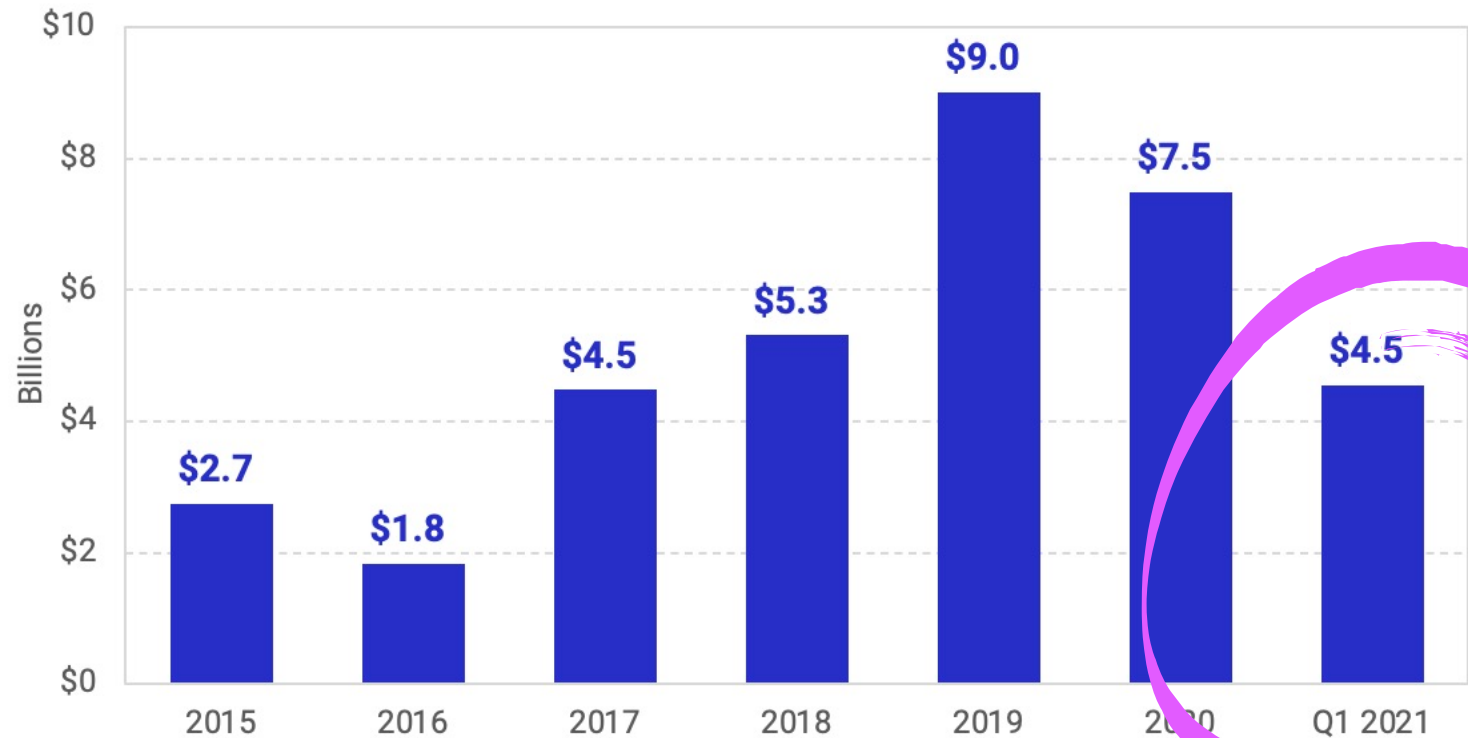
U.S. Real Estate Tech VC Investment



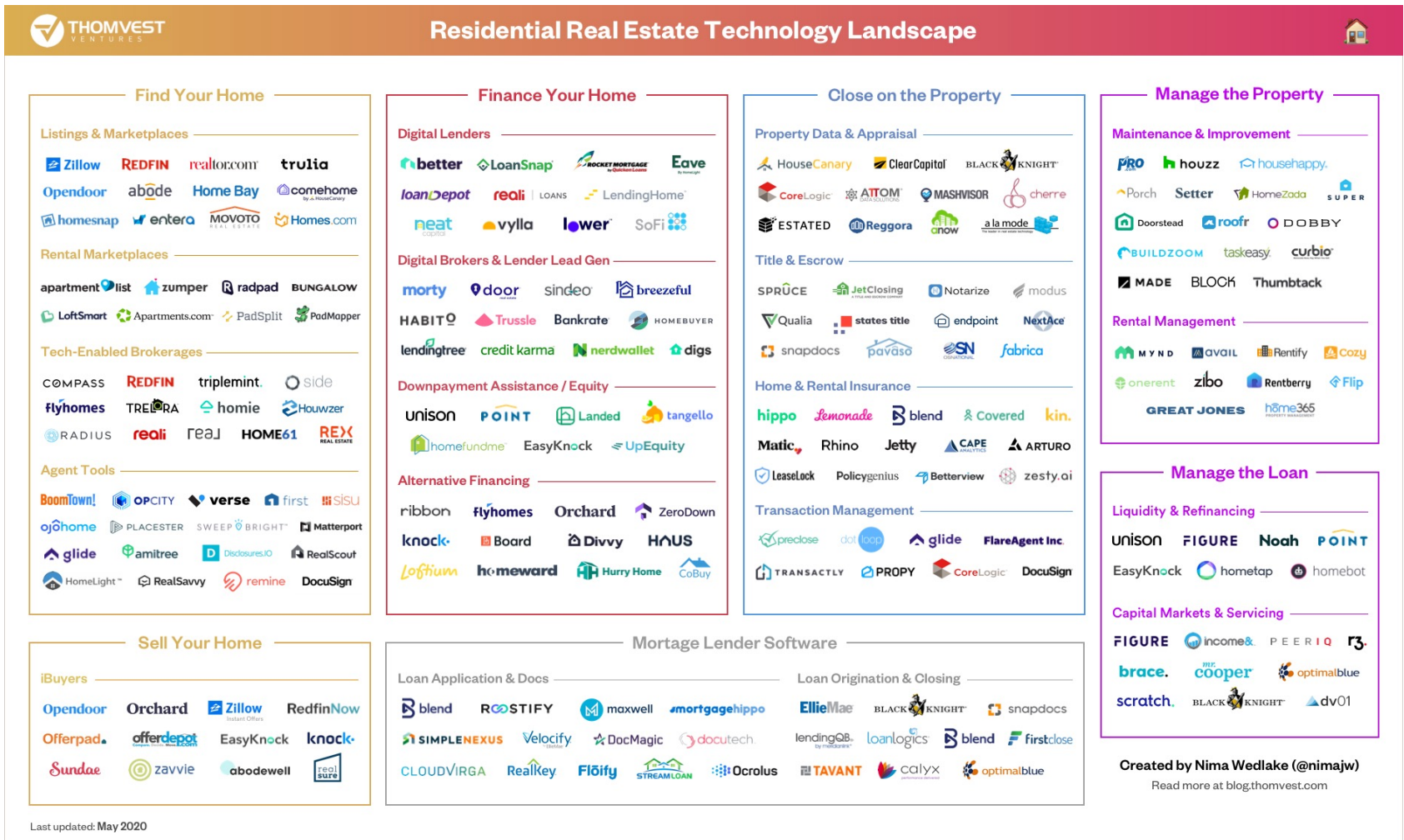
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Over \$35 billion since 2015, with \$4.5 billion in just the first three months of 2021.

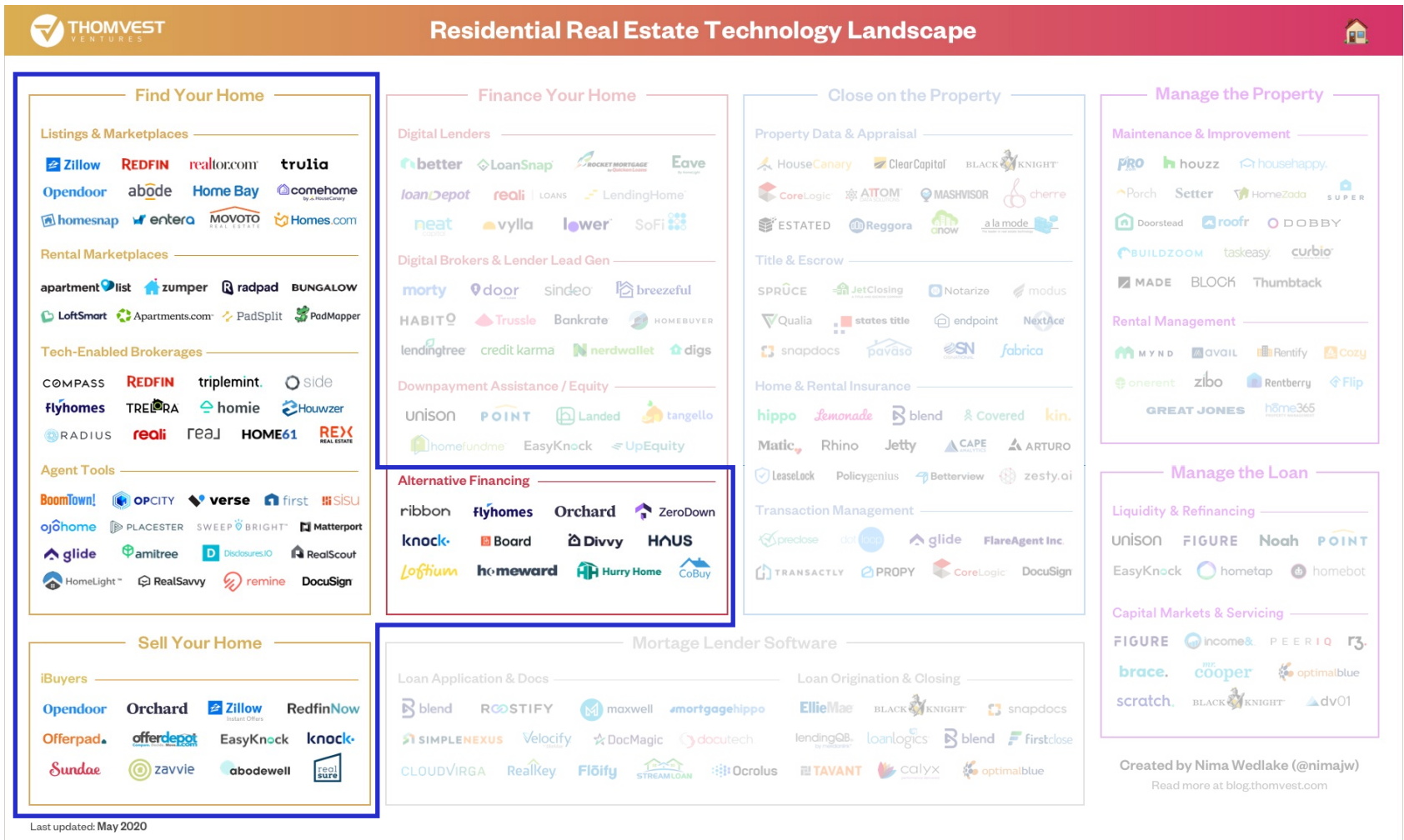
U.S. Real Estate Tech VC Investment



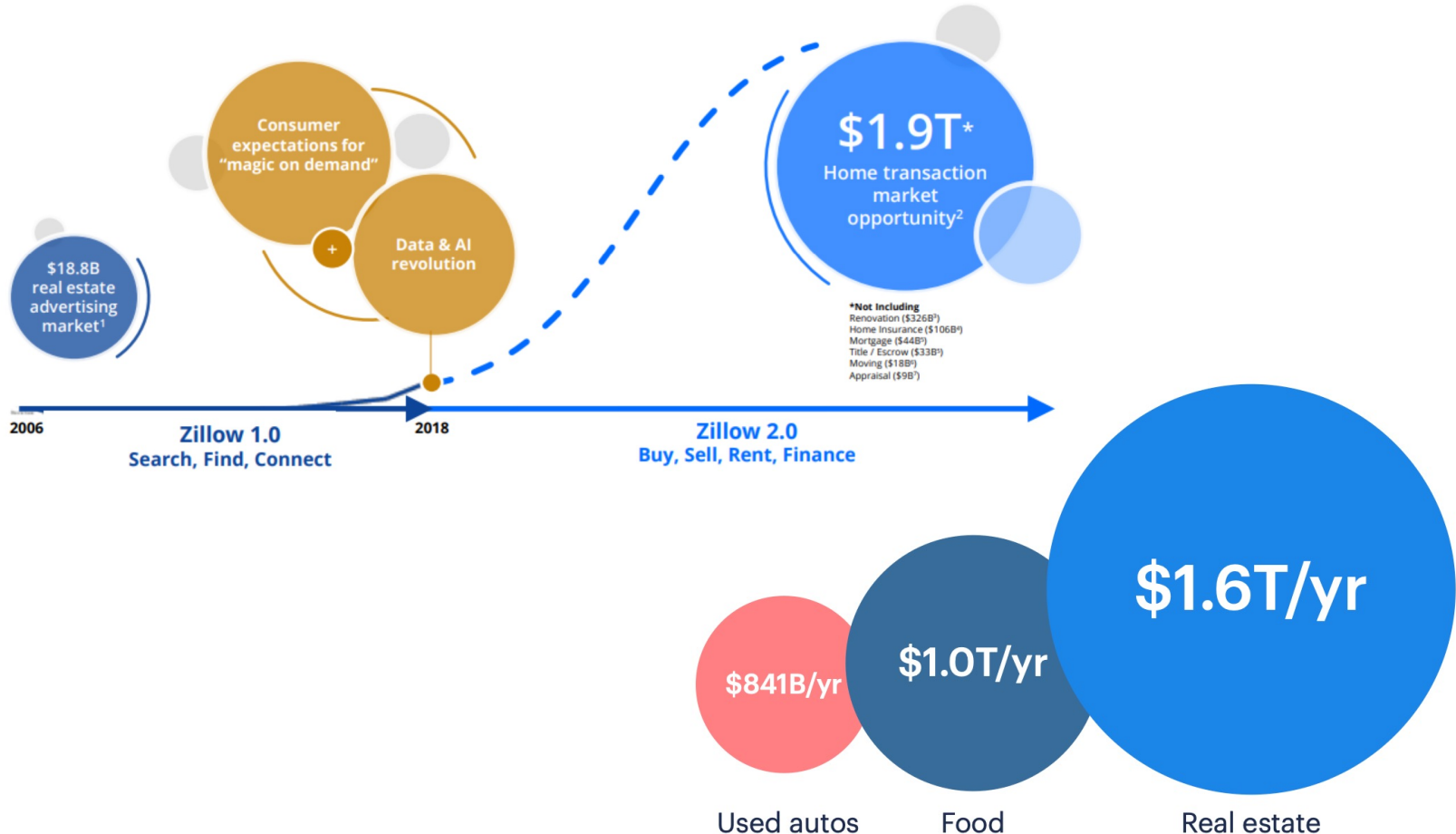
That capital is subsidizing the creation of new business models across the transaction spectrum.



Including many focused on new and improved models to buy and sell houses.



Why? The market opportunity is massive, and real estate hasn't changed in decades.



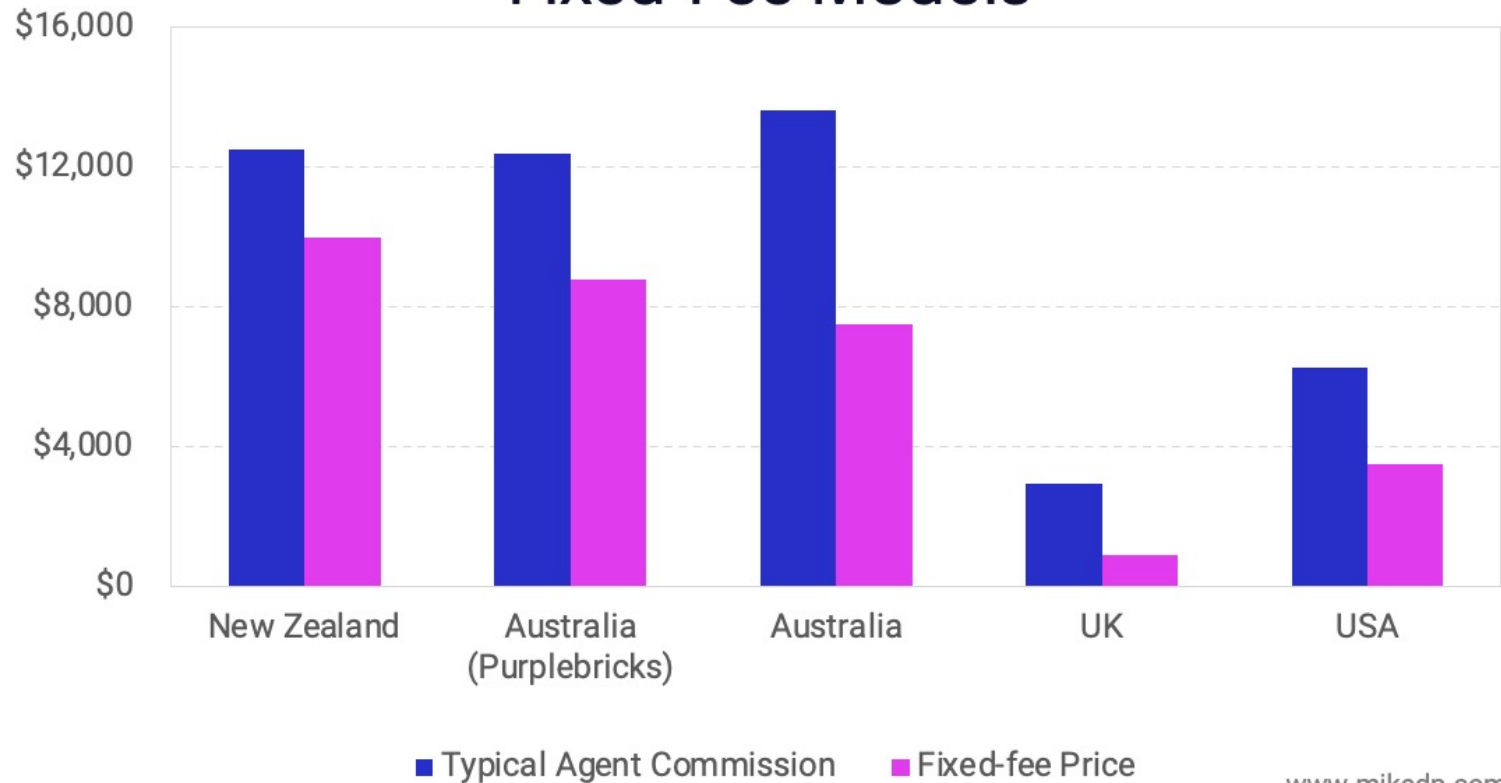
Disruption in the U.K.

One prominent new model is the fixed-fee online agency – born and scaled in the U.K.

- Customers pay a low, fixed-fee.
- Customers typically pay up-front, regardless of whether the home sells.
- Online agencies offer broadly the same services as a traditional agent, with agents in the field, a centralized support operation, and all of it backed by a customer-friendly tech platform.

A key part of the customer proposition is saving consumers “thousands” when selling their home.

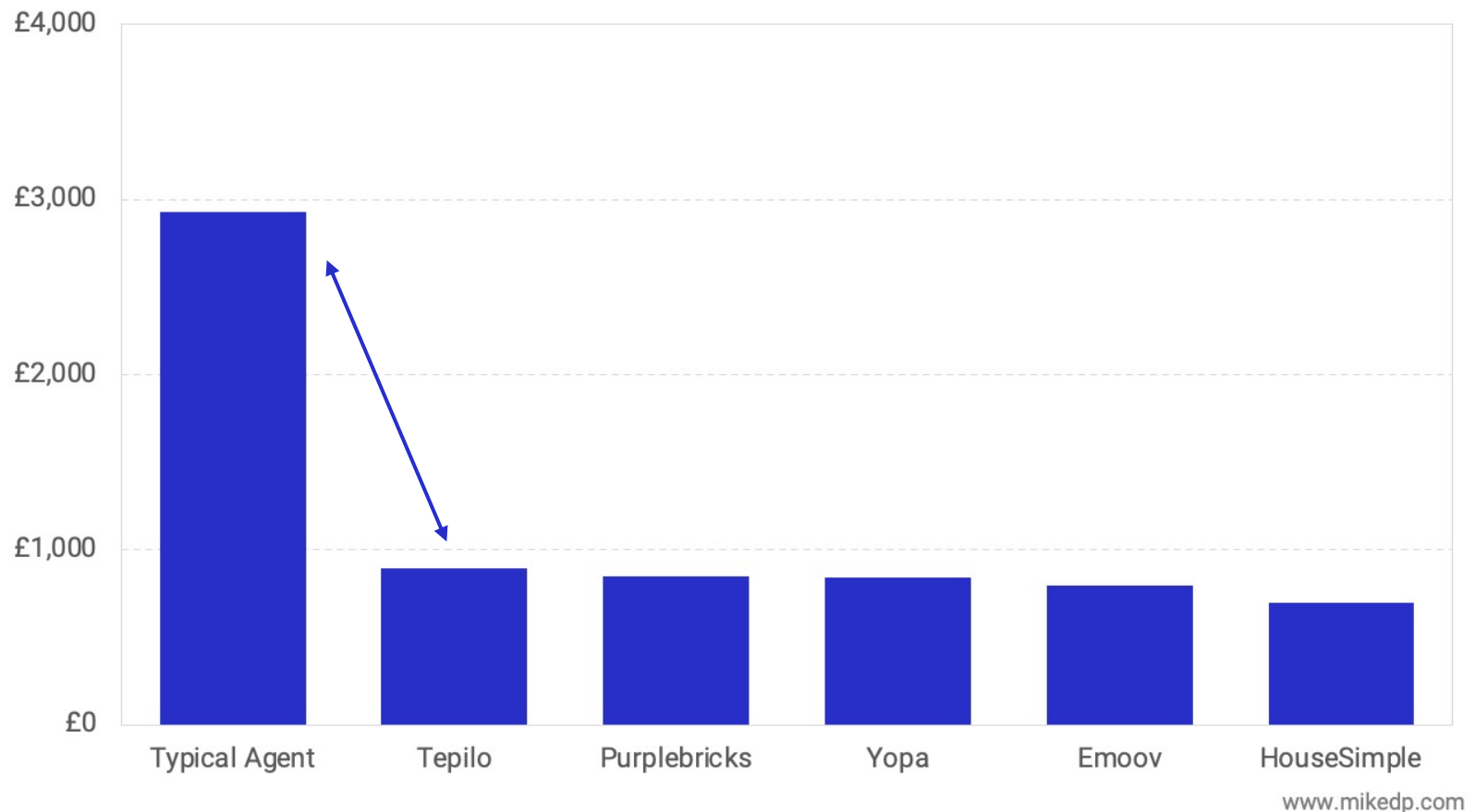
Average Customer Savings with Fixed-Fee Models



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In 2018, fixed-fee online agencies in the U.K. offered to save consumers an average of £2,000.

Estate Agent Fees, 2018 (U.K.)



Note: Assumes £225,000 home price and 1.3% commission.

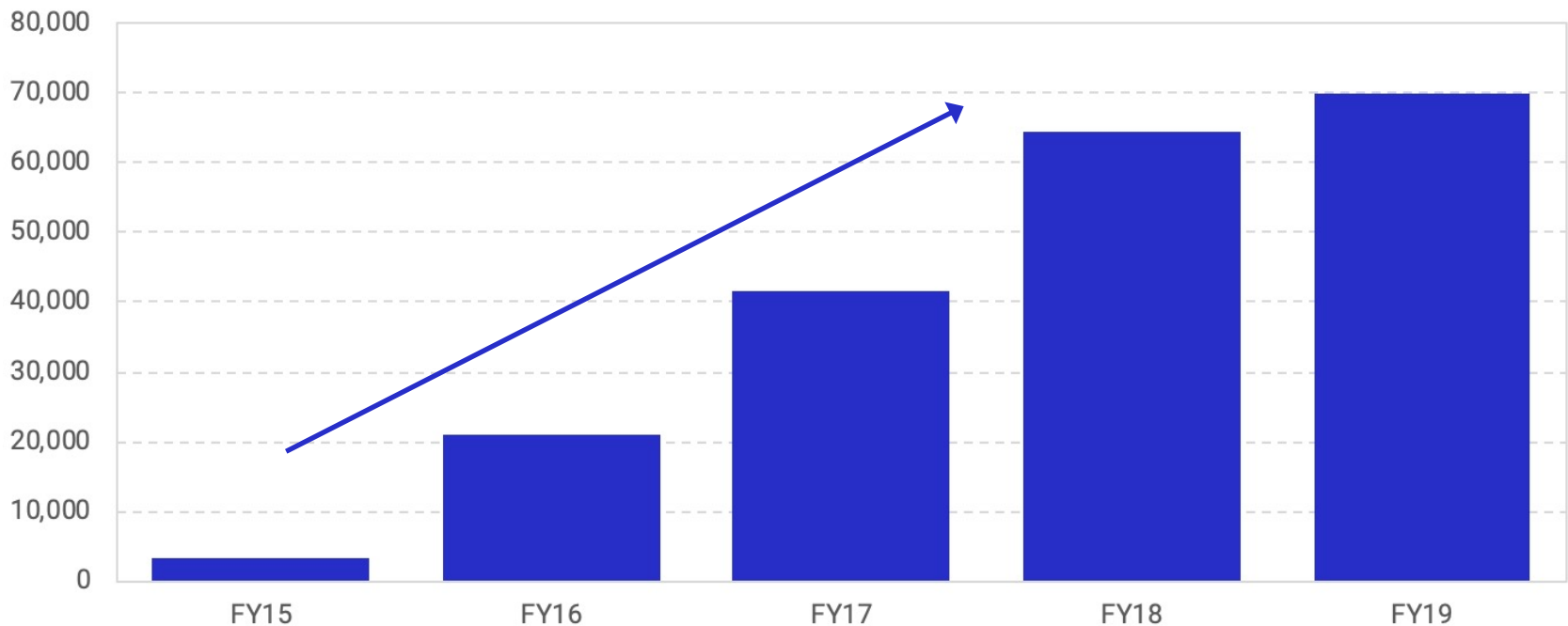
Purplebricks is the largest of the new breed of fixed-fee online agency, based in the U.K.

- Founded in 2012, Purplebricks grew to become the #1 estate agency in the U.K. based on number of transactions.
- Around 5% market share in the U.K. (~70K houses annually).
- Charges an up-front fee of £999 (£1,499 in London).
- Has an online platform and service centre to support its local property experts.
- Expanded to Australia (2016), the U.S. (2017), and Canada (2018).



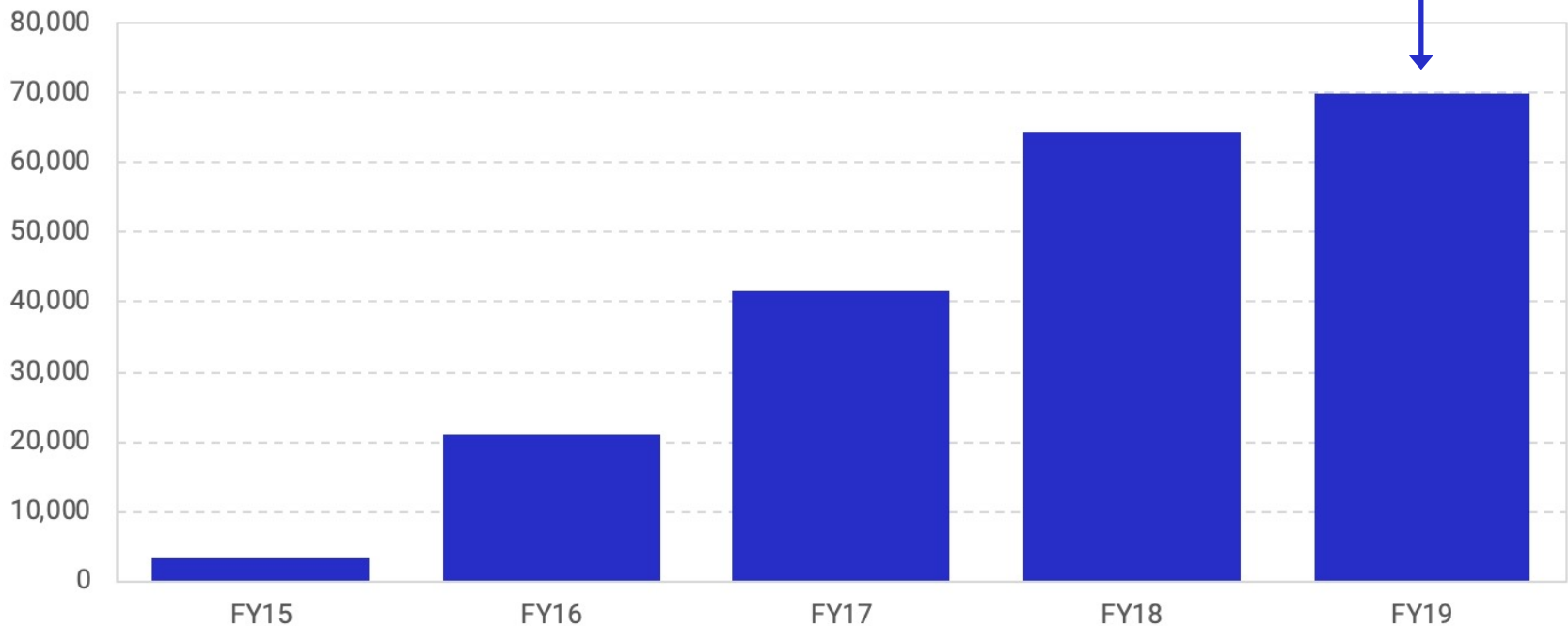
Purplebricks' U.K. growth was staggering. The number of listings doubled annually for years.

Purplebricks' U.K. Listings



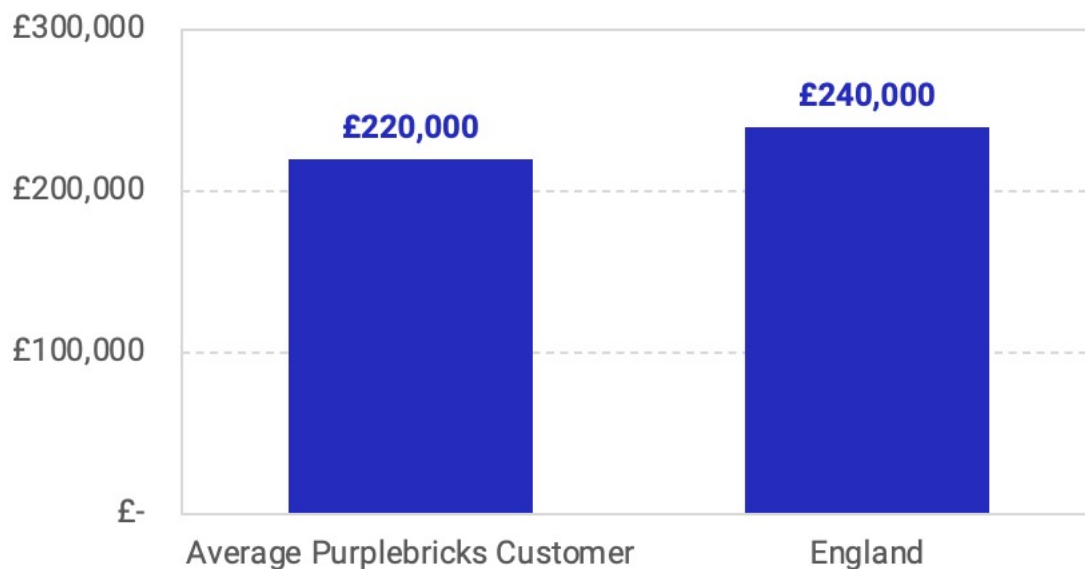
But more recently, beginning in 2019, that growth began to slow (all before Covid-19).

Purplebricks' U.K. Listings



On average, a Purplebricks customer has a home valued in line with the median value of the market.

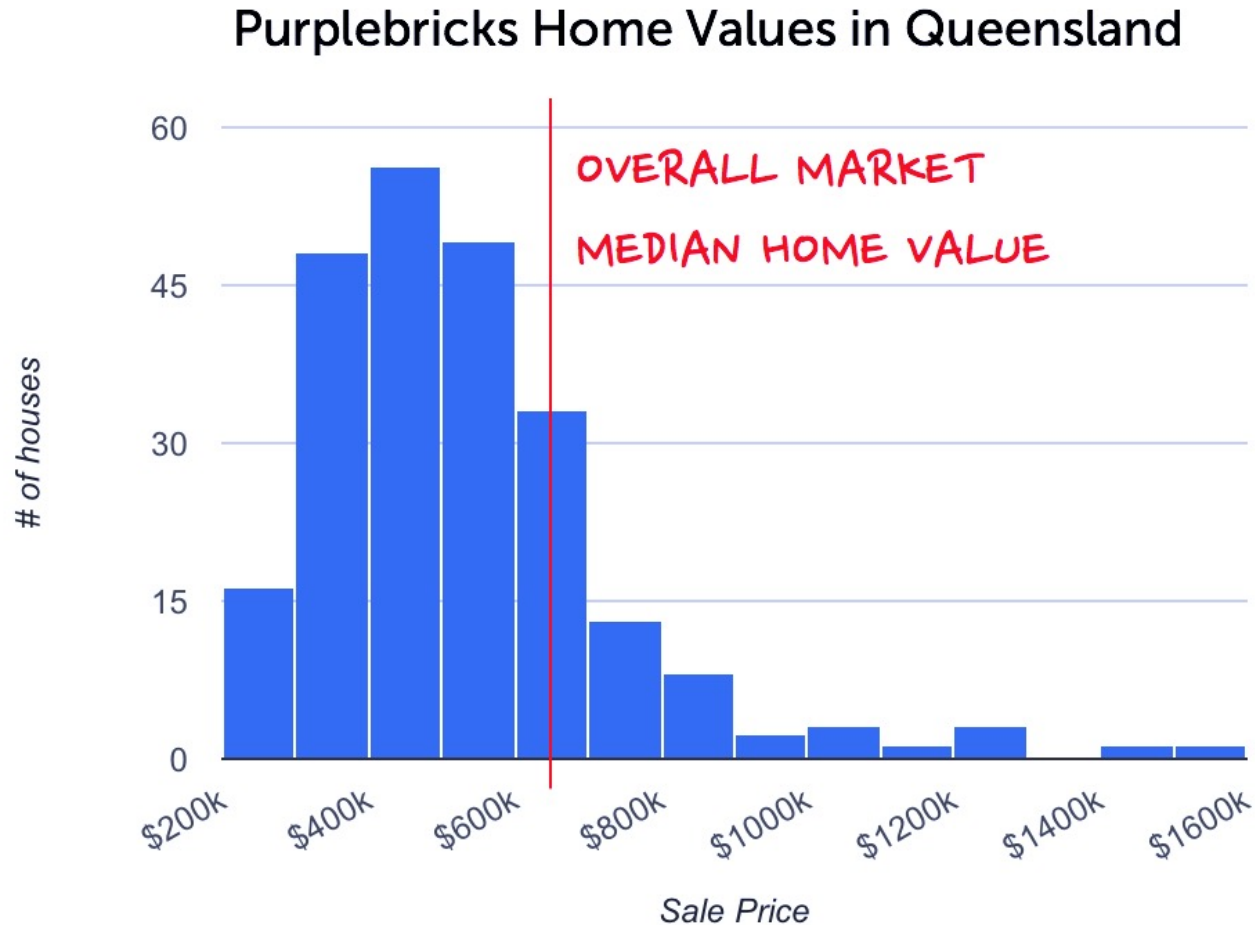
Median Home Values, 2020



The Purplebricks proposition appeals to the “sweet spot” in the middle of the U.K. market.

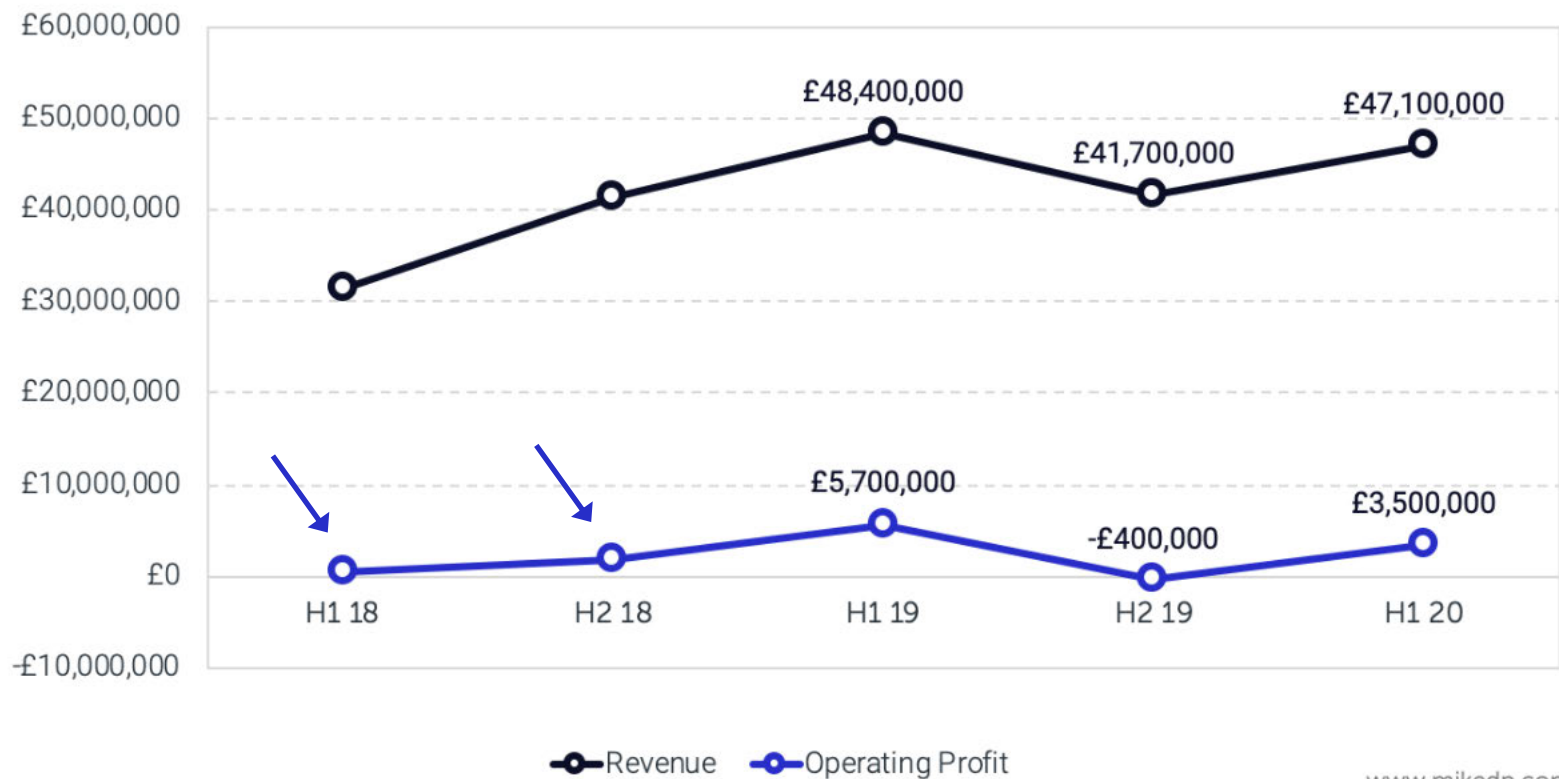
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Similar results were seen when Purplebricks launched in Australia in 2017.



Financially, the U.K. business reached profitability once the business achieved scale in 2018.

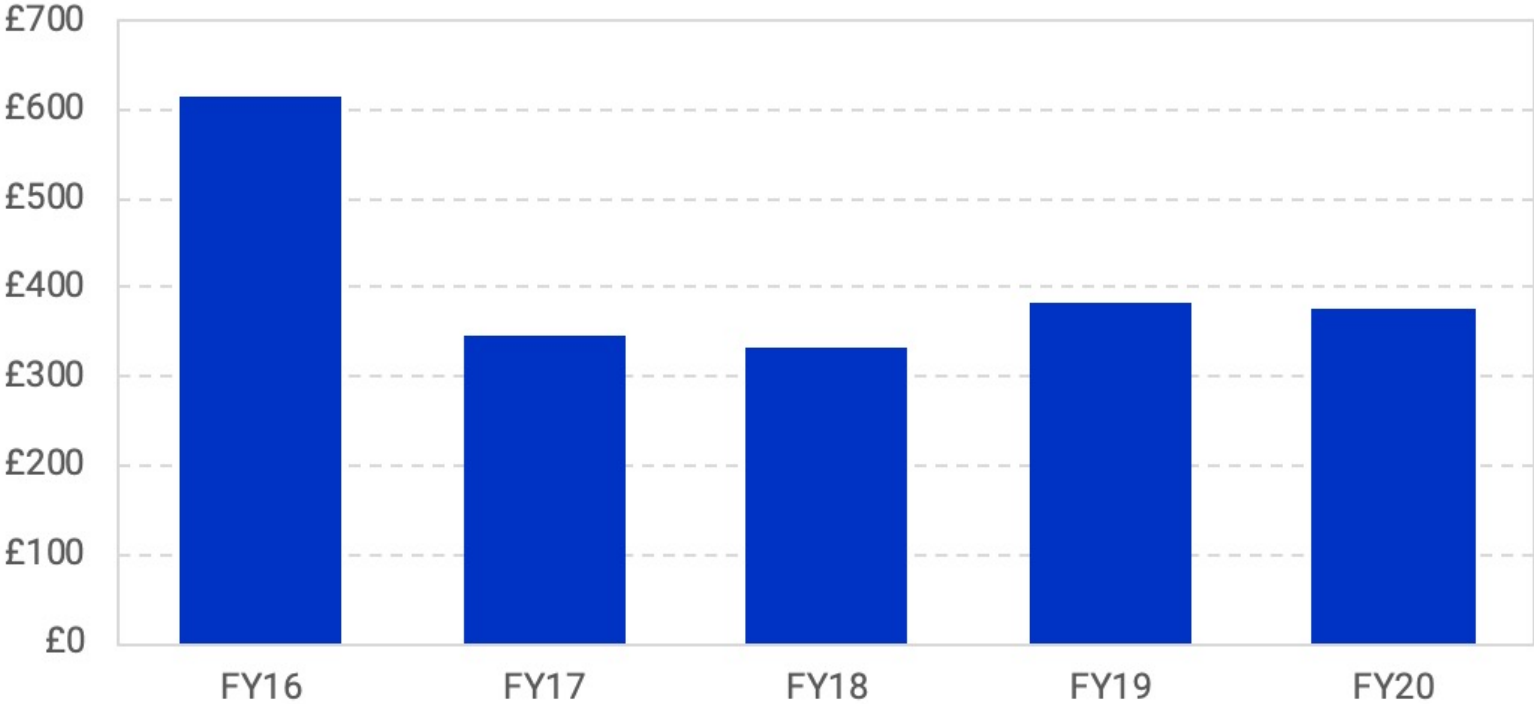
Purplebricks' U.K. Finances



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One secret to Purplebricks' success? Lower customer acquisition costs as it scaled.

Purplebricks' U.K. Cust. Acquisiton Cost

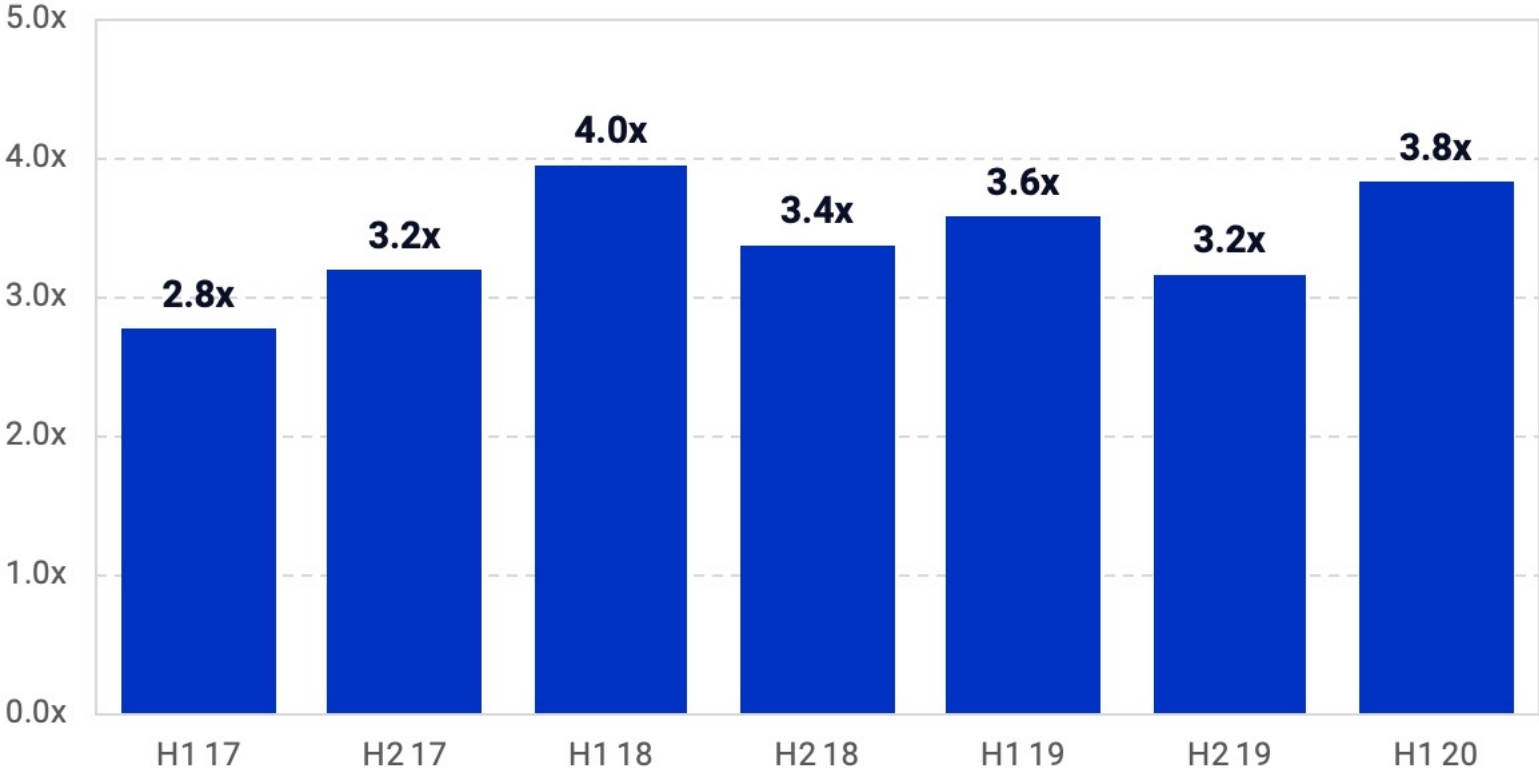


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Source: Purplebricks annual reports.

Purplebricks is just as much an effective marketing company as it is a real estate business.

Purplebricks' Marketing ROI (U.K.)

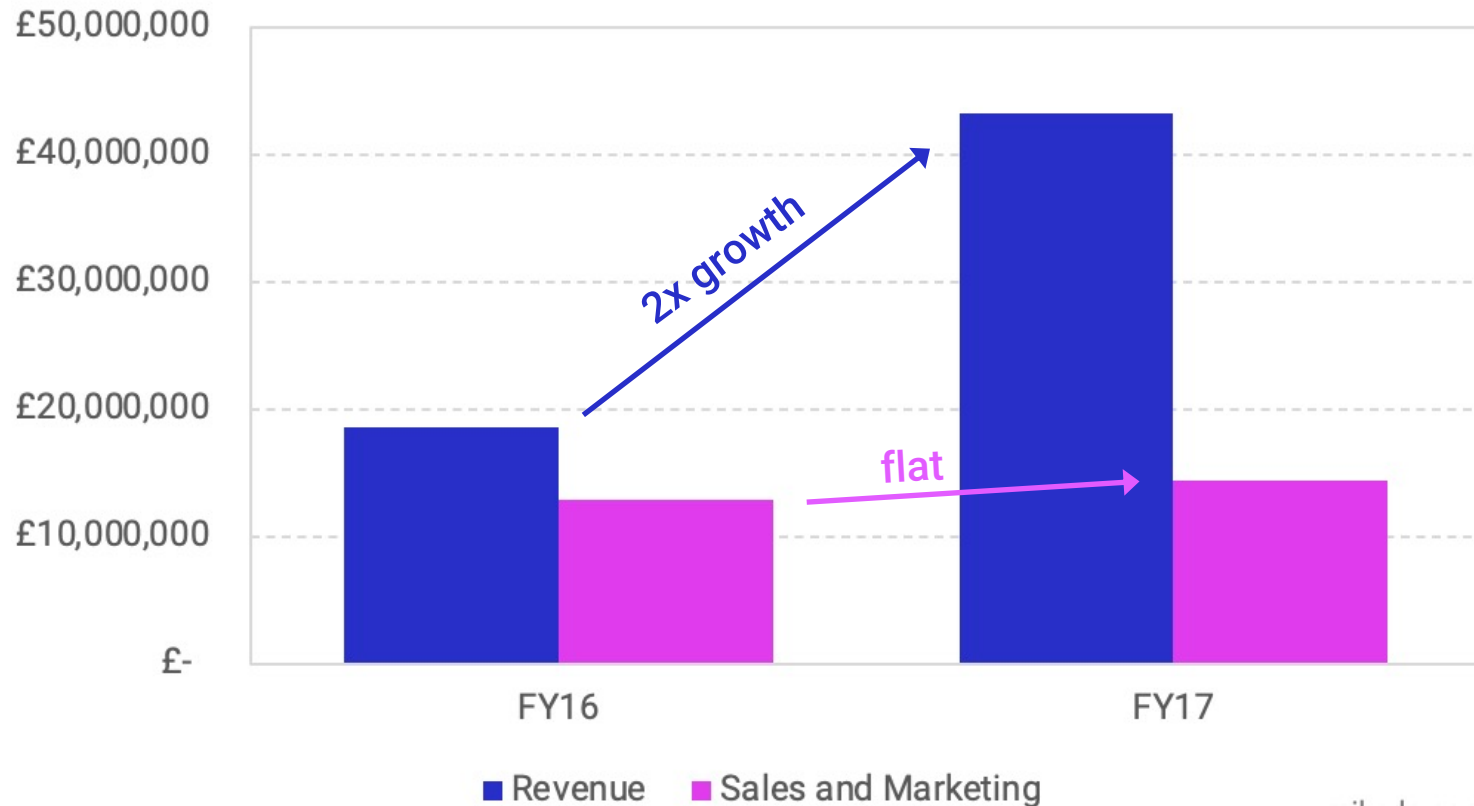


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Source: Purplebricks annual reports.

During its growth phase, Purplebricks was able to scale revenue without an increase in marketing.

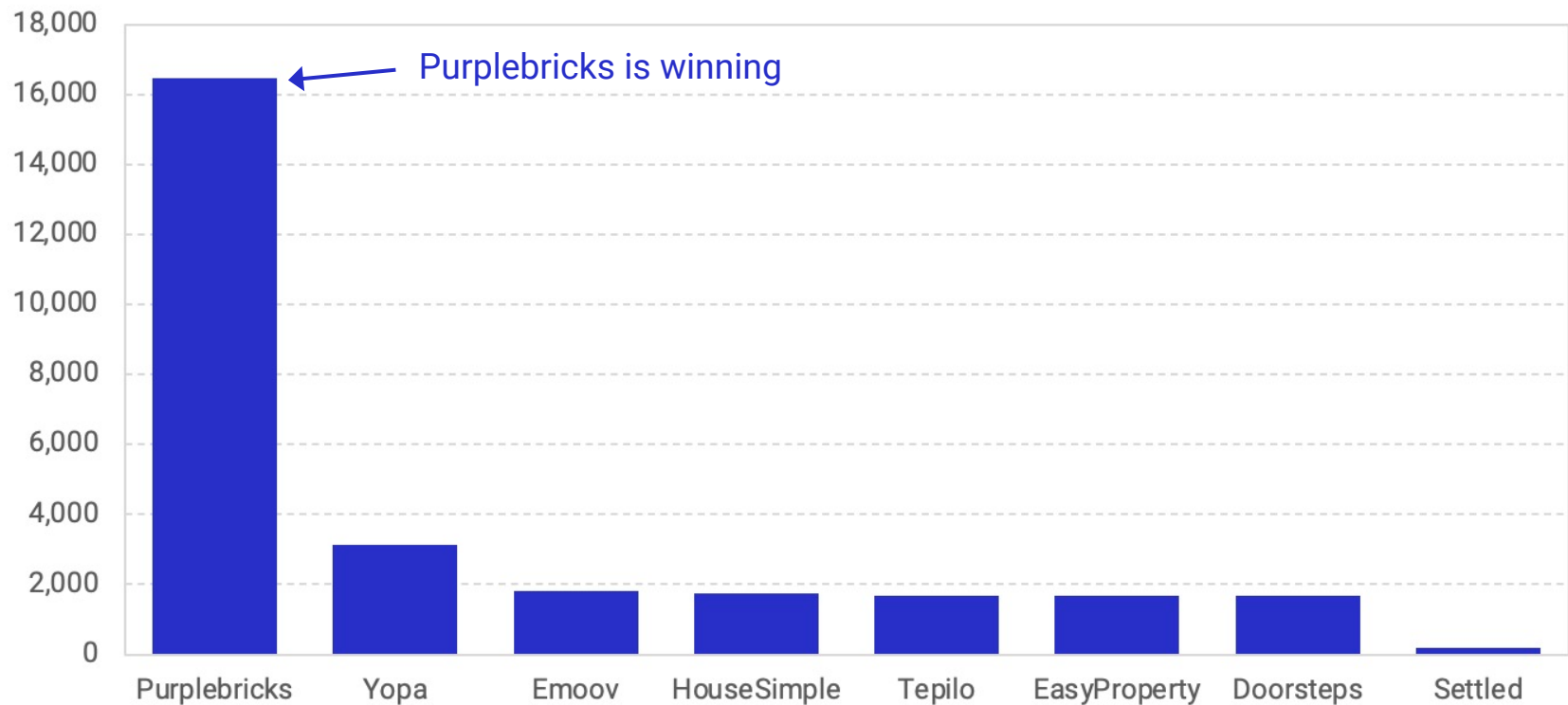
Purplebricks' Revenue and Sales & Marketing Growth



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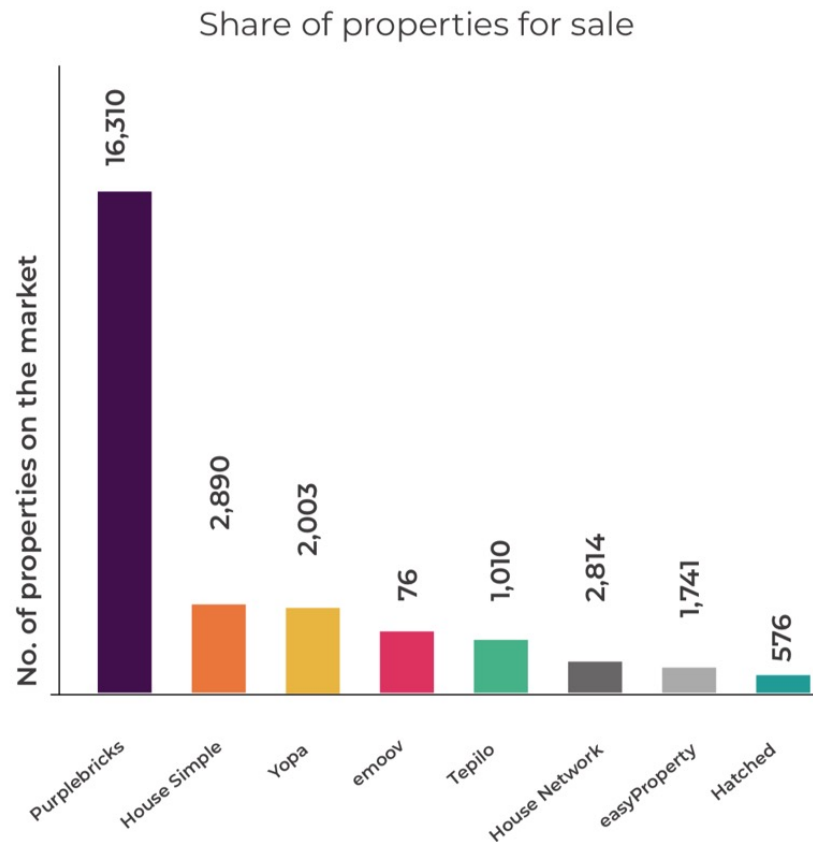
The growth of the fixed fee model in the U.K. followed a “winner take most” dynamic.

Live For Sale Listings (February 2018)



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Which is unsurprising given the fragmented nature of real estate.



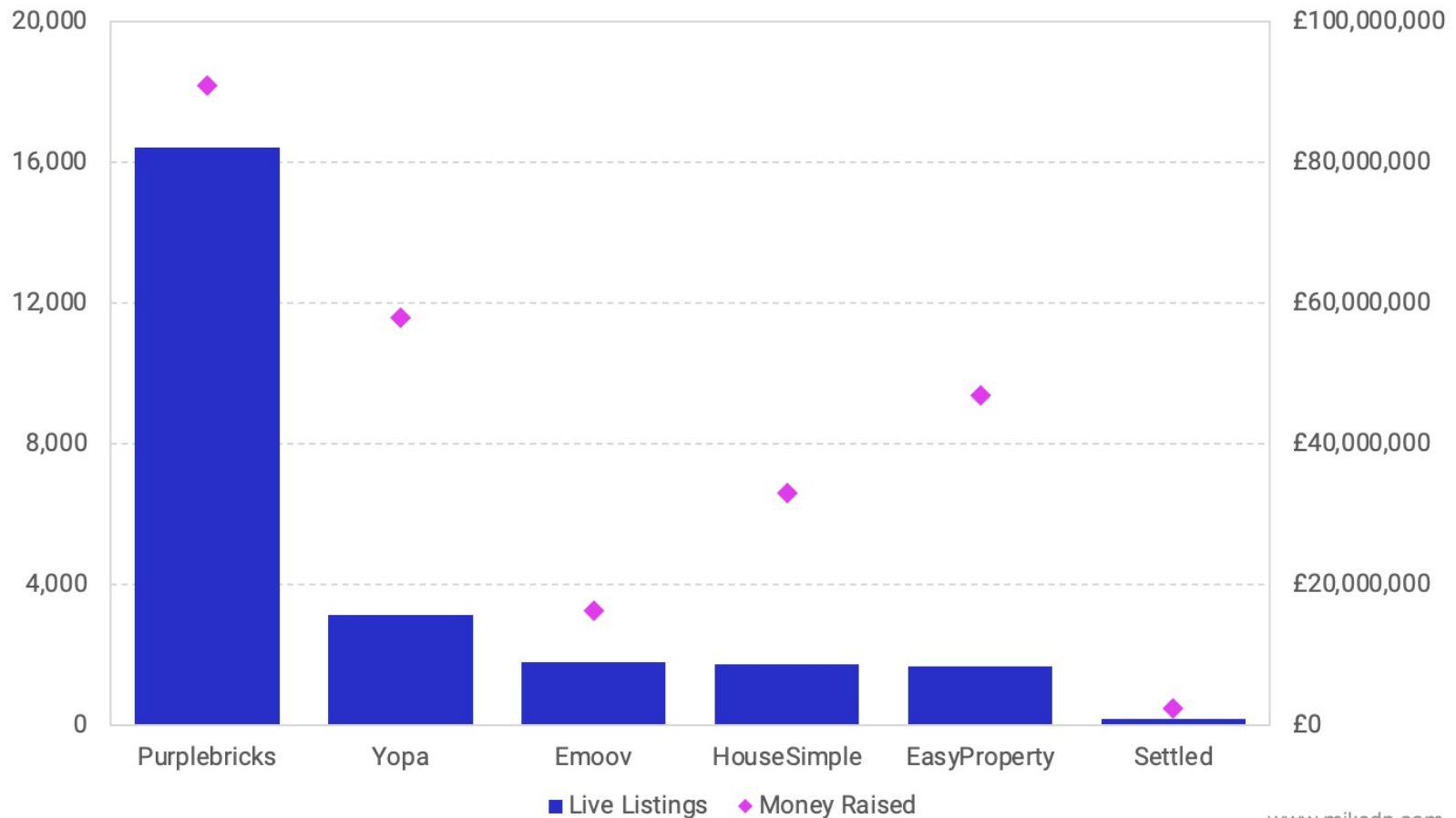
All online agents offered the same product with **little to no differentiation**.

There were **no benefits from network effects**. One customer, one sale.

Purplebricks was able to dominate the market by **outspending its competition**.

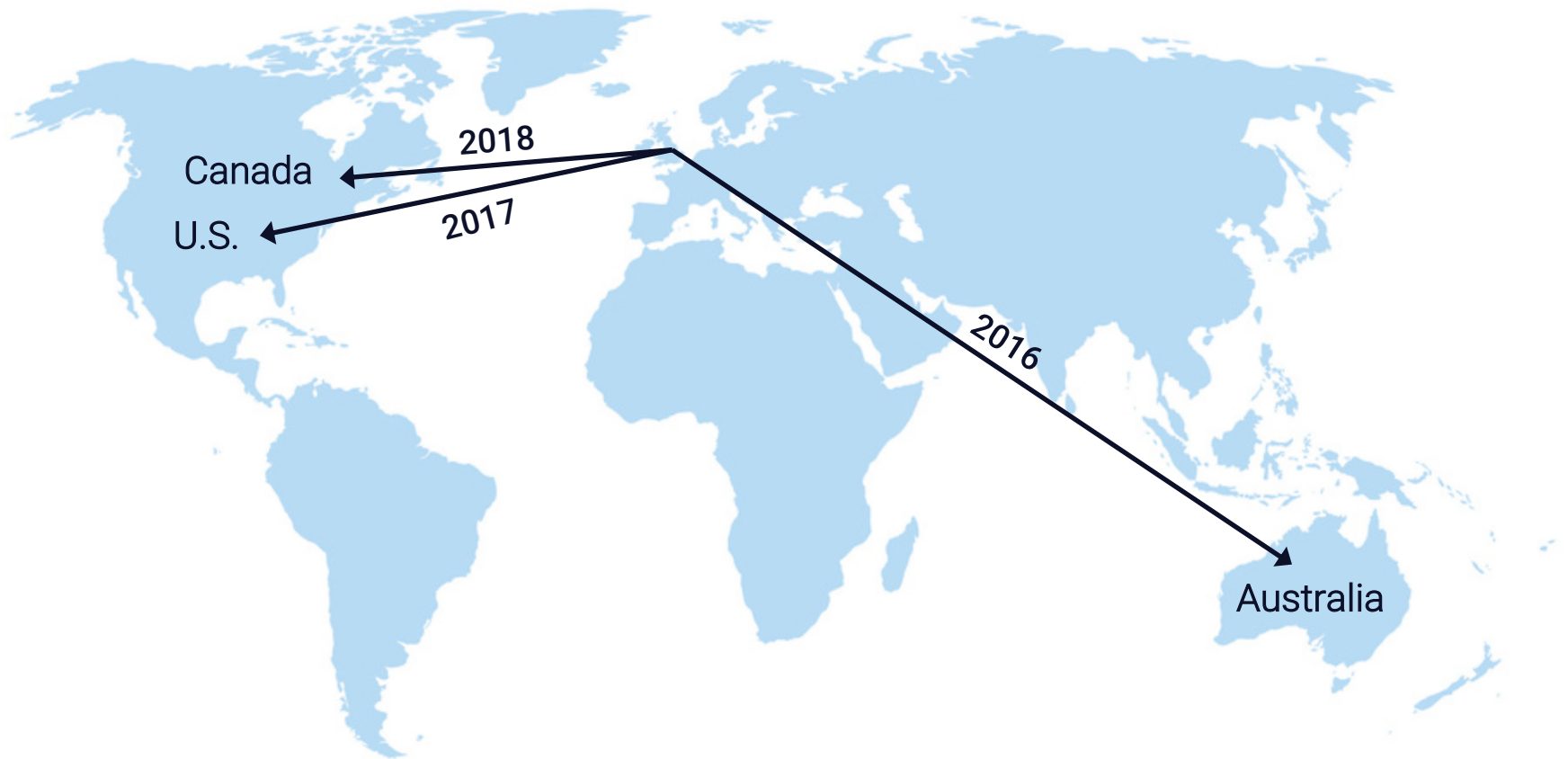
Raising a lot of money doesn't guarantee success, but it's impossible to succeed without it.

Market Traction Relative to Money Raised



Note: Live listings as of February 2018.

The Purplebricks' growth story to investors was based on international expansion.



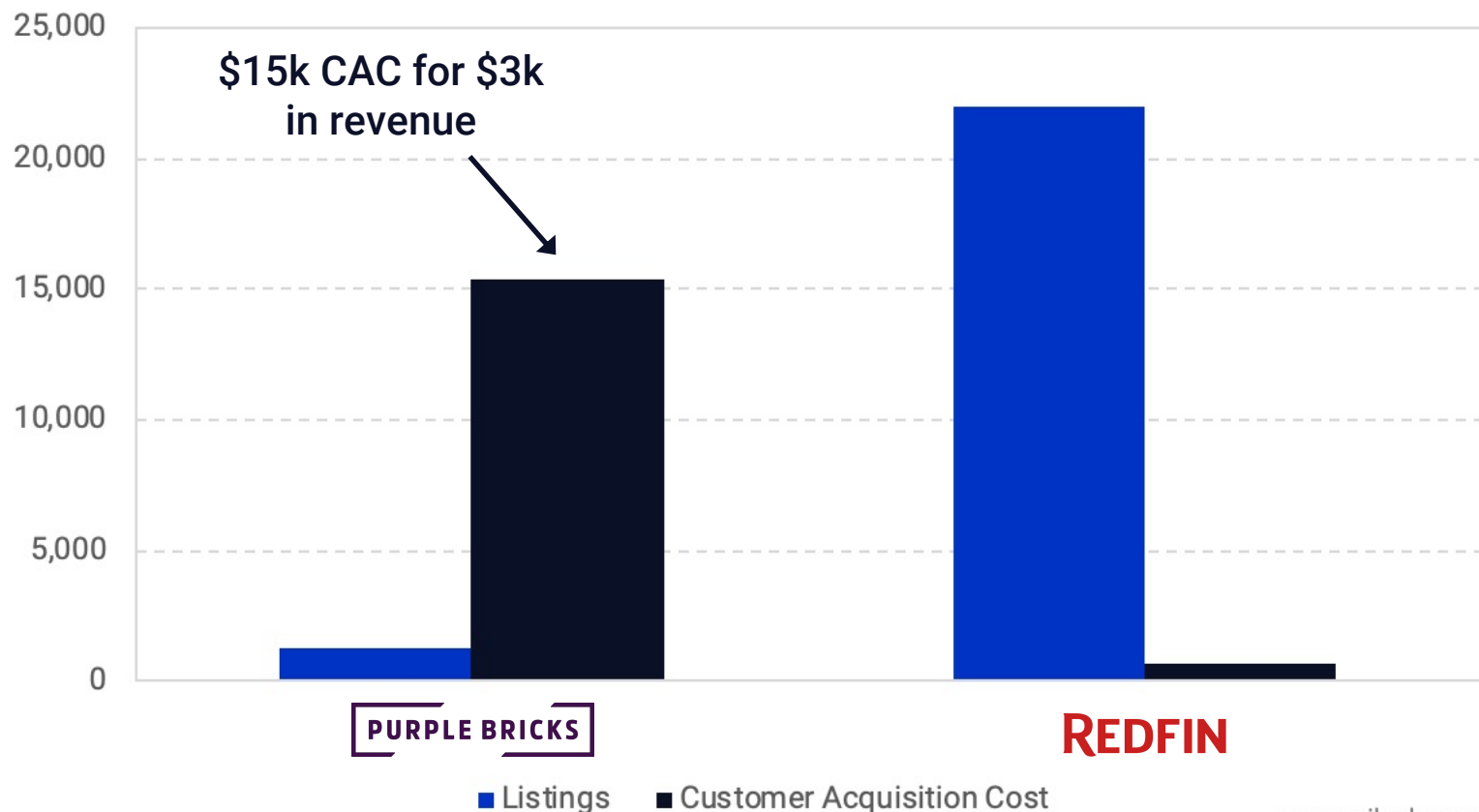
Purplebricks' rising and falling stock price was closely tied to its international expansion.

Purplebricks' International Expansion



Part of the reason the business struggled in the U.S. was incredibly high customer acquisition costs.

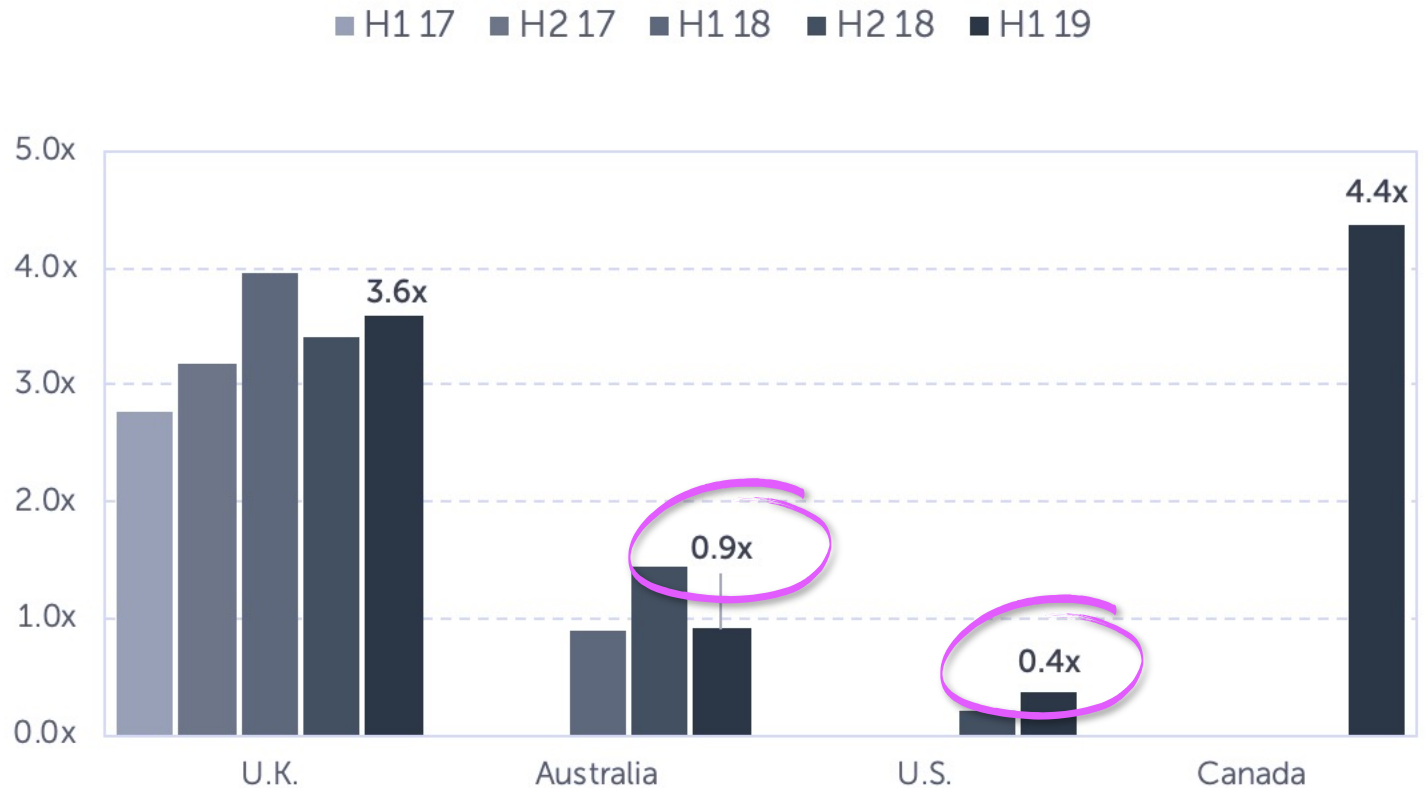
Listings and Customer Acquisition Costs



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Purplebricks' marketing ROI in the U.S. and Australia never matched the efficiency of the U.K. market.

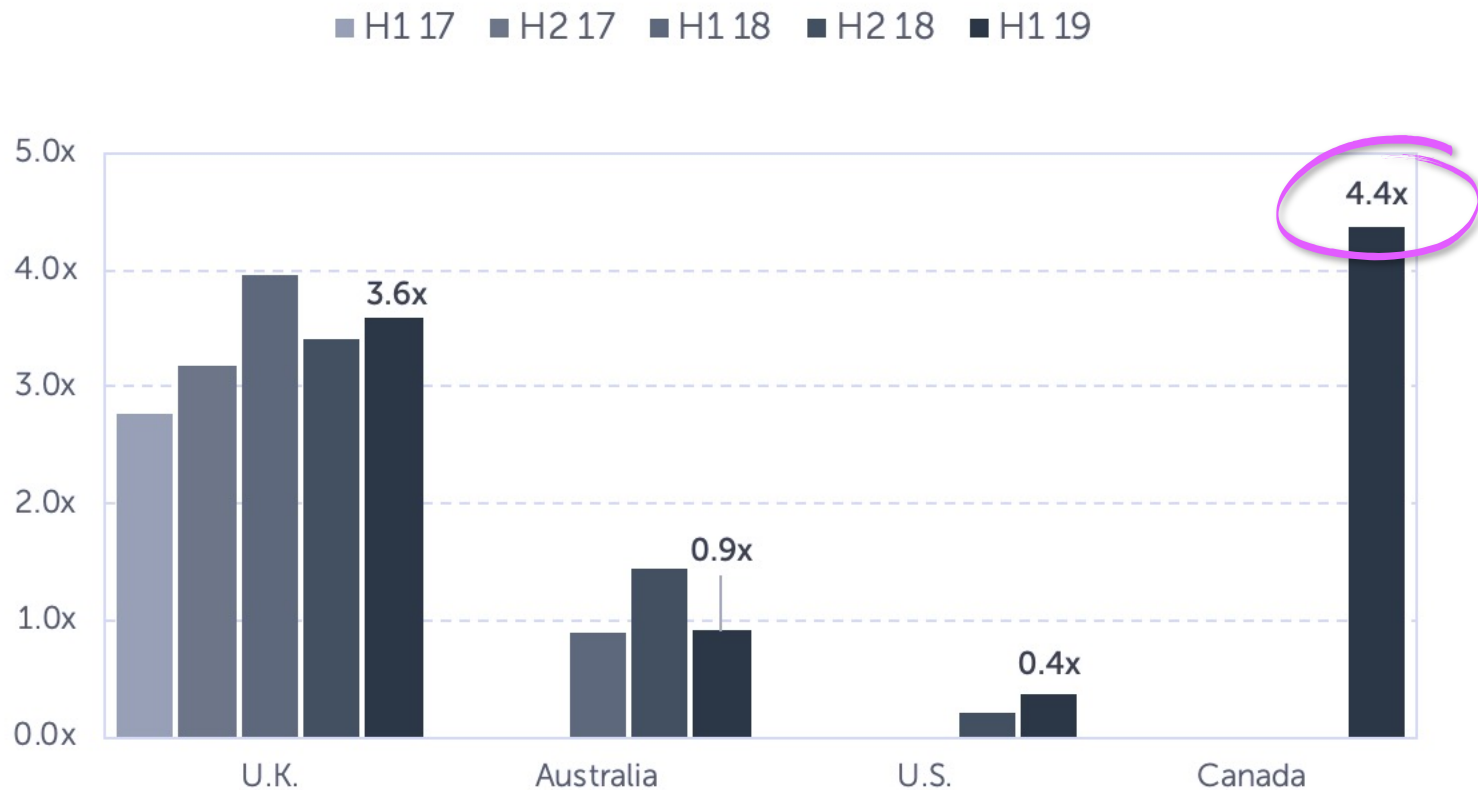
Purplebricks' Global Marketing ROI



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Canada is an outlier because Purplebricks acquired an existing, successful business in that market.

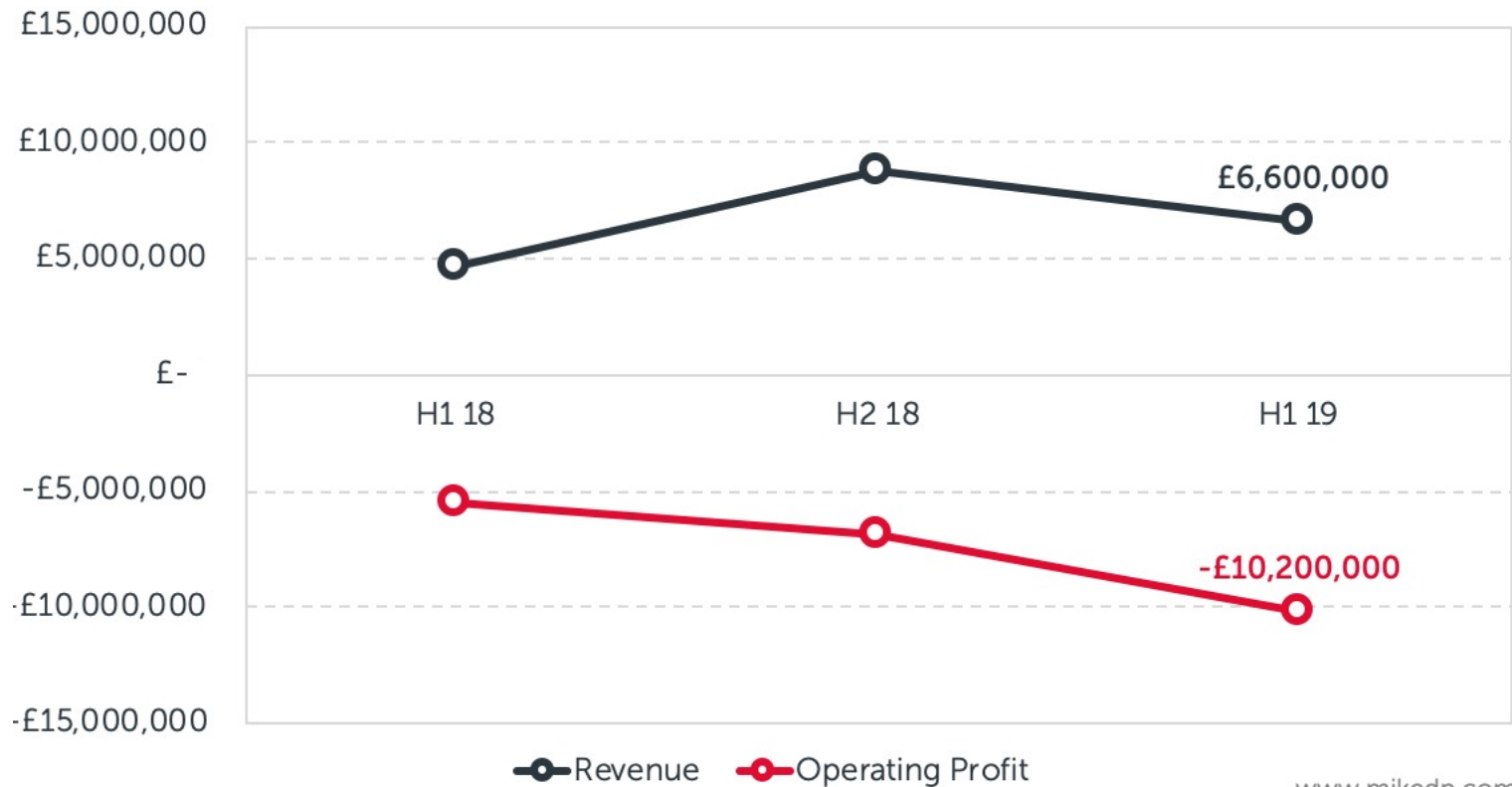
Purplebricks' Global Marketing ROI



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The Australian operation burned cash for years, never coming close to reaching breakeven.

Purplebricks' Australian Finances



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After several years of investment, massive losses, and limited traction, by 2020 Purplebricks had exited all of its international markets.

At the time of Purplebricks' U.K. launch, the largest traditional agency incumbent was Countrywide.

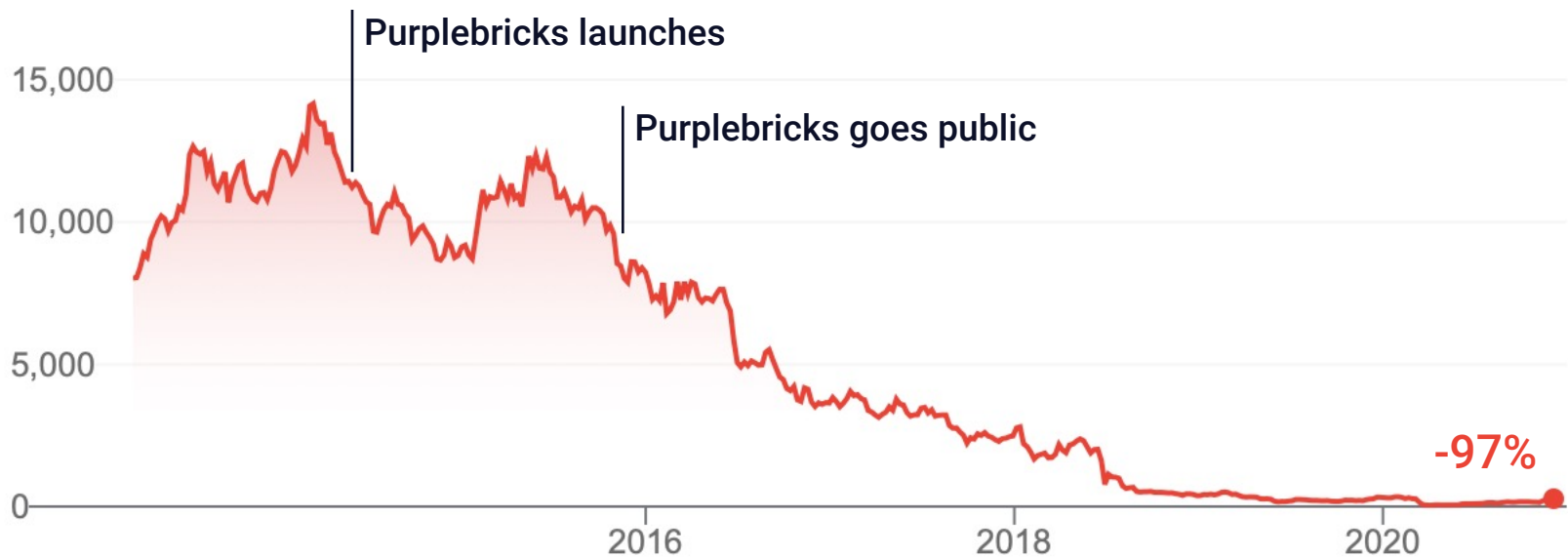


2016 Company Snapshot

- £737M income
- £84M EBITDA
- ~£900M Market Cap
- 991 branches
- 11.5k employees
- 66k property transactions
- ~5% market share

Purplebricks' rise coincided with the decimation of Countrywide as a public company.

Countrywide's Stock Price



To compete, Countrywide launched its own online offering across its brands with a low, fixed fee.

The screenshot shows the homepage of the Entwistle Green website. At the top left is the logo for Entwistle Green, which includes the company name and a stylized red, white, and green diagonal bar. To the right of the logo is a search bar with the placeholder text "Search for a Property". Further right are two buttons: "For sale" and "To rent". Below the search bar is a horizontal navigation menu with links for "Buy", "Sell", "Rent", "Landlords", "Mortgages", "Branches", "Videos", "About", and "Contact". On the right side of this menu are two buttons: "GET A FREE VALUATION" (green) and "BOOK VIEWING" (red). The main content area features a large black banner with white text. The text reads: "We've done it! A high street agent that lets you sell online from **£995**". Below the price, it says "Pay later option available*". To the right of this text is a large green circular graphic with a scalloped edge containing the text "It's the choice that counts". At the bottom left of the banner is a red button with the text "Find out more". At the bottom center of the banner are two small circles, one red and one white.

Entwistle Green

Search for a Property

For sale To rent

Buy Sell Rent Landlords Mortgages Branches Videos About Contact

GET A FREE VALUATION BOOK VIEWING

We've done it! A high street agent that lets you sell online from **£995**

Pay later option available*

Find out more

It's the choice that counts

But it suffered from a lack of strategic advantage as a brand extension, rather than as a new fighter brand.

Potential Benefits of a Fighter Brand



Protected premium offerings	No
Open new, lower-end markets	Yes
Undercut/eliminate competition	No
Financially viable cost structure	No
Start with customer needs	No
Avoid management distraction	No

By launching a brand extension, Countrywide missed out on the classic benefits of a fighter brand: eliminating competition, protecting the existing premium offering, and opening up new, lower-end markets for the organization.

Countrywide's approach begs the question: Was the offering truly meant to succeed?

Countrywide vs. Purplebricks is
a cautionary tale of what's at
stake for real estate
incumbents vs. disruptors.

The Rise of iBuyers

iBuyers buy homes directly from consumers, turning the traditional home selling process on its head.

Get an offer on your home with the press of a button.

Get your free offer

Sell your home to Opendoor so you can skip the hassle of listing, showings, and months of uncertainty.

The iBuyer movement is led by Opendoor, founded in 2014, and currently the world's largest iBuyer.

- Opendoor buys homes directly from consumers, quickly spruces them up, and resells them on the open market.
- By March 2019, Opendoor had raised over \$1.3 billion in equity, \$2.4 billion in debt, and was valued at close to \$4 billion.
- In Dec 2020, Opendoor went public at a market cap of \$14B.
- Opendoor offers a compelling customer proposition focused on speed, certainty, and simplicity.



Convenient home sale

Sell your home without listing, showings, and months of stress



Competitive cash offer

No financing fall-through risk, so you can focus on buying your next home



Move on your timeline

Complete flexibility and control of your moving timeline

iBuying is being driven by multi-billion dollar organizations, not scrappy start-ups.

Opendoor

\$9B
market cap

Zillow

\$29B
market cap

Offerpad

\$3B
projected market cap

REDFIN

\$6.5B
market cap

In 2019, iBuyers accounted for nearly 60,000 transactions, or 0.5 percent of the U.S. market.

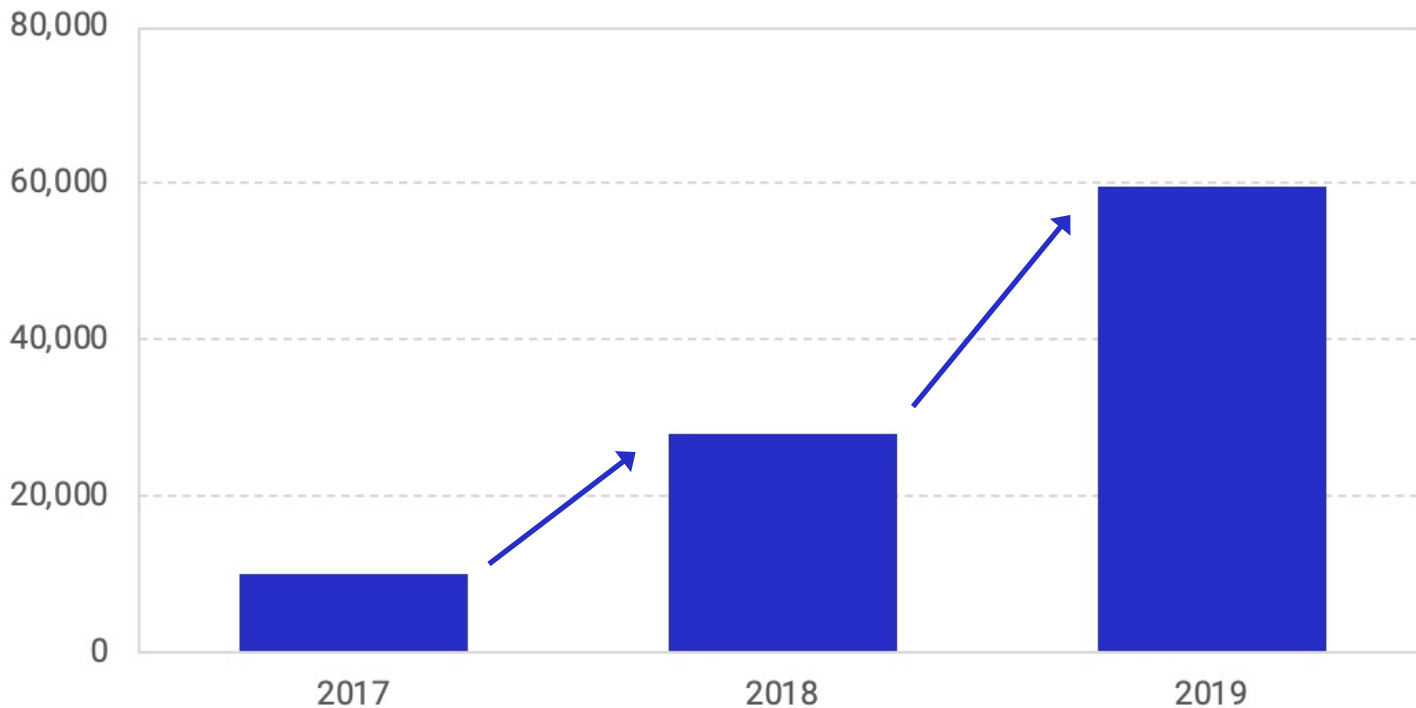
0.5%

National Market Share

Includes over 31,000 purchases and 28,000 sales.

National iBuyer market share doubled in 2019, up from around 0.2 percent in 2018.

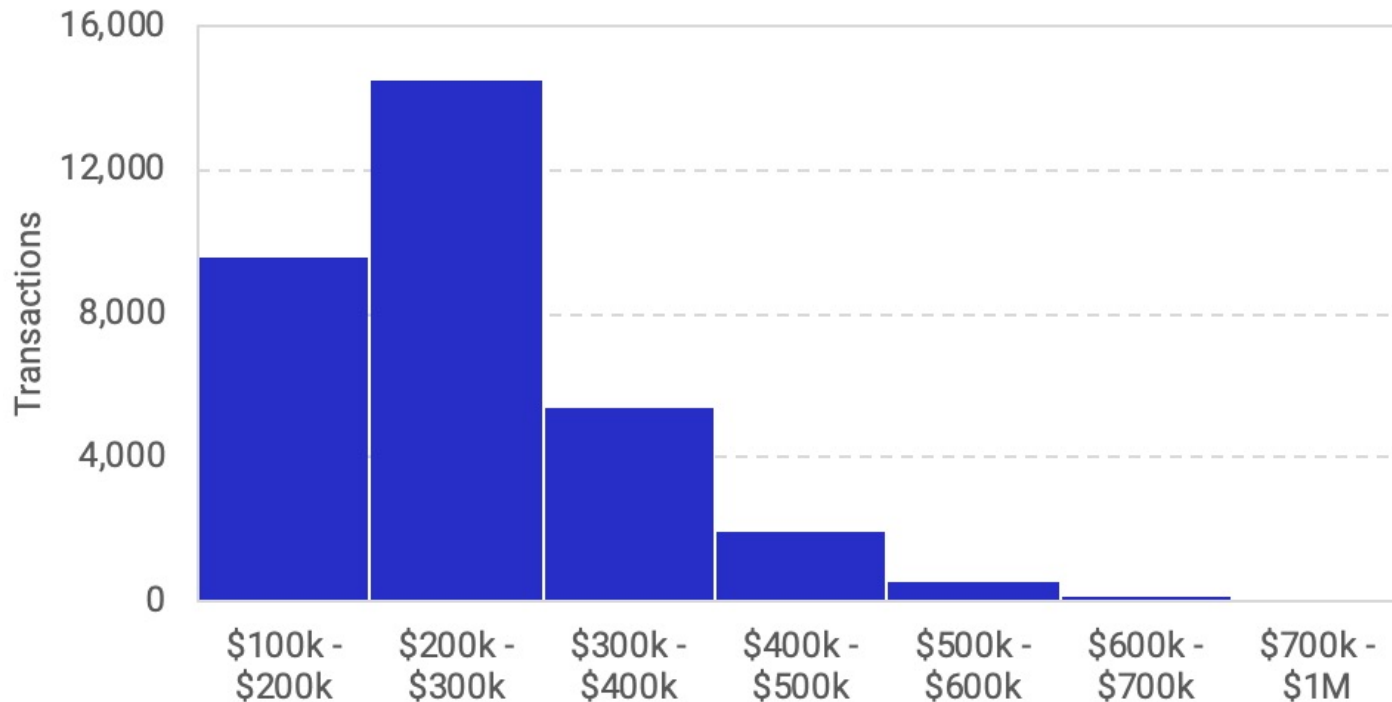
iBuyer Transaction Volumes



www.mikedp.com

On average, iBuyers purchase homes valued between \$250k – \$300k, the median U.S. price point.

iBuyer Purchase Prices, 2018-2019



www.mikedp.com

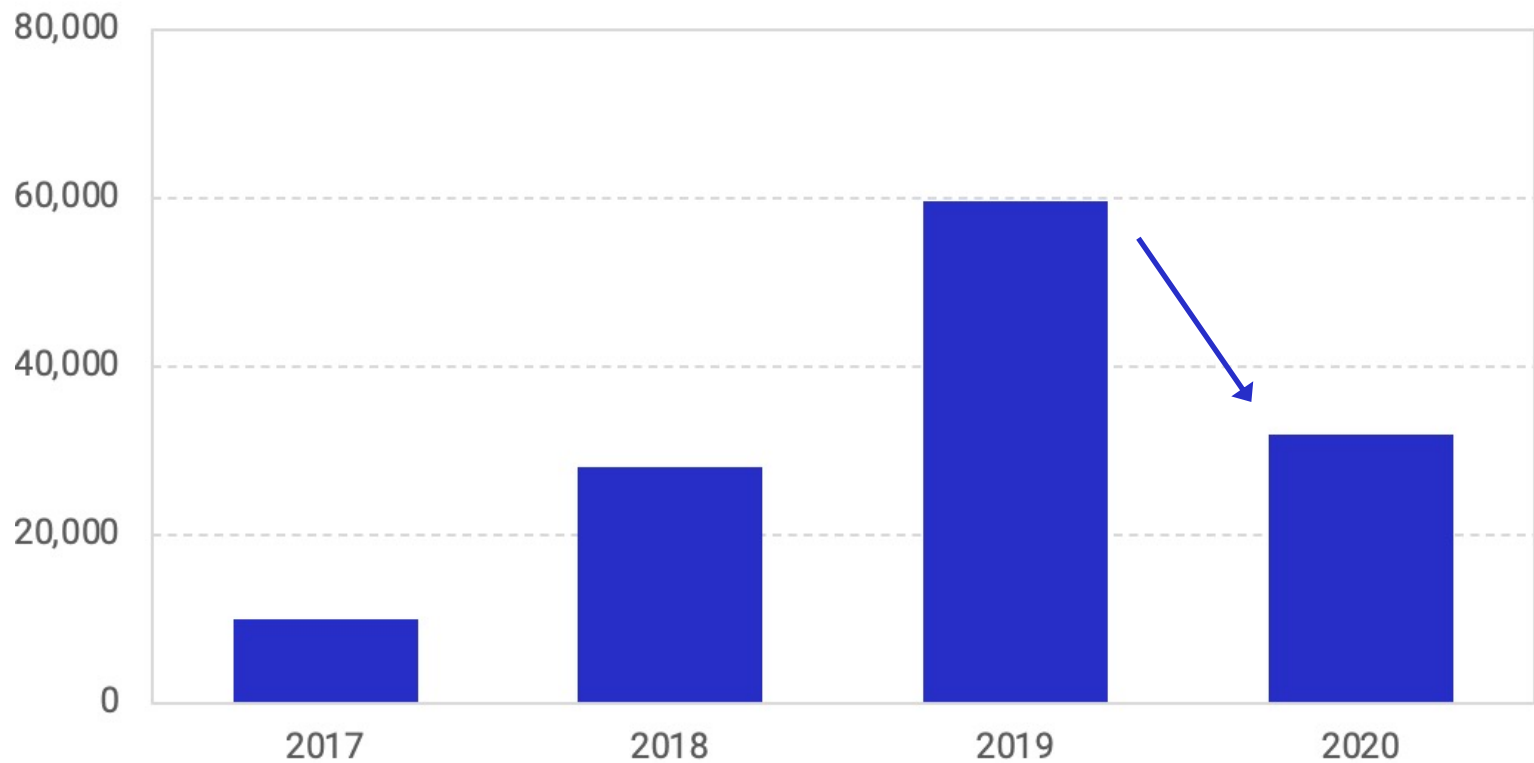
With over 31k purchases at an average price of \$260k, iBuyers bought \$8.1+ billion of homes in 2019.

\$8.1+ Billion

Value of Homes Purchased in 2019

Due to Covid-19, iBuyer transaction volumes were down significantly – by about half – in 2020.

iBuyer Transaction Volumes



www.mikedp.com


In 2018, Opendoor dominated the iBuyer segment with over 70 percent share of the market.

iBuyer Segment Market Share

	2018	
Opendoor	70%	←
Zillow	3%	
Offerpad	26%	
REDFIN	1%	

Zillow's rapid national expansion shifted the segment materially in 2019.

iBuyer Segment Market Share

	2018	2019
Opendoor	70%	64%
 Zillow	3%	18%
Offerpad	26%	16%
REDFIN	1%	2%

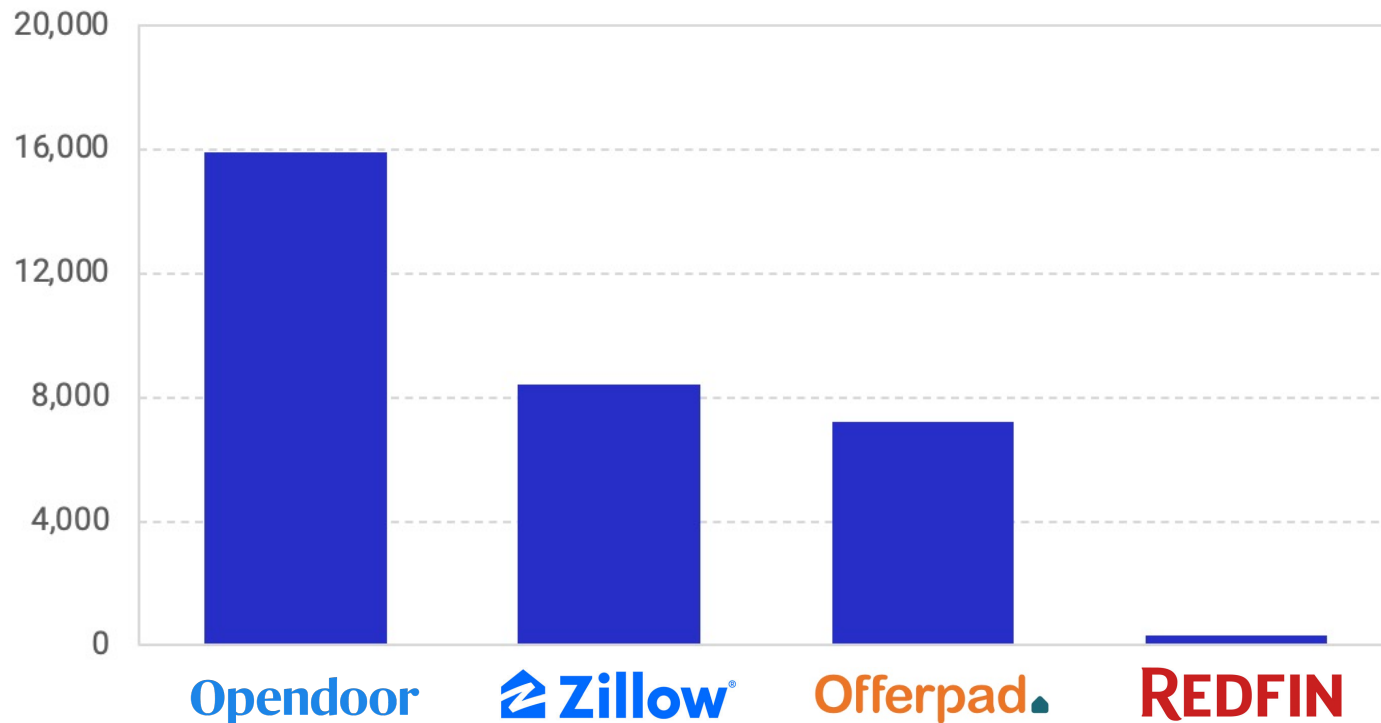
And in 2020, iBuyer market share changed further, with Zillow and Offerpad making market share gains.

iBuyer Segment Market Share

	2018	2019	2020	
Opendoor	70%	64%	50%	
Zillow	3%	18%	26%	←
Offerpad	26%	16%	23%	←
REDFIN	1%	2%	1%	

Opendoor continues to lead the segment, with twice the volume of its closest competitor in 2020.

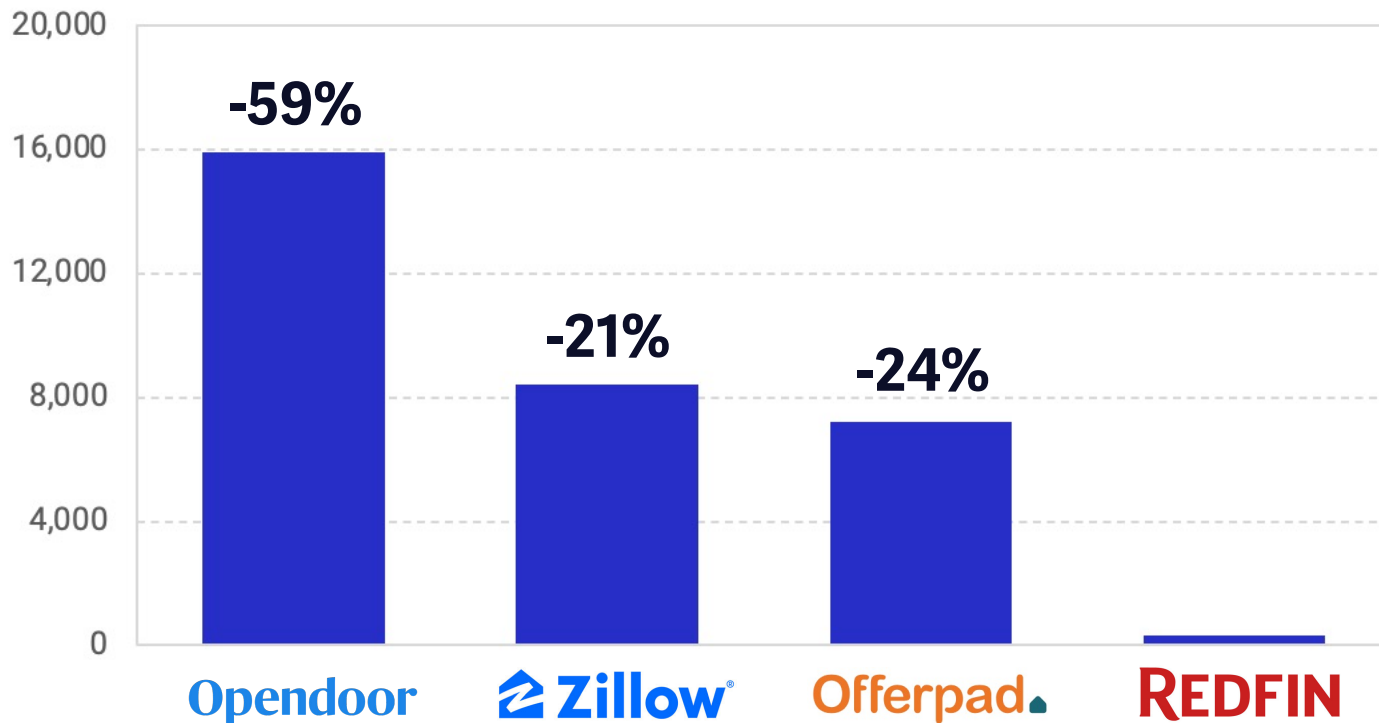
Total Transactions (2020)



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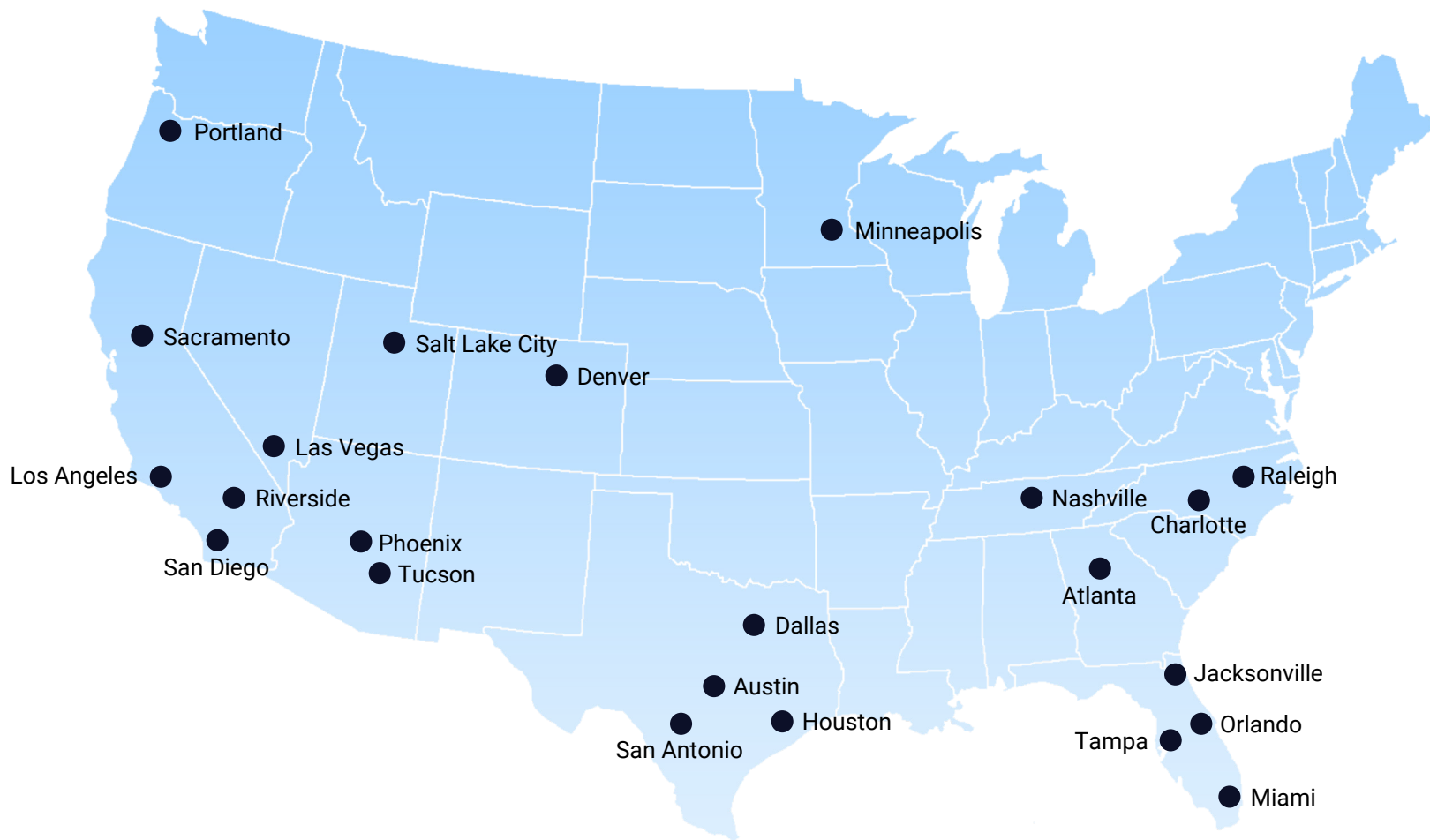
Overall volumes are down significantly from 2019, due to the negative effects of Covid-19 on iBuying.

Total Transactions (2020)



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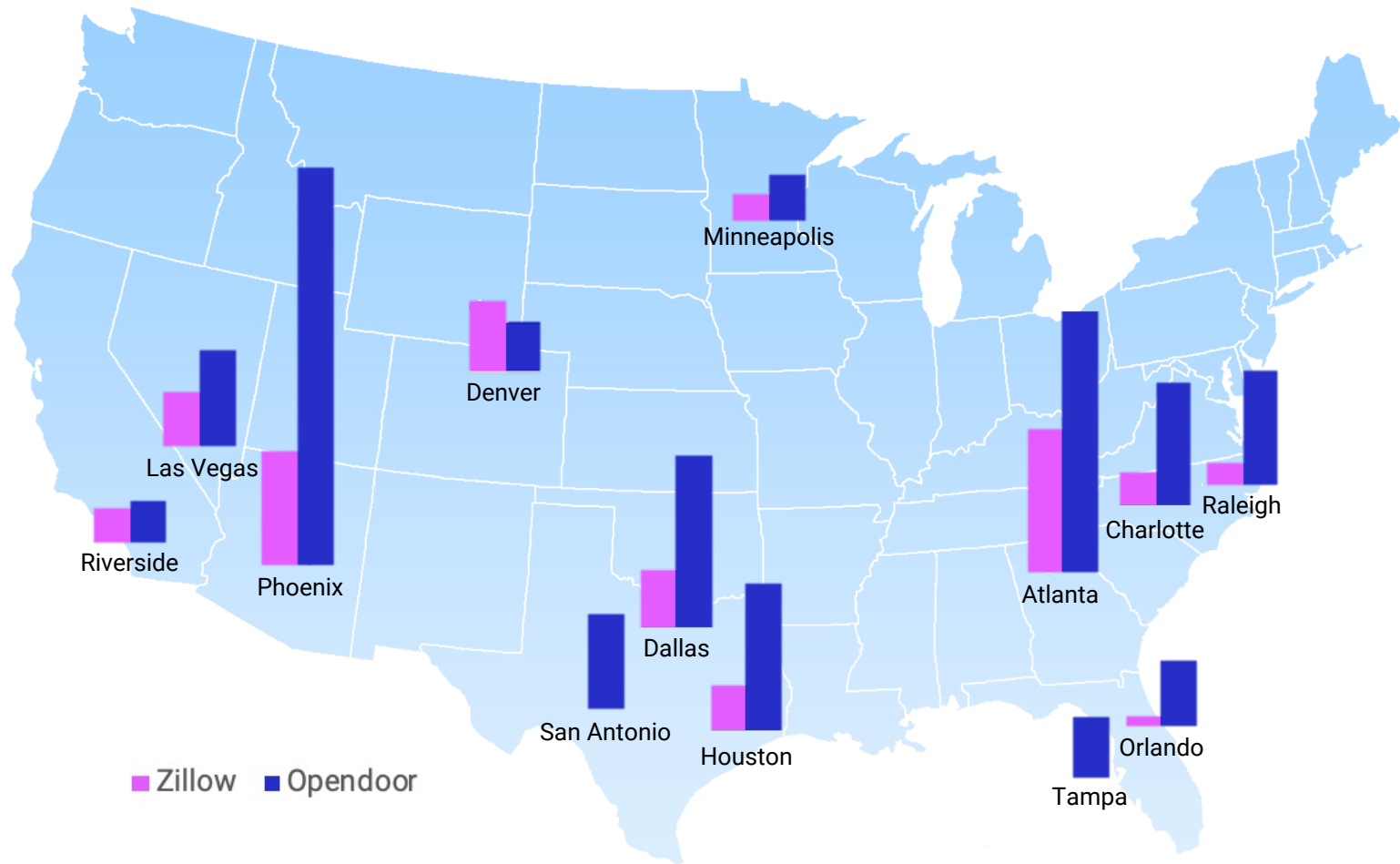
The iBuyers have a growing national presence, clustered in around two dozen markets.



Note: Major market centers as of March 2021.

The top iBuyer markets, by purchase volume, are Phoenix, Atlanta, Texas, and North Carolina.

Top iBuyer Markets by Purchase Volume, 2019



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The iBuyers began expanding into the previously untouched Northeast market in early 2021.



The iBuyers have three primary sources of revenue.

Revenue = Service fee + Price appreciation + Ancillary services

The fee charged
to the home
seller.

5%–10%

The difference
between what an
iBuyer buys and
subsequently resells
a house for.

~5%+

Title insurance,
mortgage, brokerage
services, and more.

~2.5% target

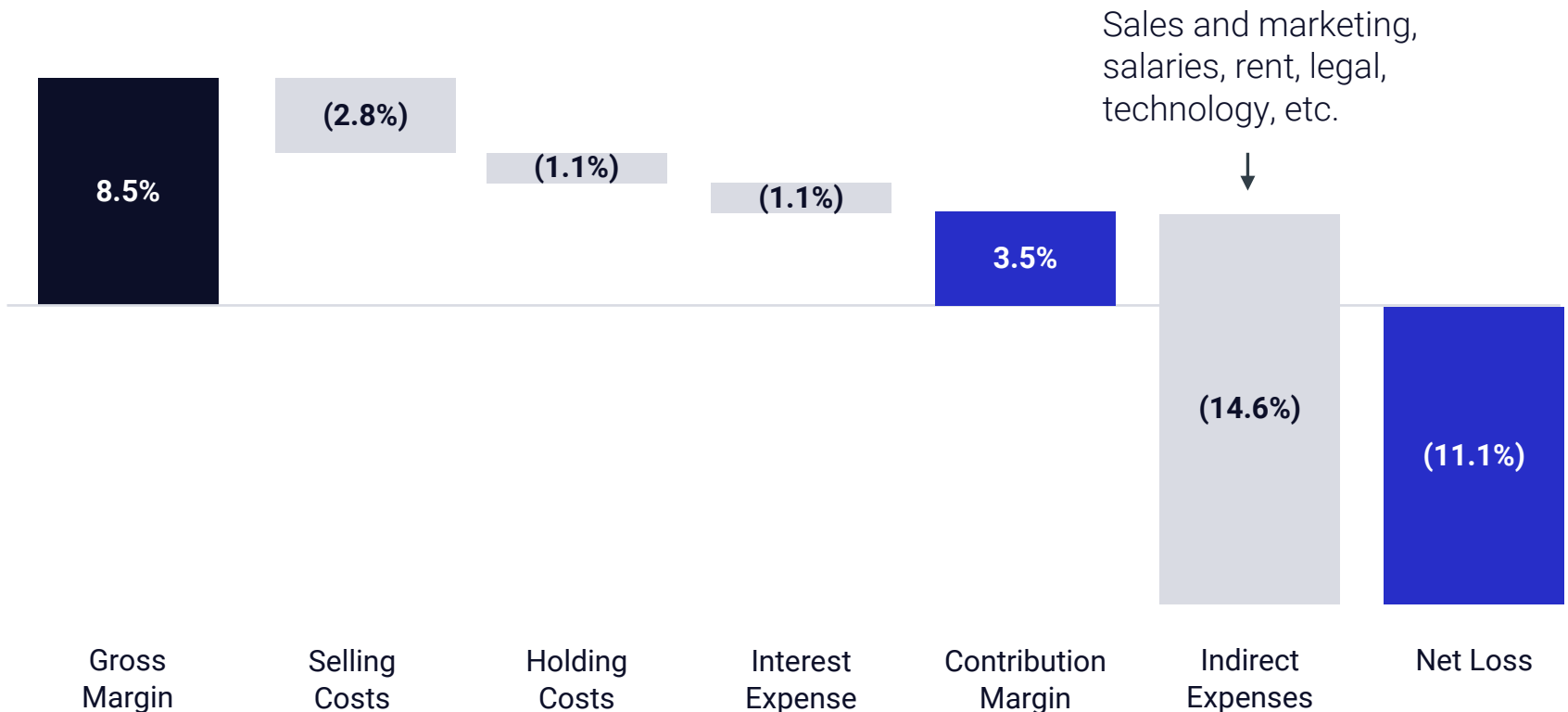
The top iBuyers operate high gross revenue businesses, with negative profit margins.

Revenue Comparison: 2020

	Opendoor	Zillow	Offerpad	
Gross revenue	\$2.6 billion	\$1.7 billion	\$1.1 billion	Includes total value of homes sold
Gross profit	\$220 million	\$98 million	\$88 million	Fees + home appreciation
Gross margin	8.5%	5.7%	8.2%	Fees + home appreciation
Contribution margin	3.5%	(1.2%)	3.6%	After selling & holding costs, and interest
Net margin	(11.1%)	(18.7%)	(2.2%)	After <i>all</i> expenses

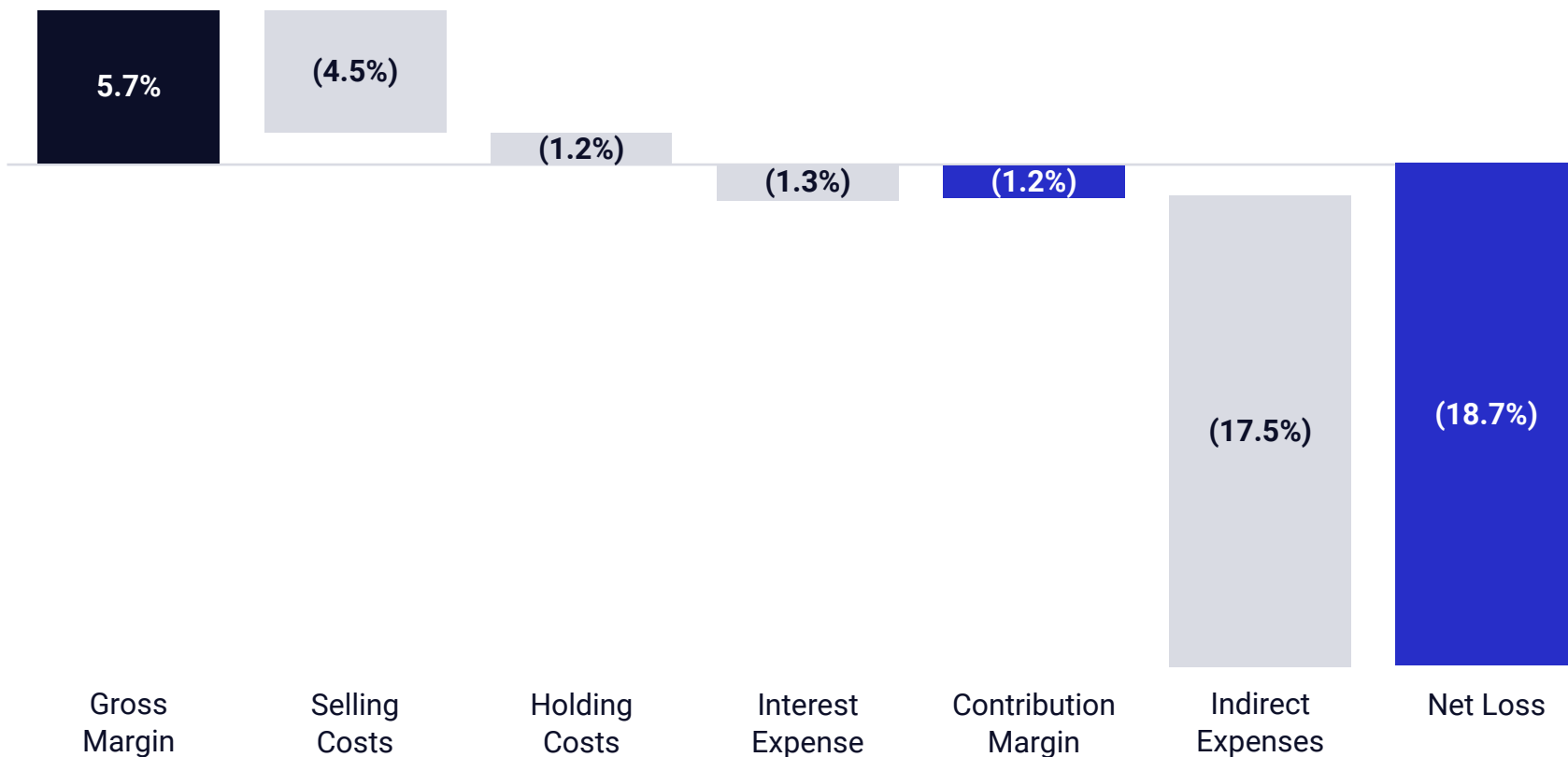
Margins are thin. When all expenses are included (direct and indirect), the model is unprofitable.

Opendoor Unit Economics, 2020



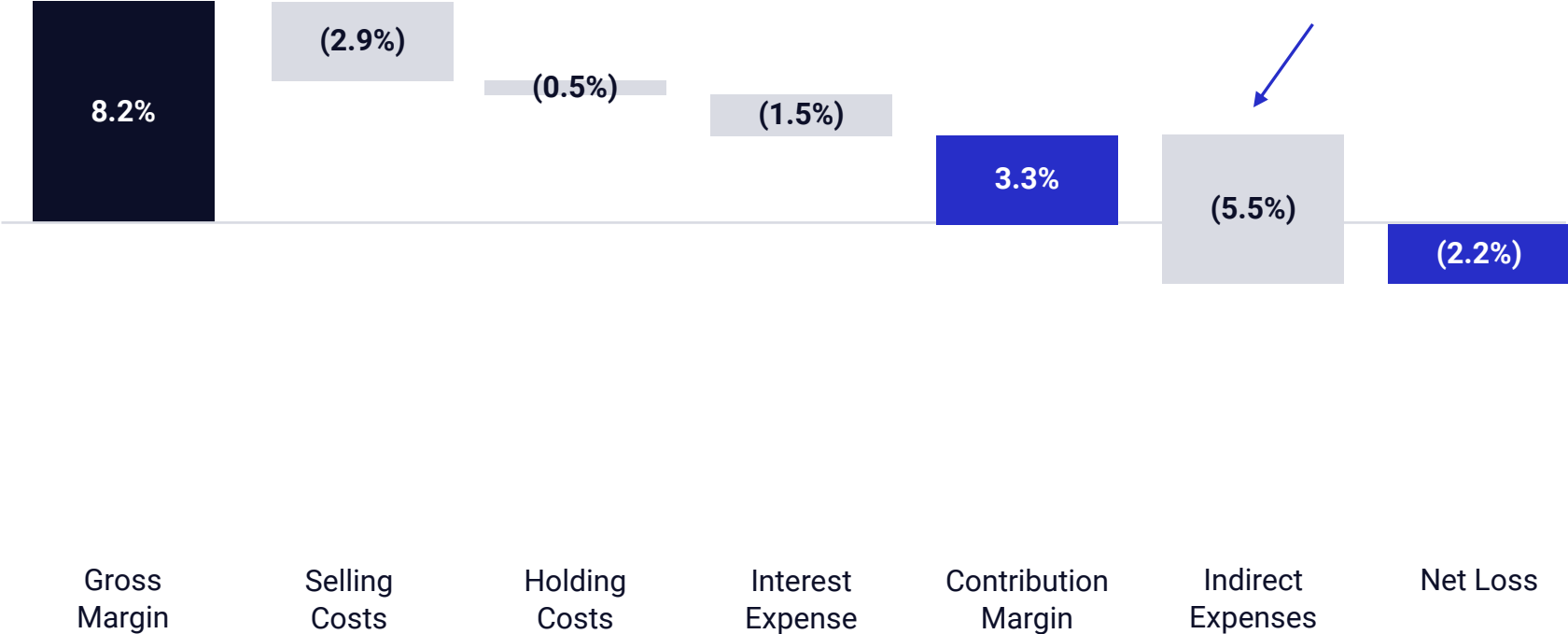
Zillow's margins are even worse, reflecting the massive upfront investment required.

Zillow Offers Unit Economics, 2020



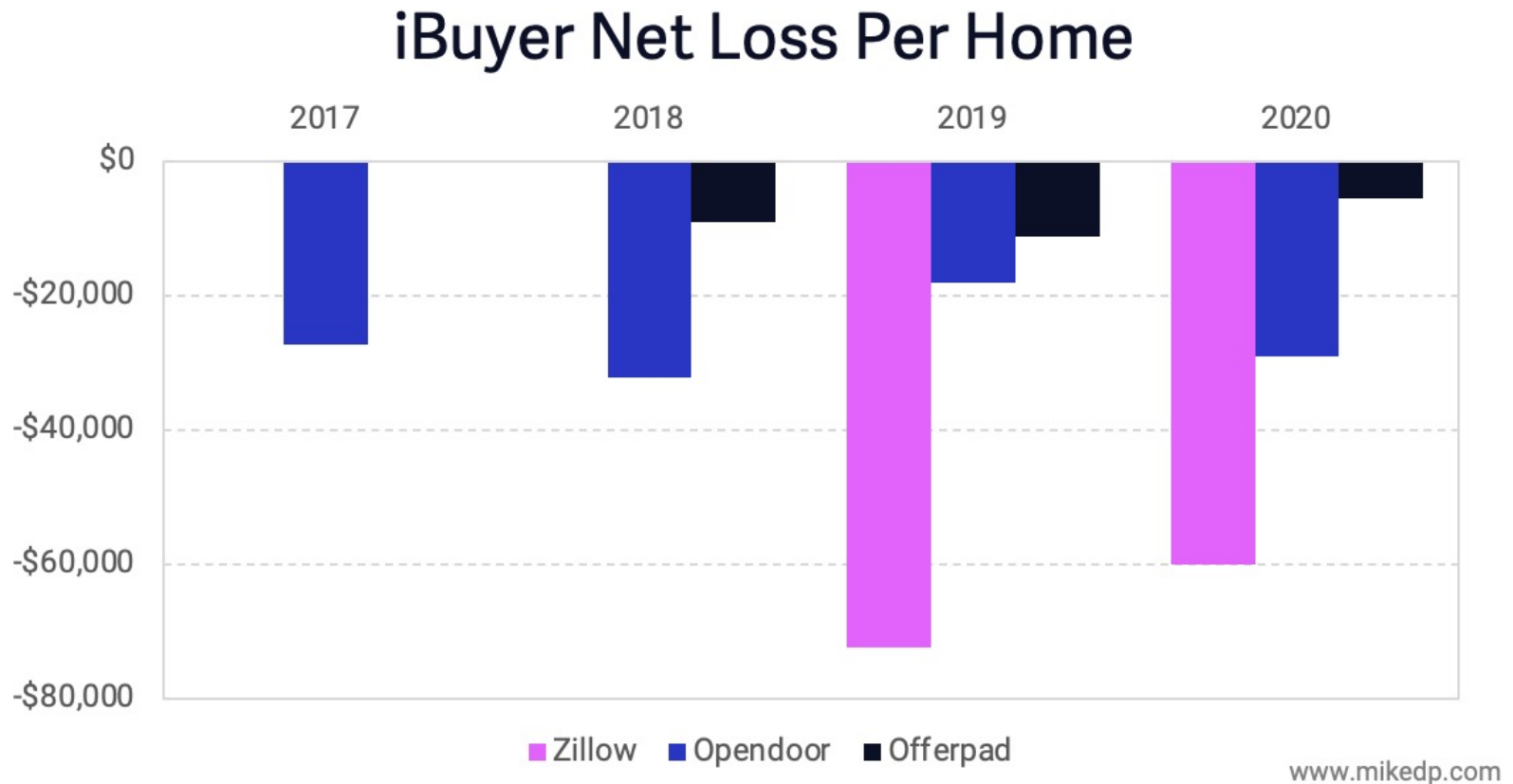
Offerpad comes closest to profitability, driven by significantly lower overhead expenses.

Offerpad Unit Economics, 2020



Source: Offerpad's S-4 filing and investor presentation.

With all expenses included, the major iBuyers are losing tens of thousands of dollars per home.



The path to iBuyer profitability involves monetizing the entire transaction.

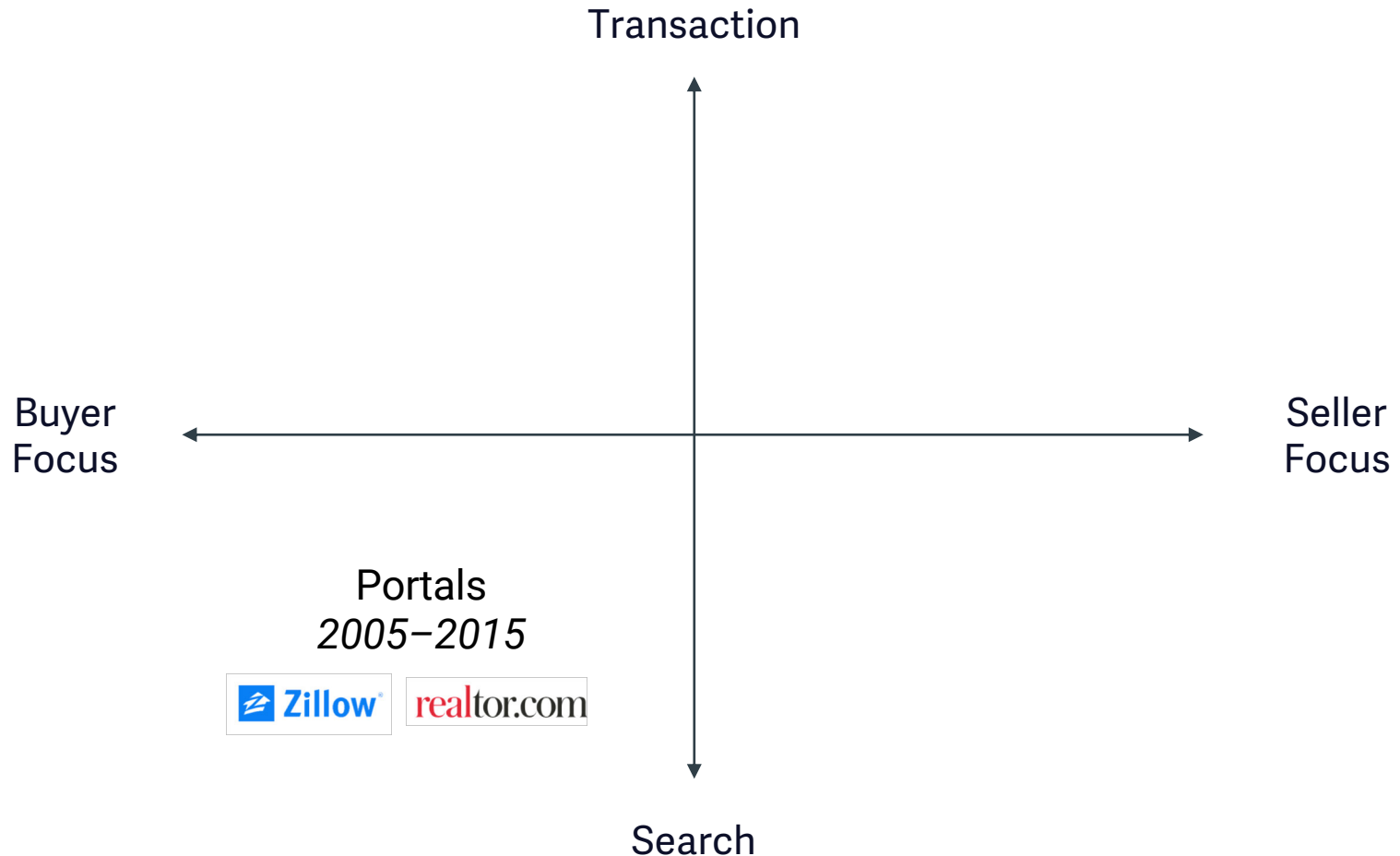
- It's not about the house, it's about the transaction.
- There's a larger ecosystem play that hinges on being able to monetize adjacencies around the transaction.
- For iBuyers, that means mortgage, title, and seller leads on a path to profitability.

Adjacent services roadmap

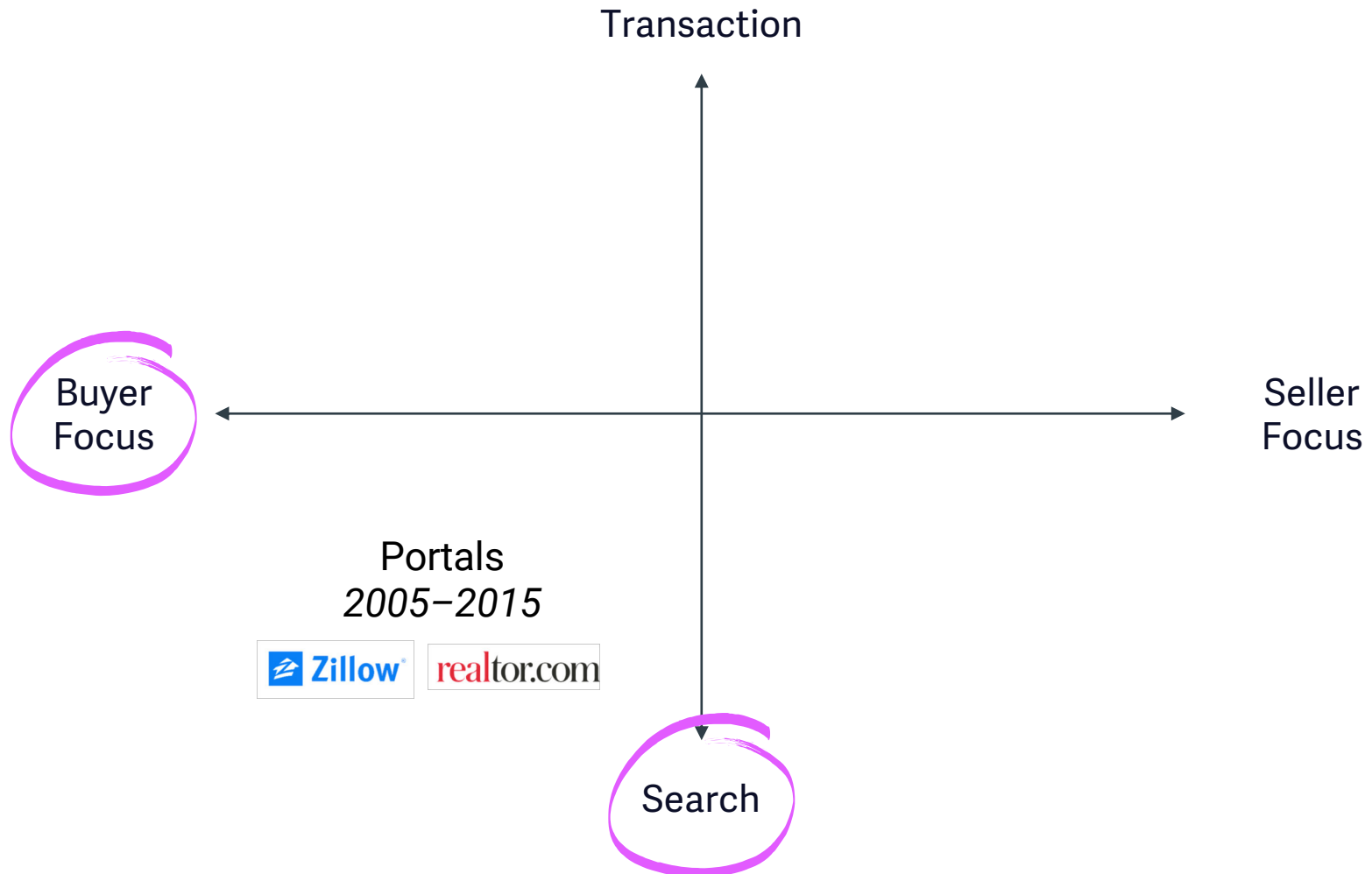
Established	Target CM / home
Title & Escrow	\$1,750
Recently launched	
Home Loans	\$5,000
Buy with Opendoor	\$5,000
List with Opendoor	\$3,750
To be launched	
Home warranty, upgrade & remodel, home insurance, moving services	\$7,500

Power Buyers

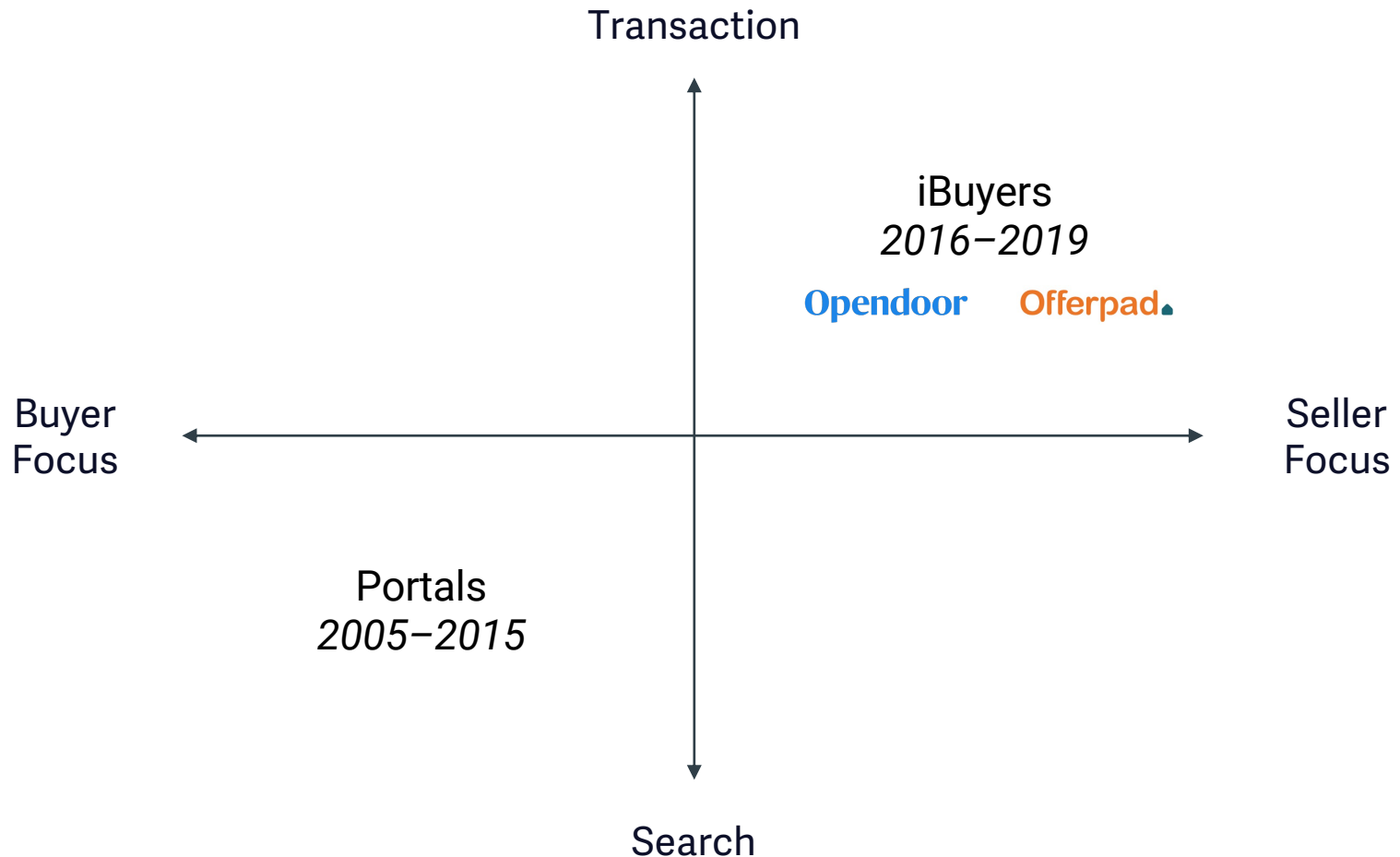
Investment and innovation in real estate tech really began with the portals during the last decade.



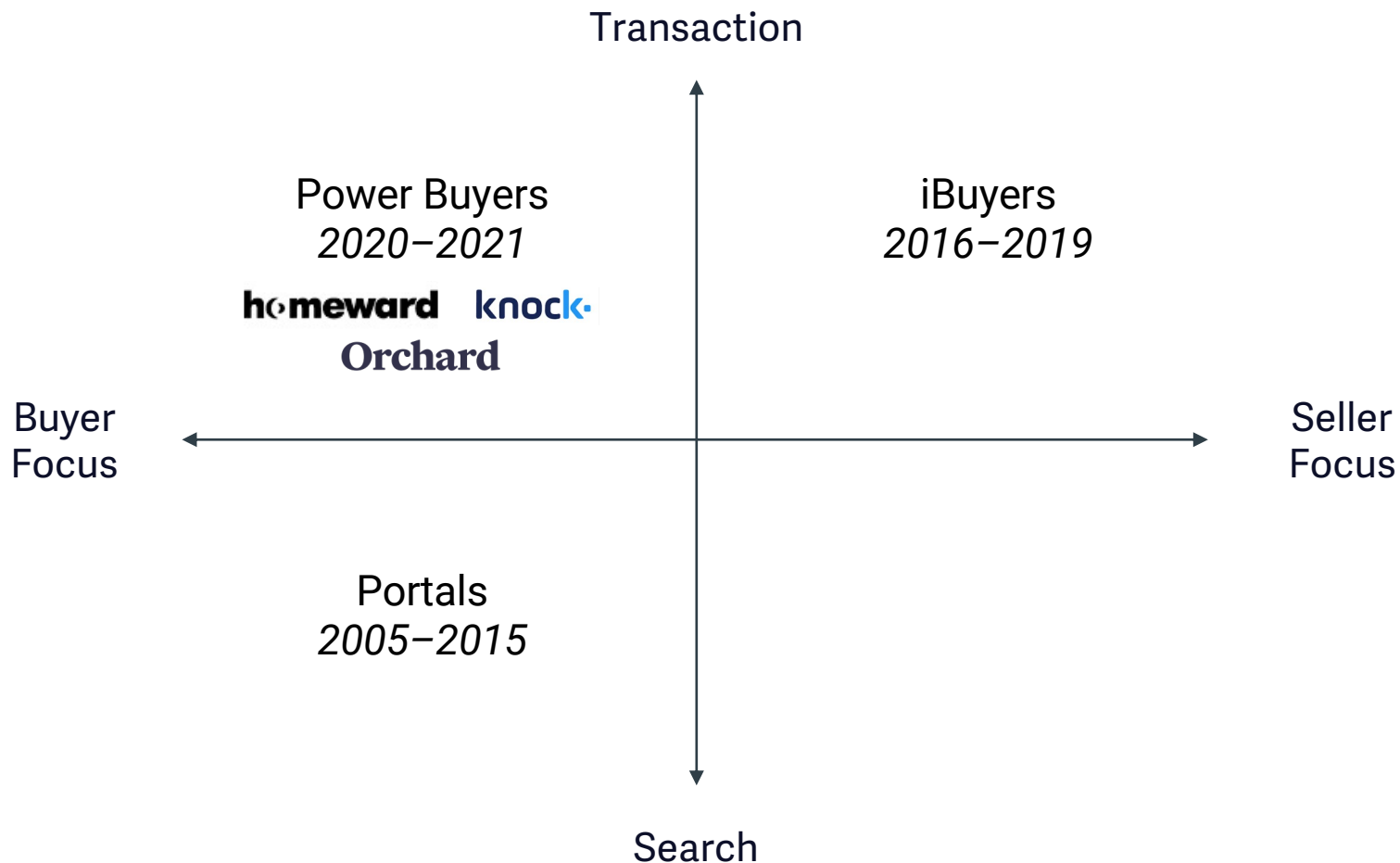
The focus was on improving the search experience for home buyers.



The previous few years saw the rise of iBuyers, focused on the sell-side of the transaction.



The past year has seen the emergence of Power Buyers, focused on the buy-side of the transaction.



Power Buyers empower buyers with products like cash offers, bridge financing, and trade in programs.

Move into your
dream home first

Buy your next
home before you
sell

Now you can buy
before you sell

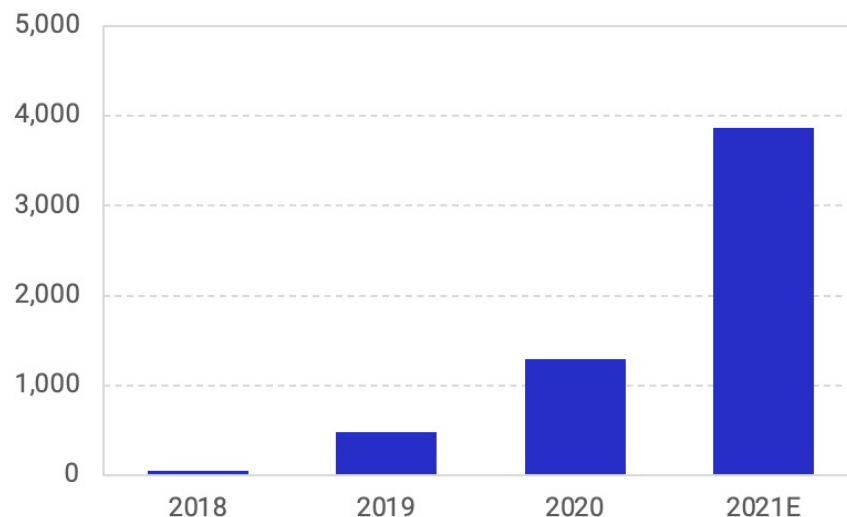
“Buy before you sell,” or the trade in model, is proving to be popular in the hot market of 2021.



Orchard and Homeward saw 150%+ growth in 2020 and over 300%+ growth into 2021.

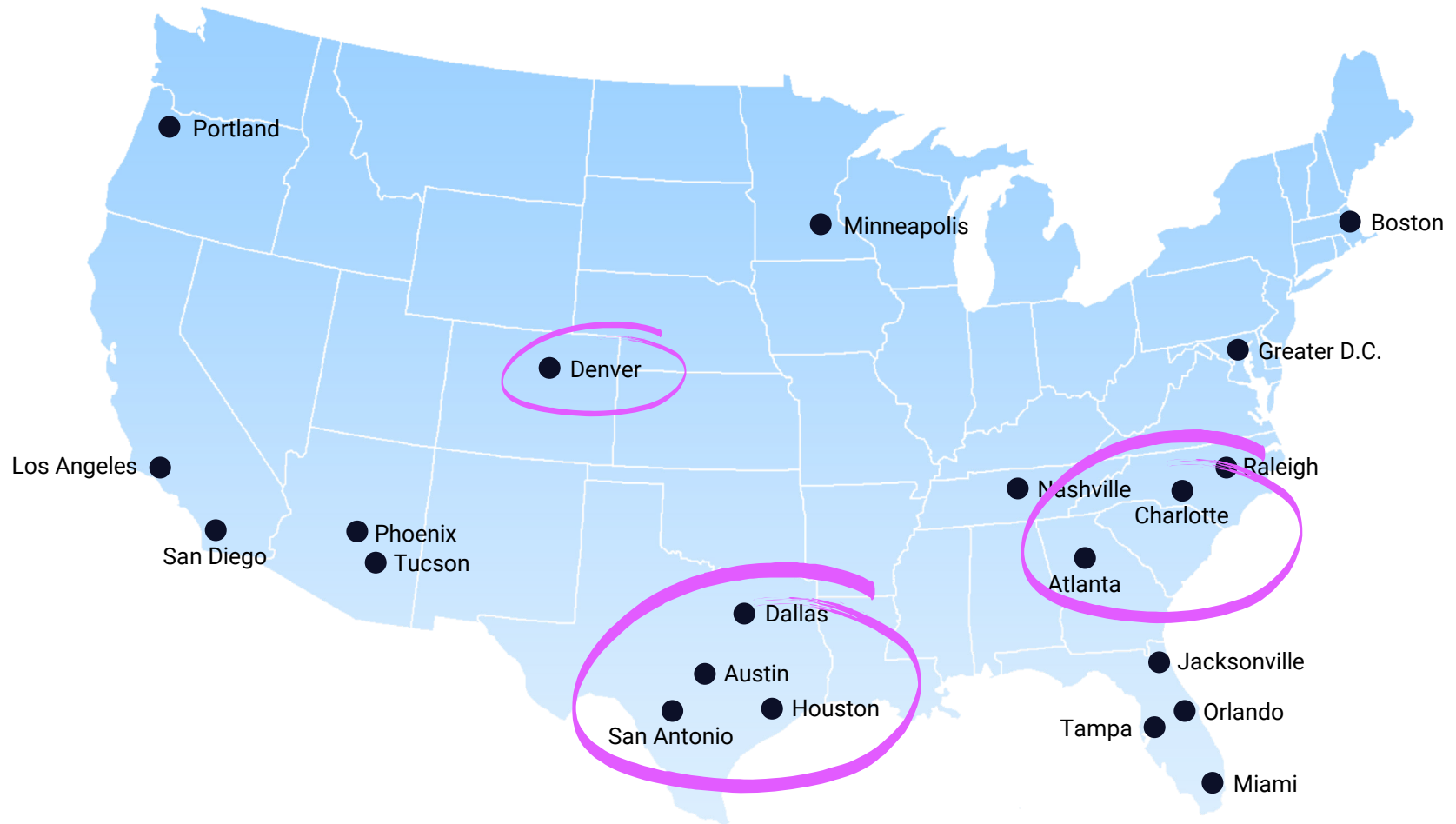
- Overall Power Buyer volumes are in the low thousands each, and growing.
- While still relatively small, the growth rates reflect a strong product/market fit.
- Growth is accelerating, partially driven by big fundraising rounds in 2020 and 2021.

Orchard Transaction Count



www.mikedp.com

The major Power Buyer markets overlap the major iBuyer markets.



The Power Buyers are digitally integrating all aspects of the transaction, including mortgage and title.

The results are industry-leading attach rates.

70%+

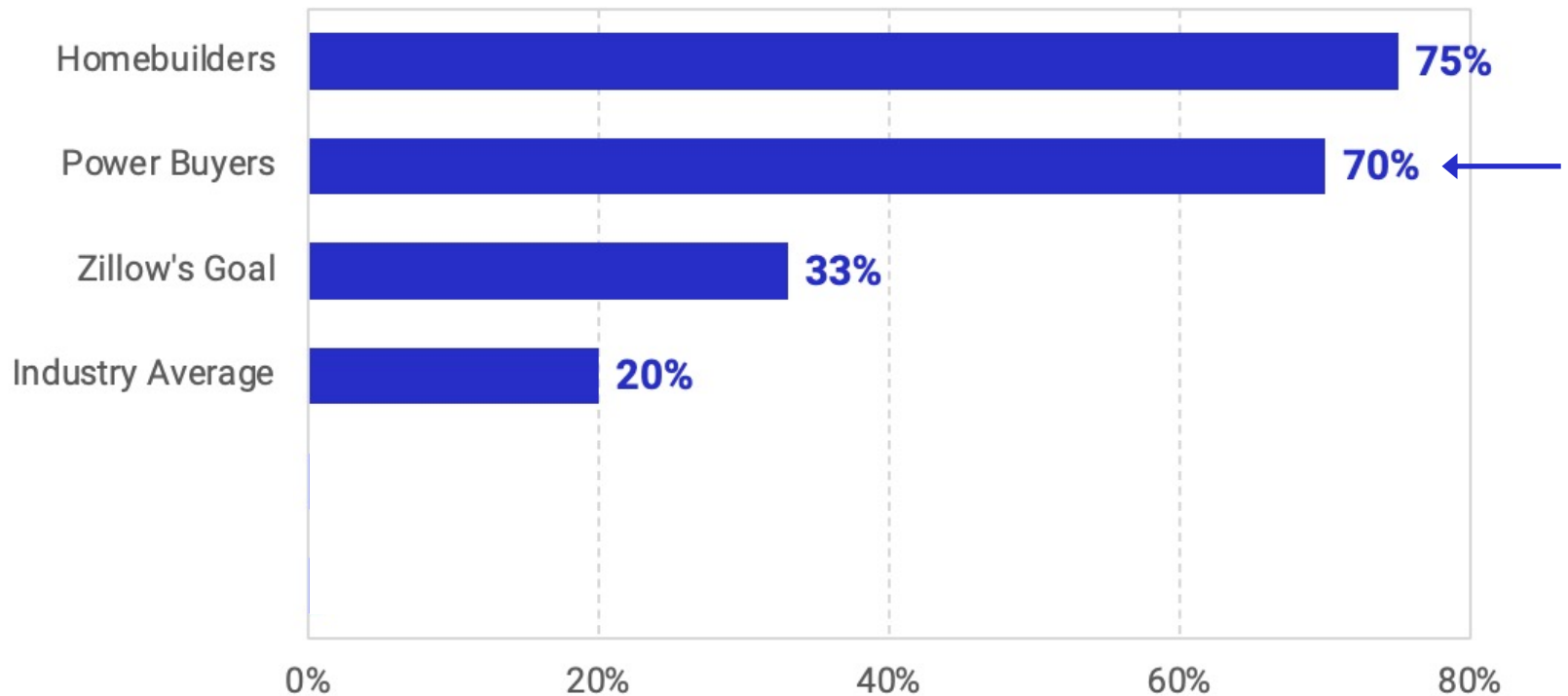
Mortgage Attach

80%+

Title Attach

Financial products aimed at home buyers give Power Buyers their high mortgage attach rates.

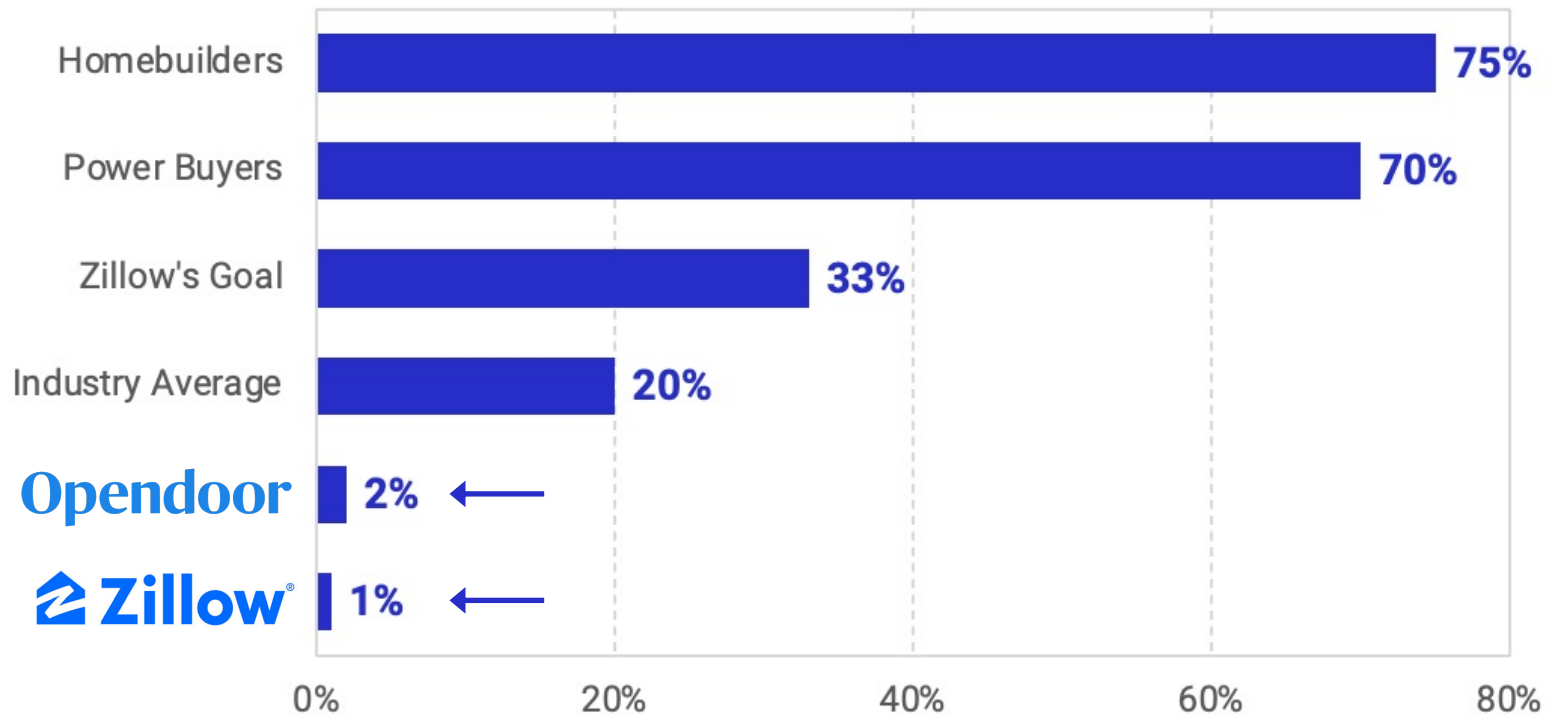
Mortgage Attach Rates



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This is in stark contrast to the major iBuyers, who have struggled to attach mortgage.

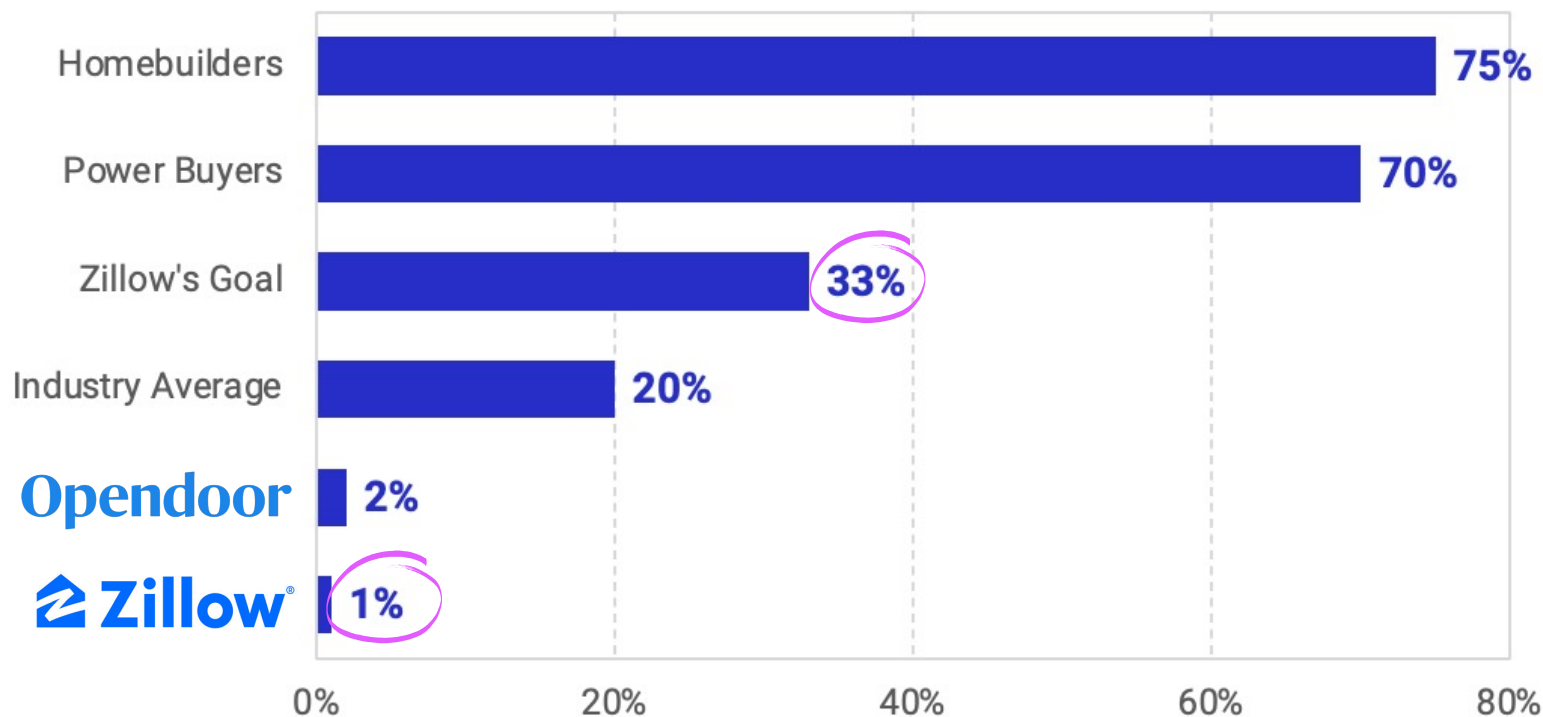
Mortgage Attach Rates



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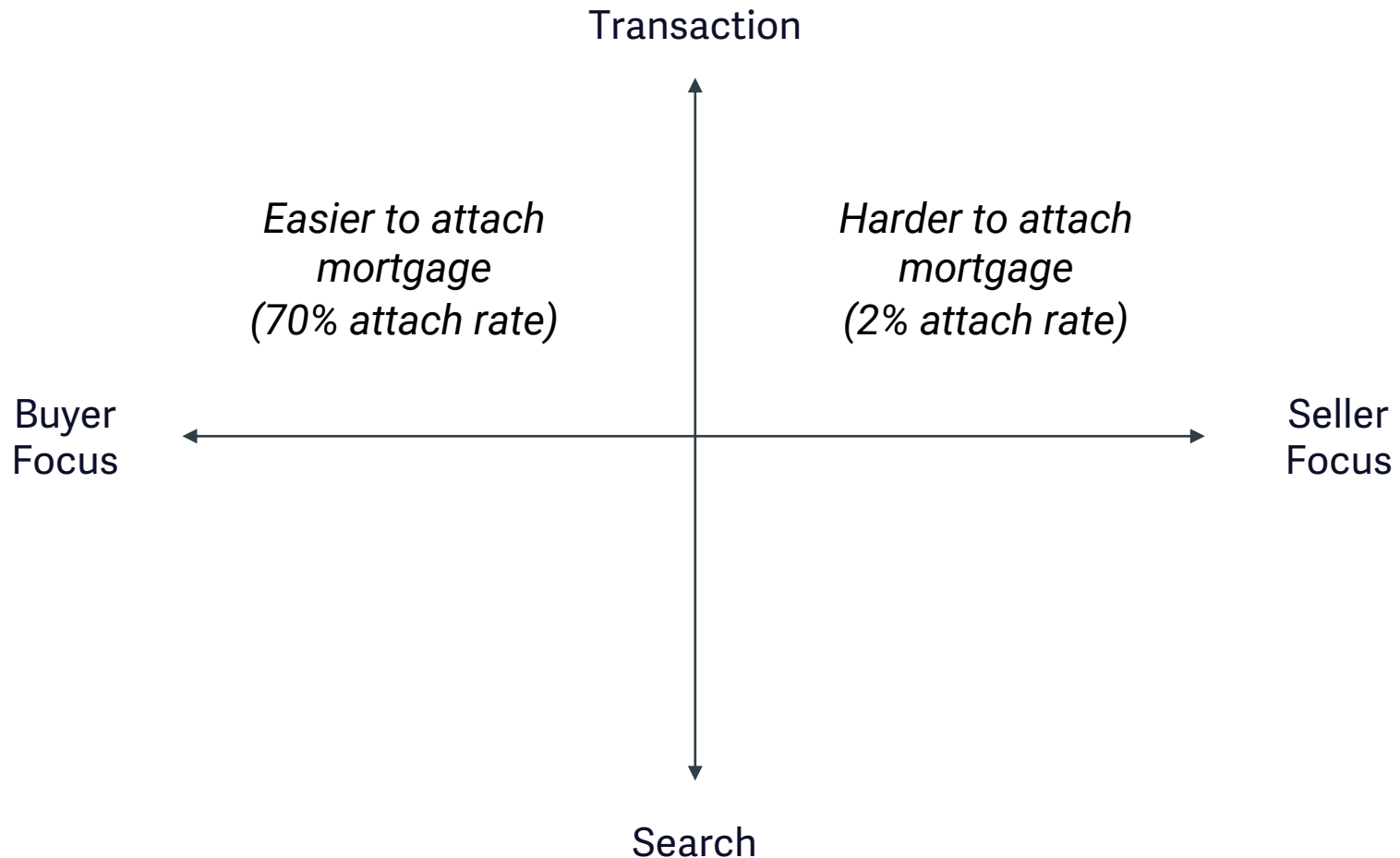
Zillow is well-below the original goal it set when it entered the mortgage space in 2018.

Mortgage Attach Rates



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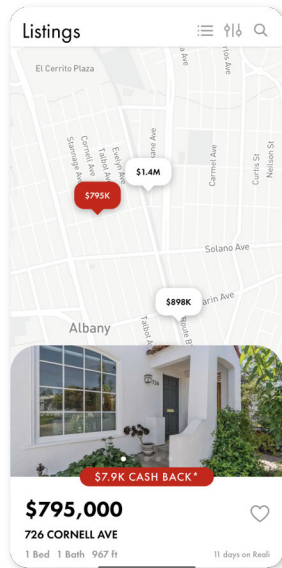
When it comes to attaching mortgage, it is more effective to target buyers earlier in the process.



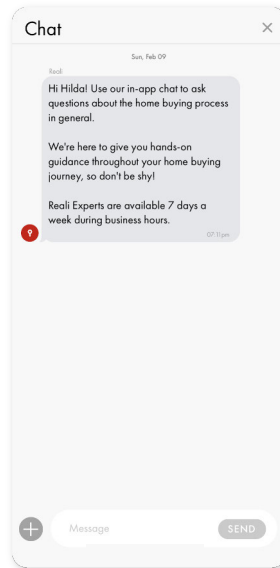
Like others, the Power Buyers are deploying technology to streamline the entire transaction.



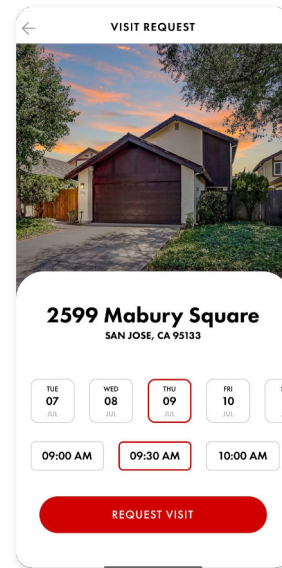
End-to-End Journey



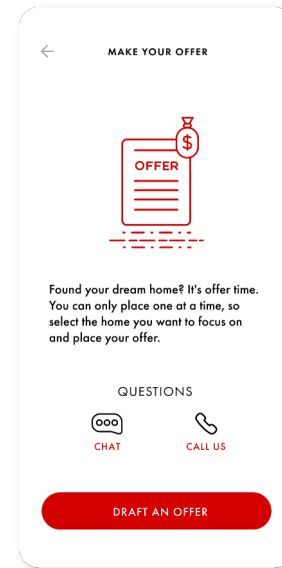
Discovery



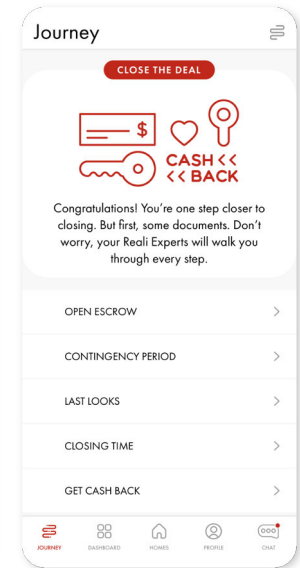
Chat with On-demand Team



Request a Visit

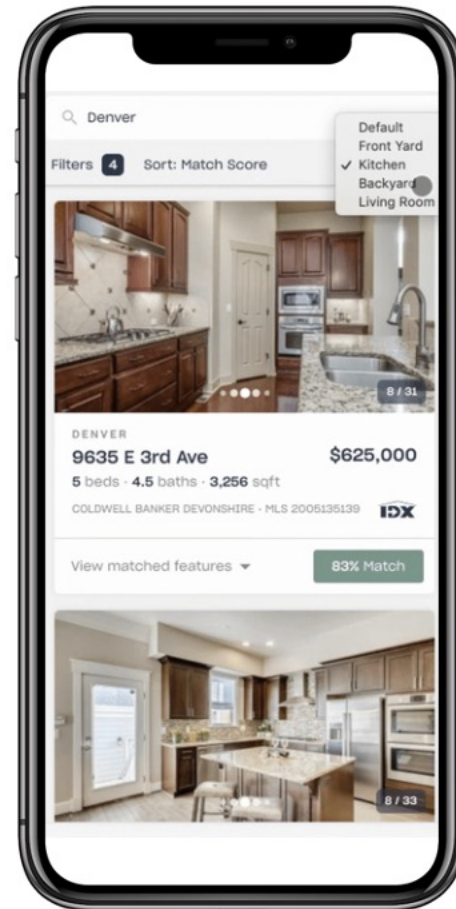
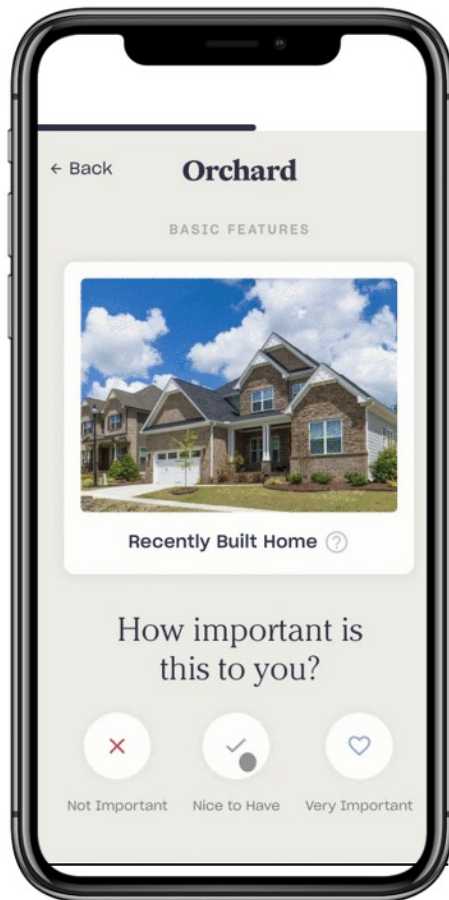


Submit an Offer

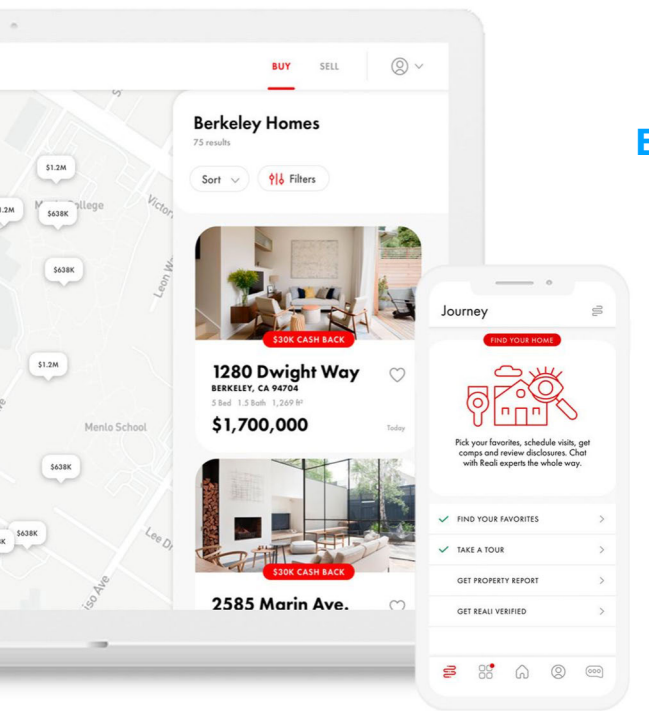


Process Visibility

Including features meant to appeal to home buyers, like Home Match and room comparisons.



The technology focuses on consumer empowerment and improving agent productivity.



Customer Empowerment

Process Visibility

On-Demand Communications

Online Offer Submission

AI-Powered Price Predictor

Agent Productivity

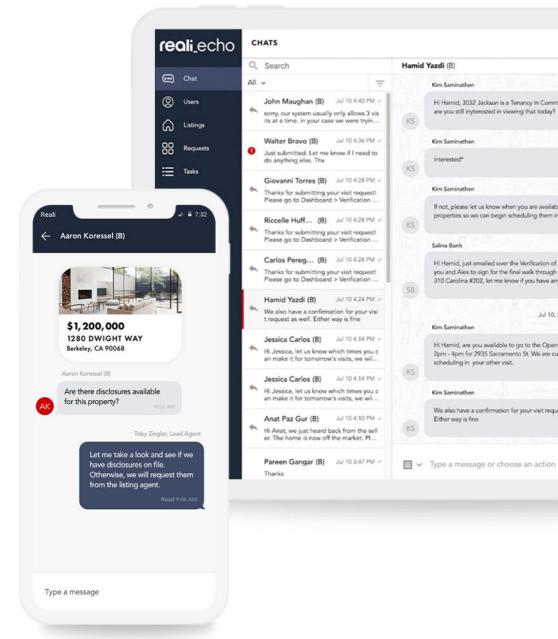
1-to-1 Customer Communications

1-to-Many Comms. with Business Units

Pipeline Management

Salesforce Integration

AI-Powered Lead Scoring

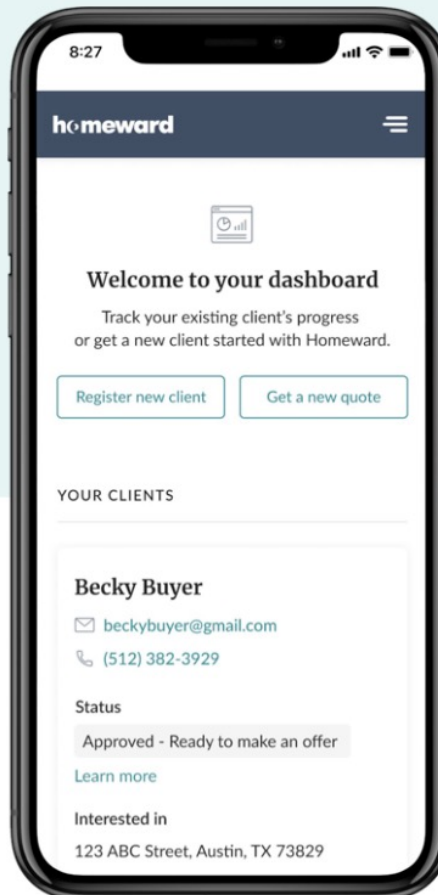


Homeward partners with and empowers agents, keeping them at the center of the transaction.

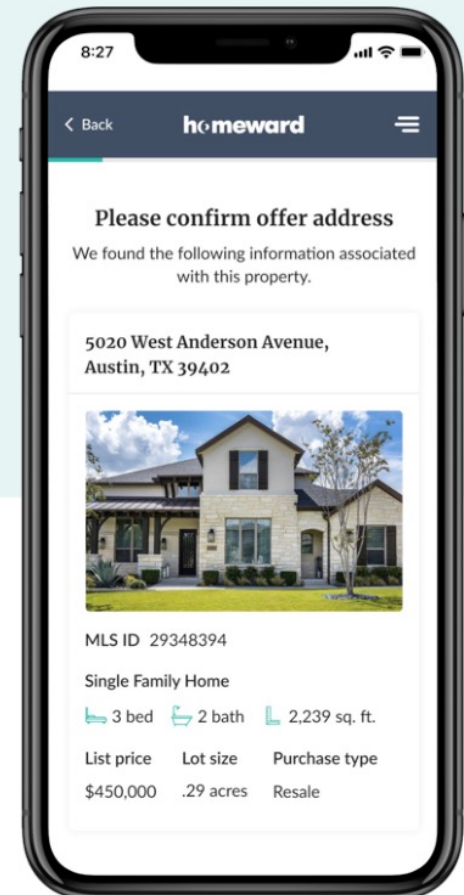
TEXT & EMAIL UPDATES



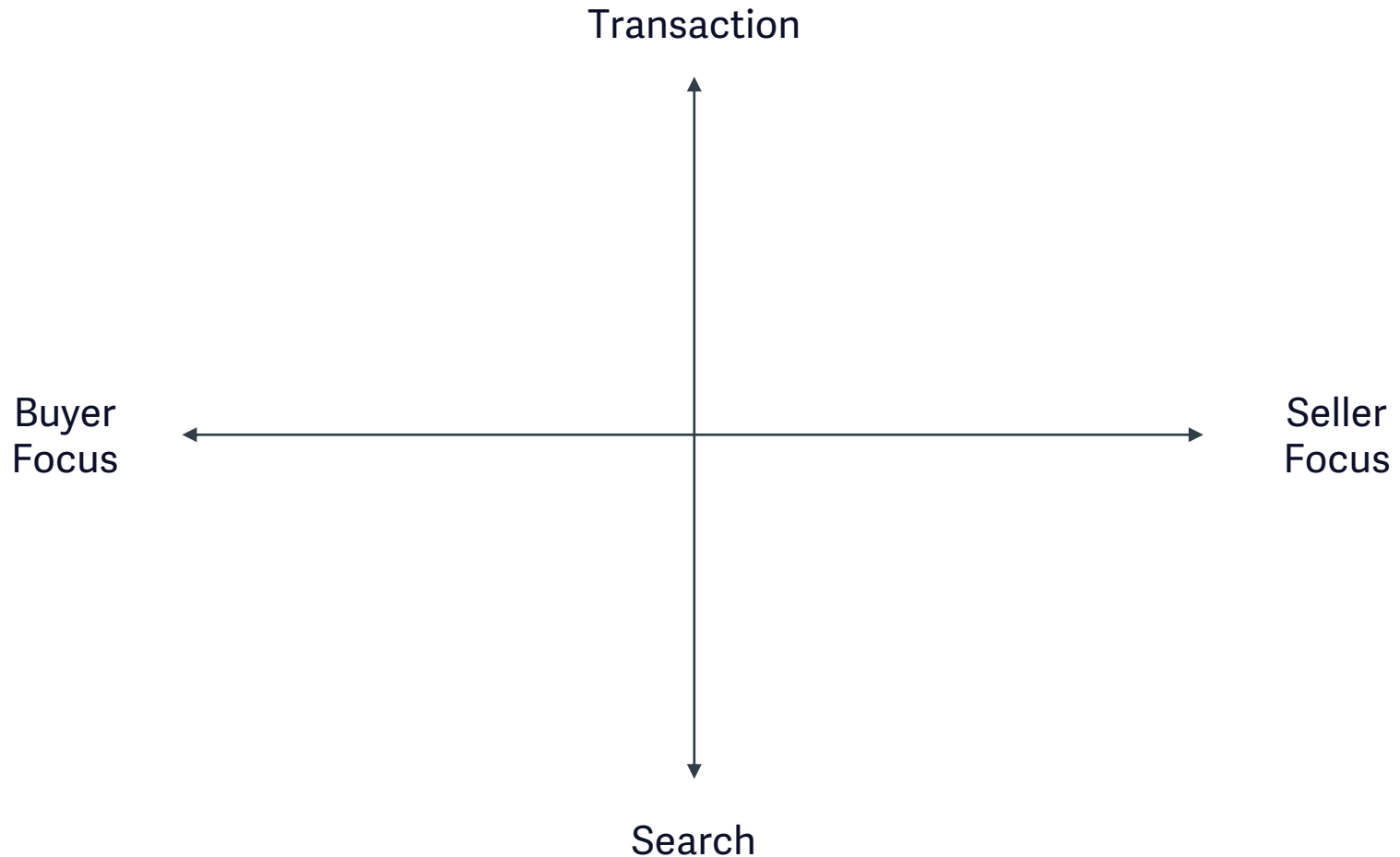
AGENT DASHBOARD



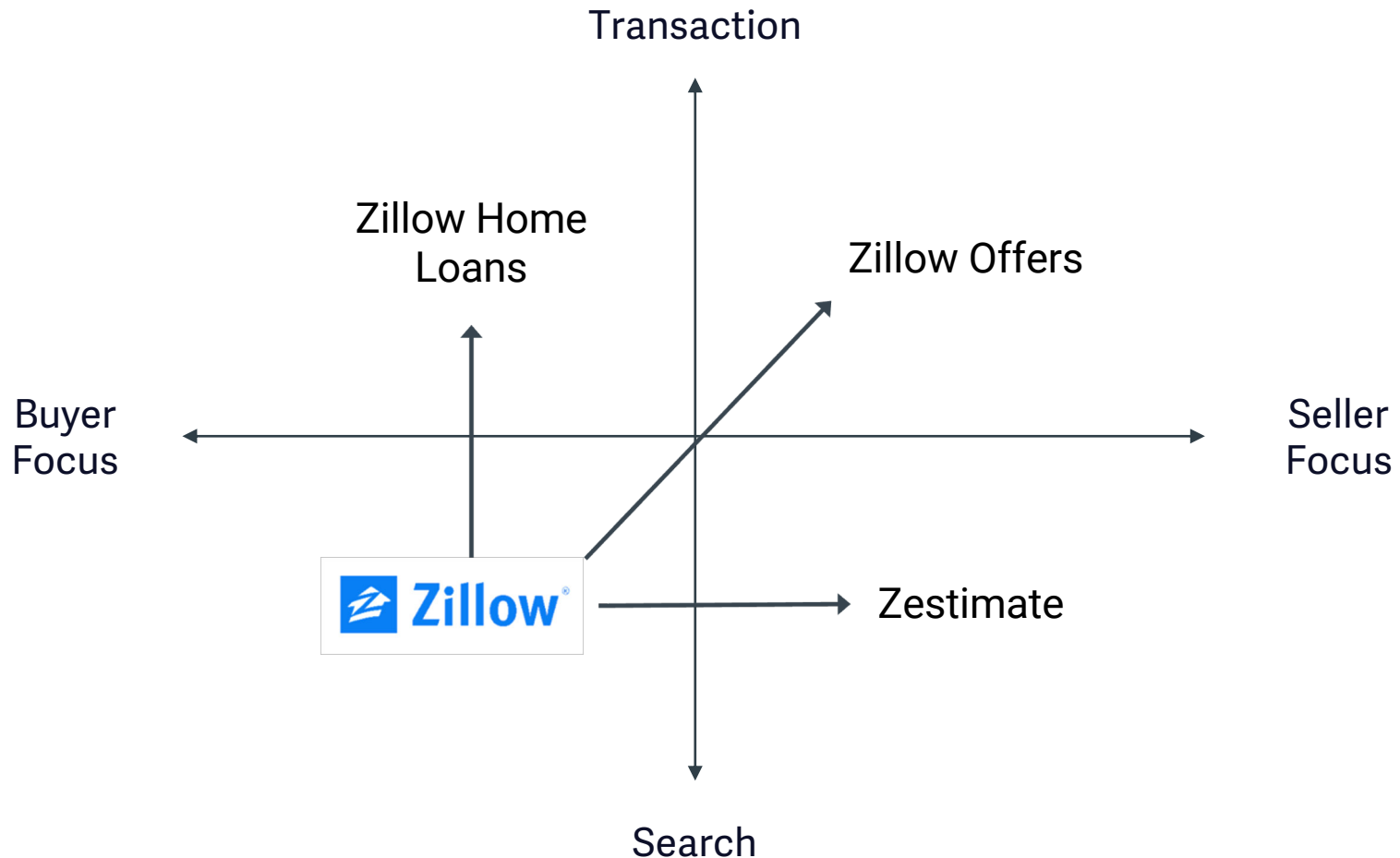
STREAMLINED OFFER & TRANSACTION PROCESSES



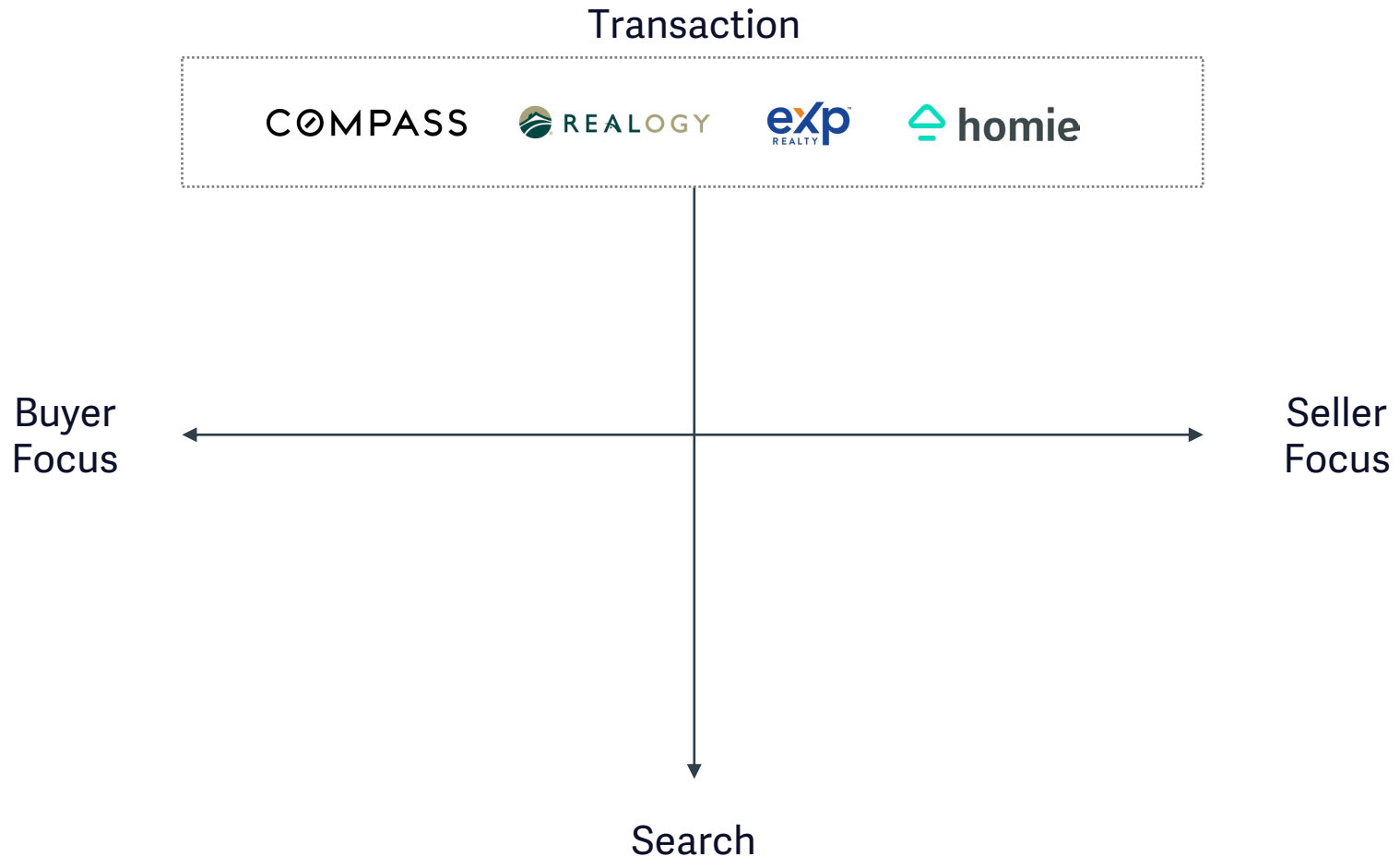
The shifting landscape is causing disruptors and incumbents to adjust their strategies.



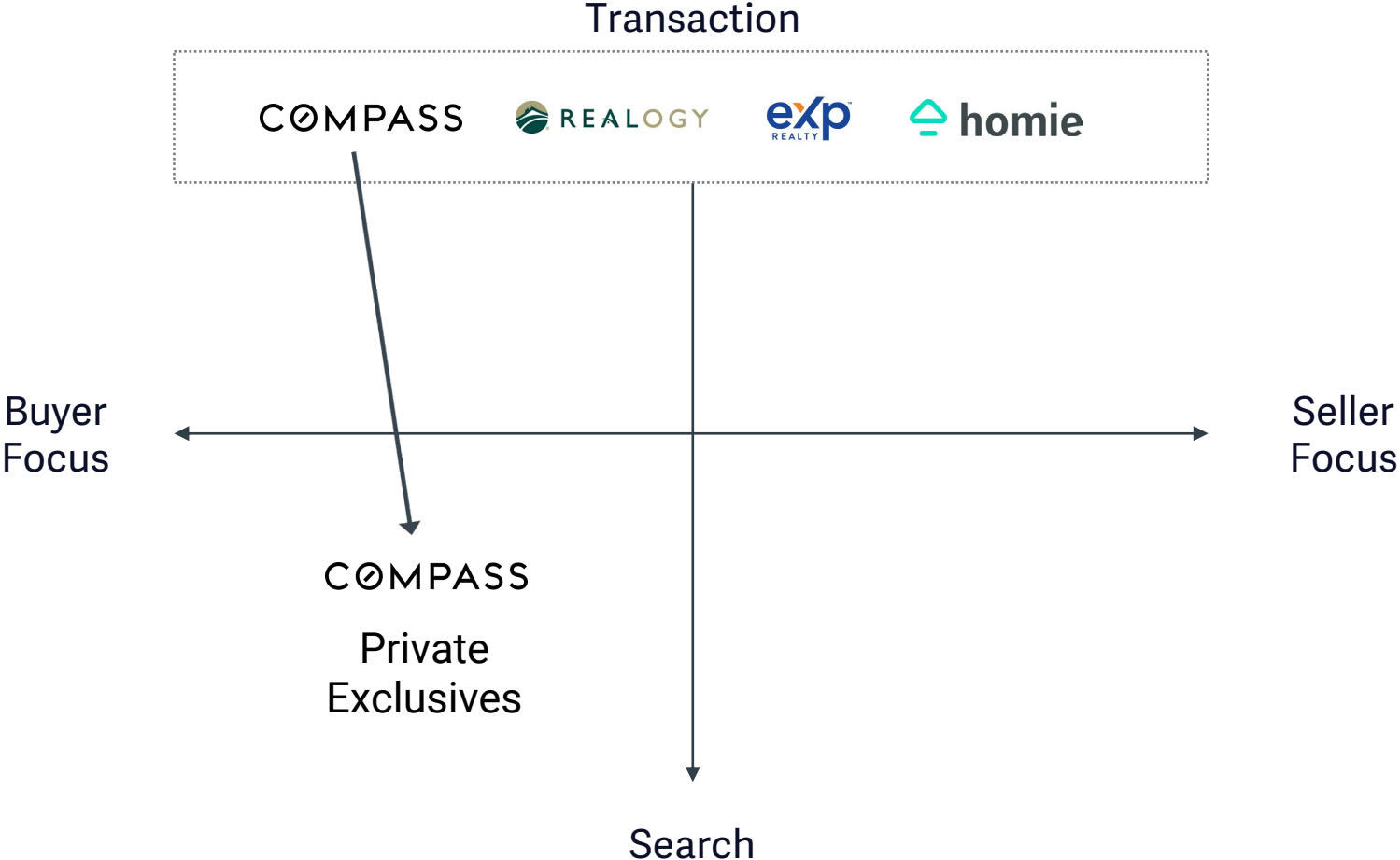
Zillow is developing a presence in all parts of the transaction, on both the buy- and sell-side.



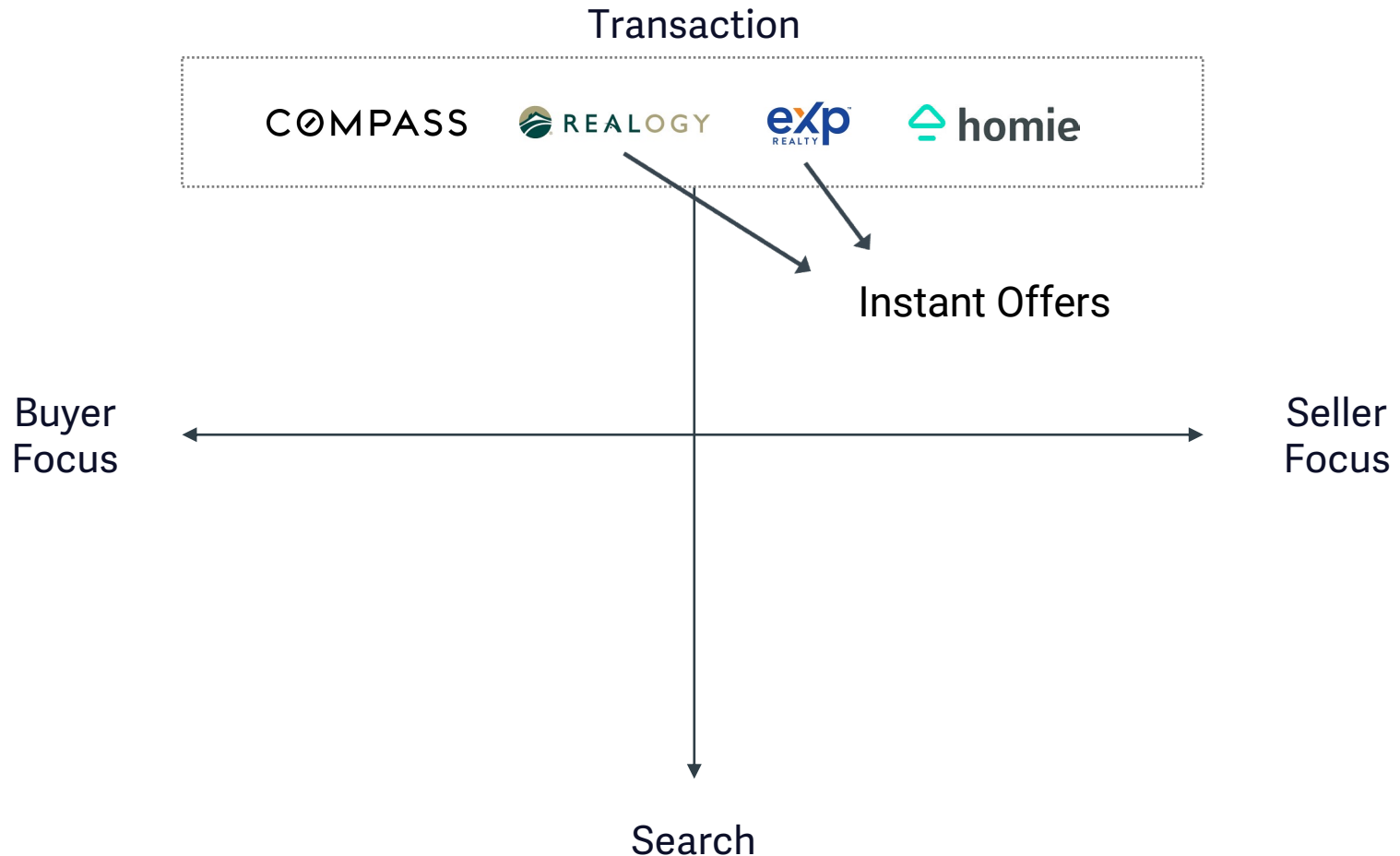
Traditional and disruptor brokerages remain the closest to the transaction.



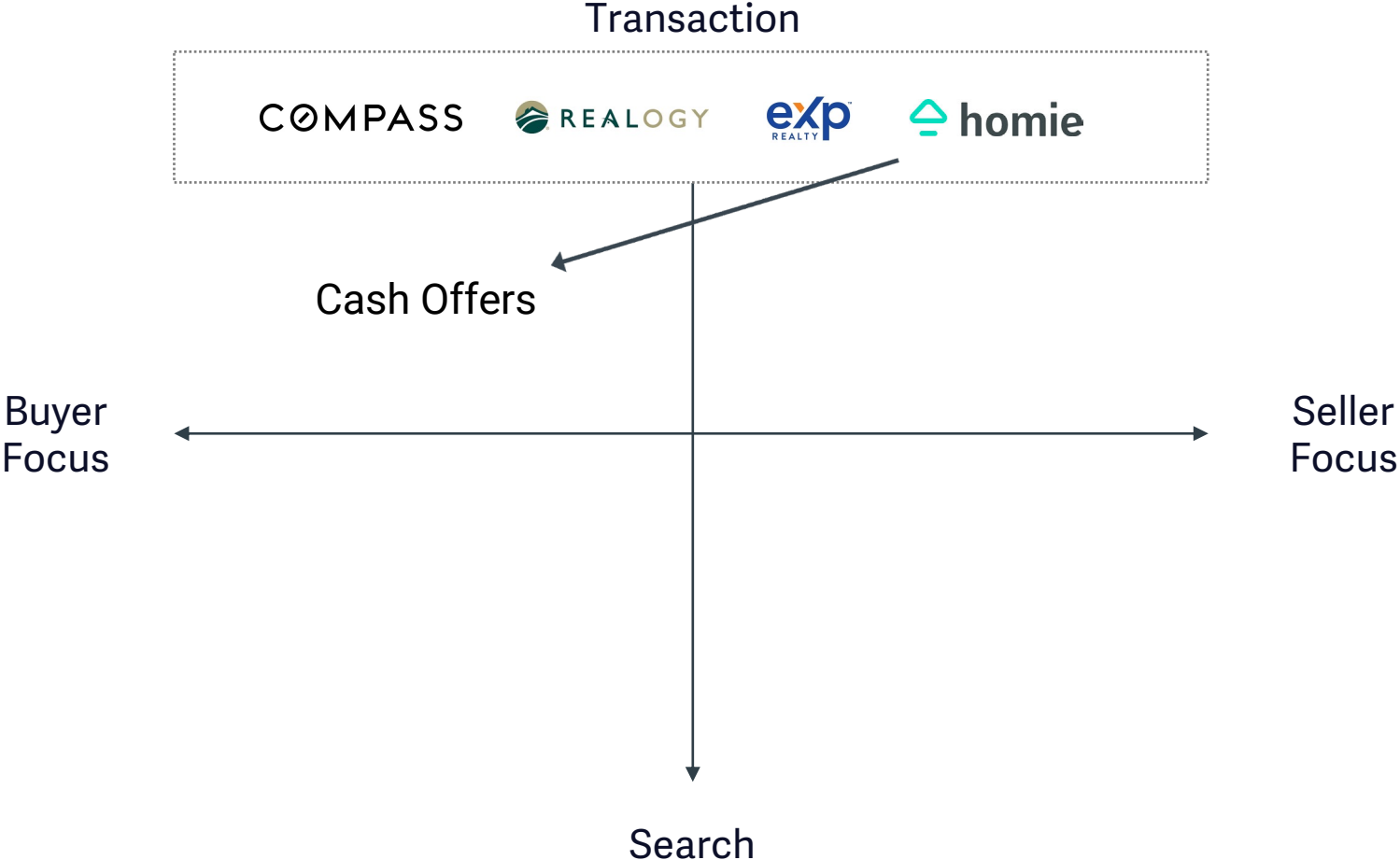
Compass is investing heavily into its own search portal, leveraging exclusive listings.



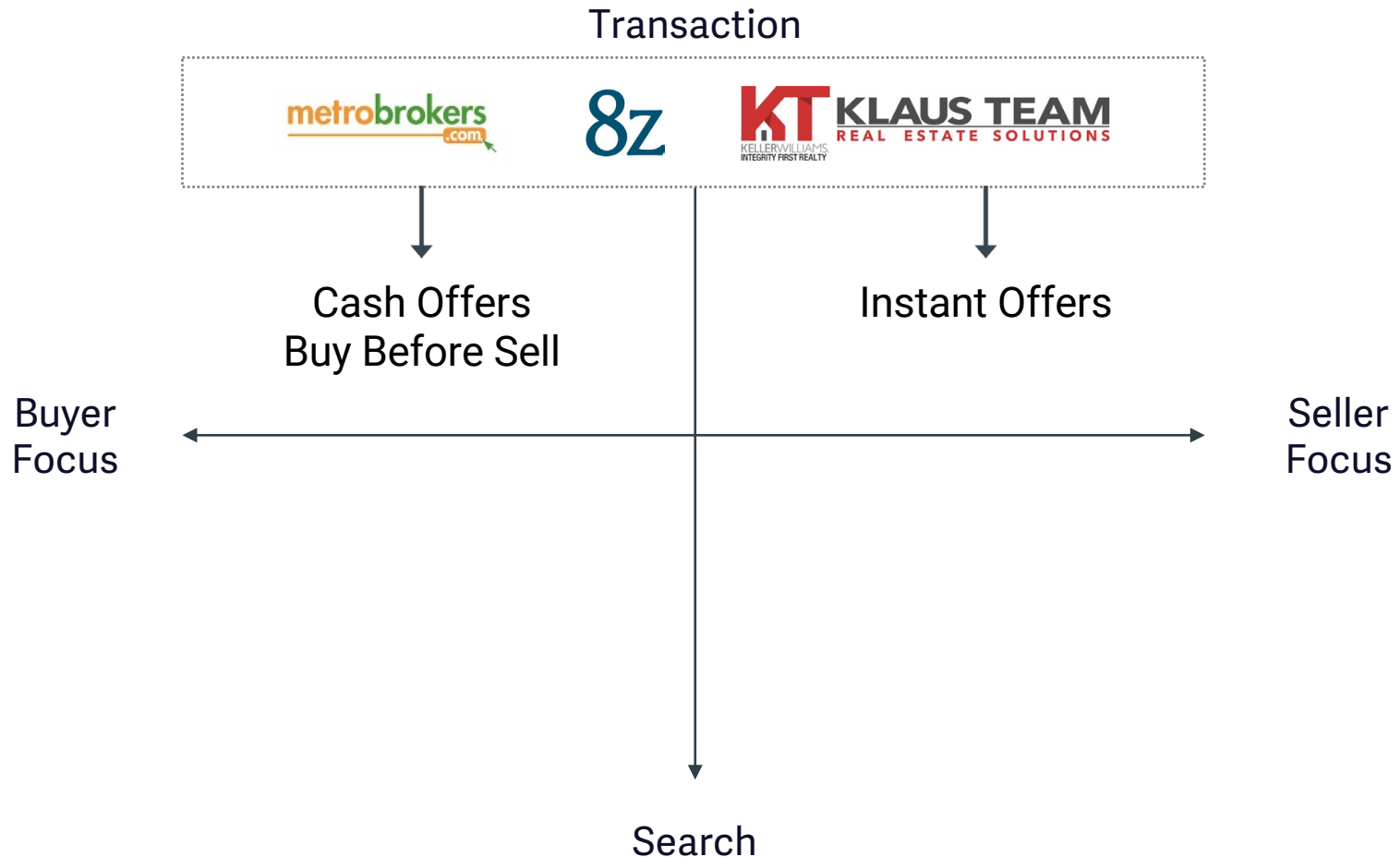
Realty, eXp, and other brokers have launched instant offer programs for customers.



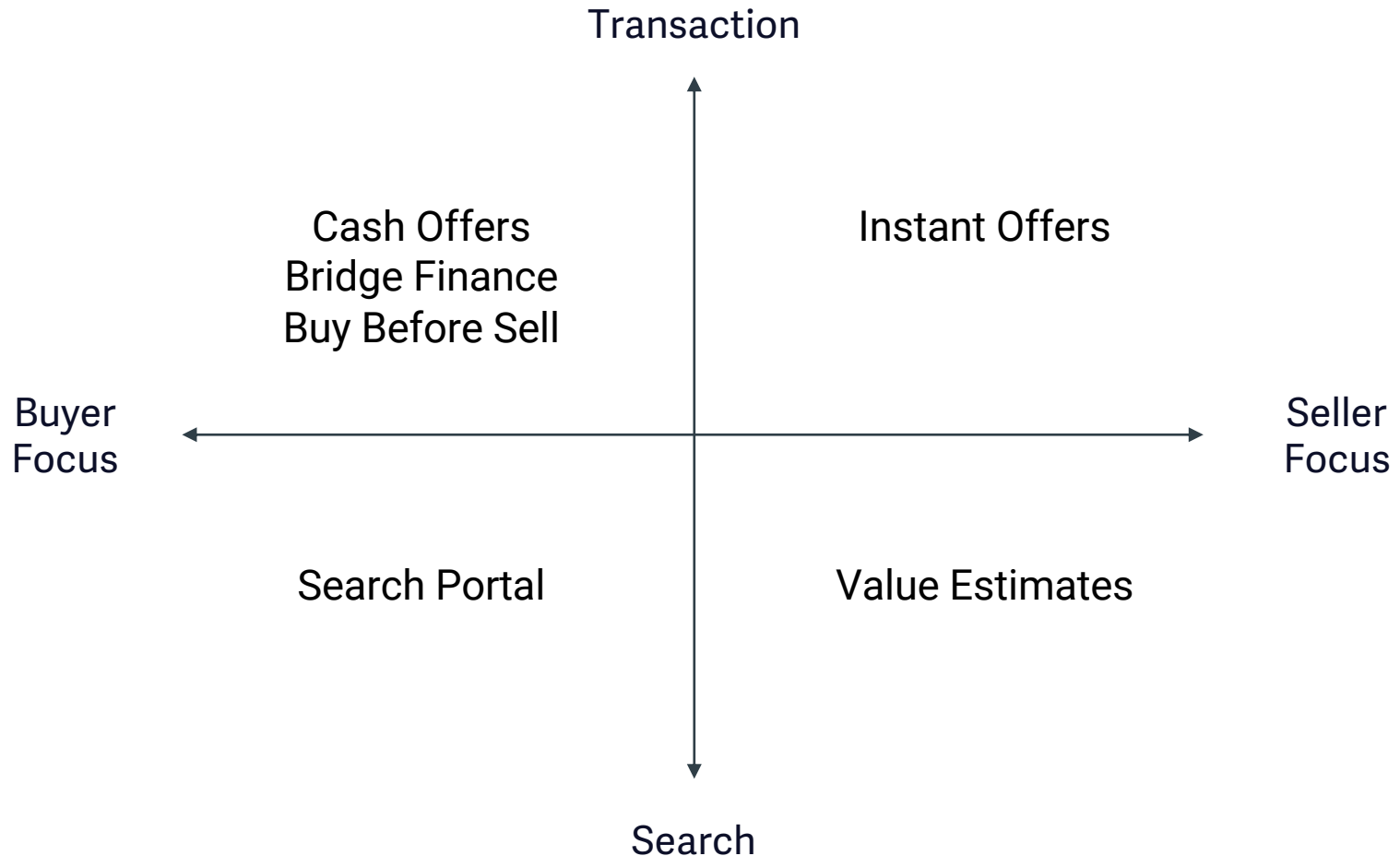
While discount broker Homie launched a cash offer program in July 2021.



Progressive independent and smaller brokerages have launched their own branded programs.



To thrive, the brokerage of the future will need a presence in all four quadrants.



Comparing Top Models

These are some of the largest companies disrupting the traditional real estate brokerage model.

COMPASS

High-end traditional
brokerage

REDFIN

Discount
brokerage
(plus portal)

PURPLE BRICKS

Online discount
brokerage

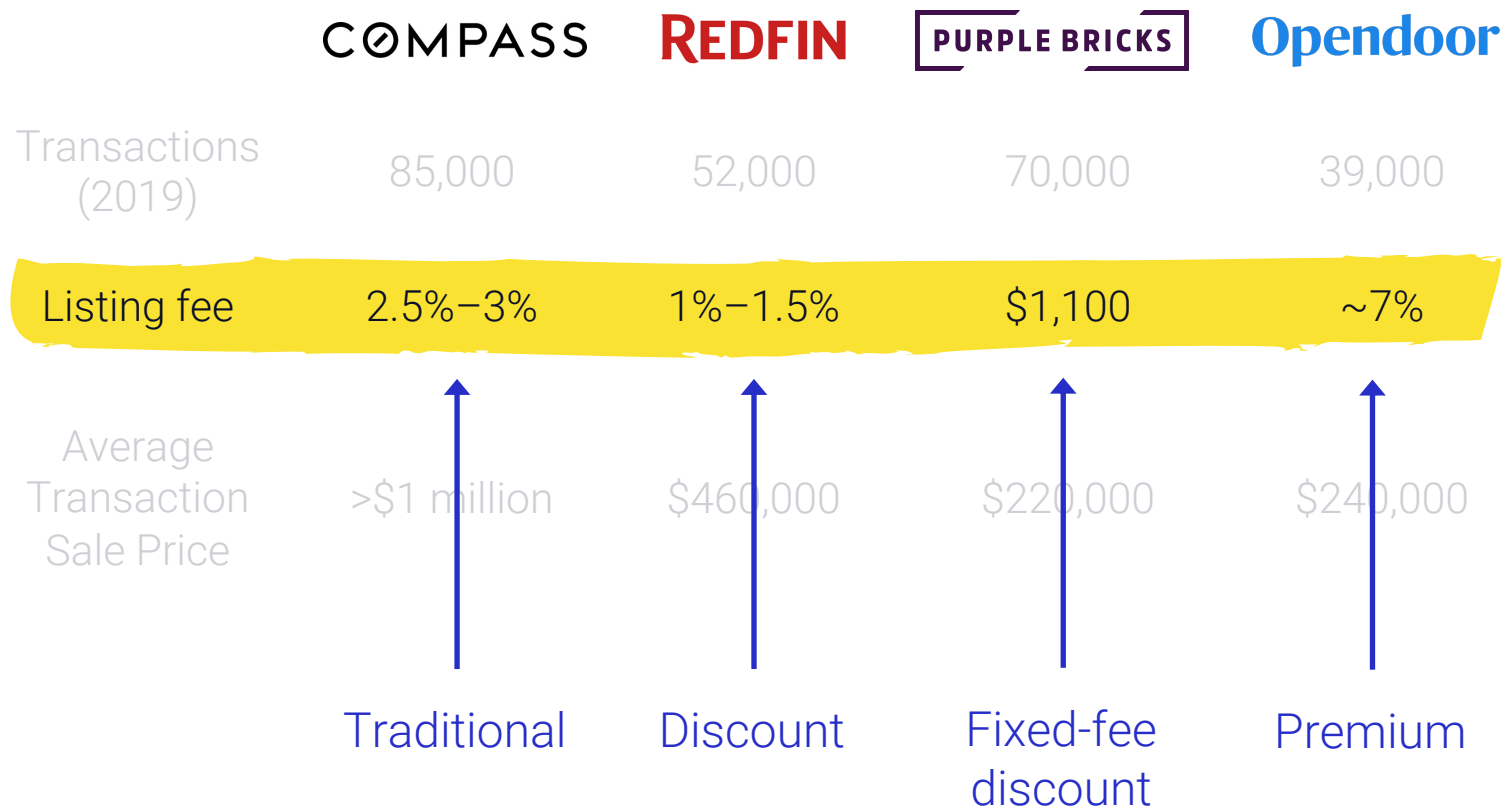
Opendoor

iBuyer

Each occupies a different sweet spot in the market.

	COMPASS	REDFIN	PURPLE BRICKS	Opendoor
Transactions (2019)	85,000	52,000	70,000	39,000
Listing fee	2.5%–3%	1%–1.5%	\$1,100	~7%
Average Transaction Sale Price	>\$1 million	\$460,000	\$220,000	\$240,000

The fees charged to consumers vary from discount to premium.

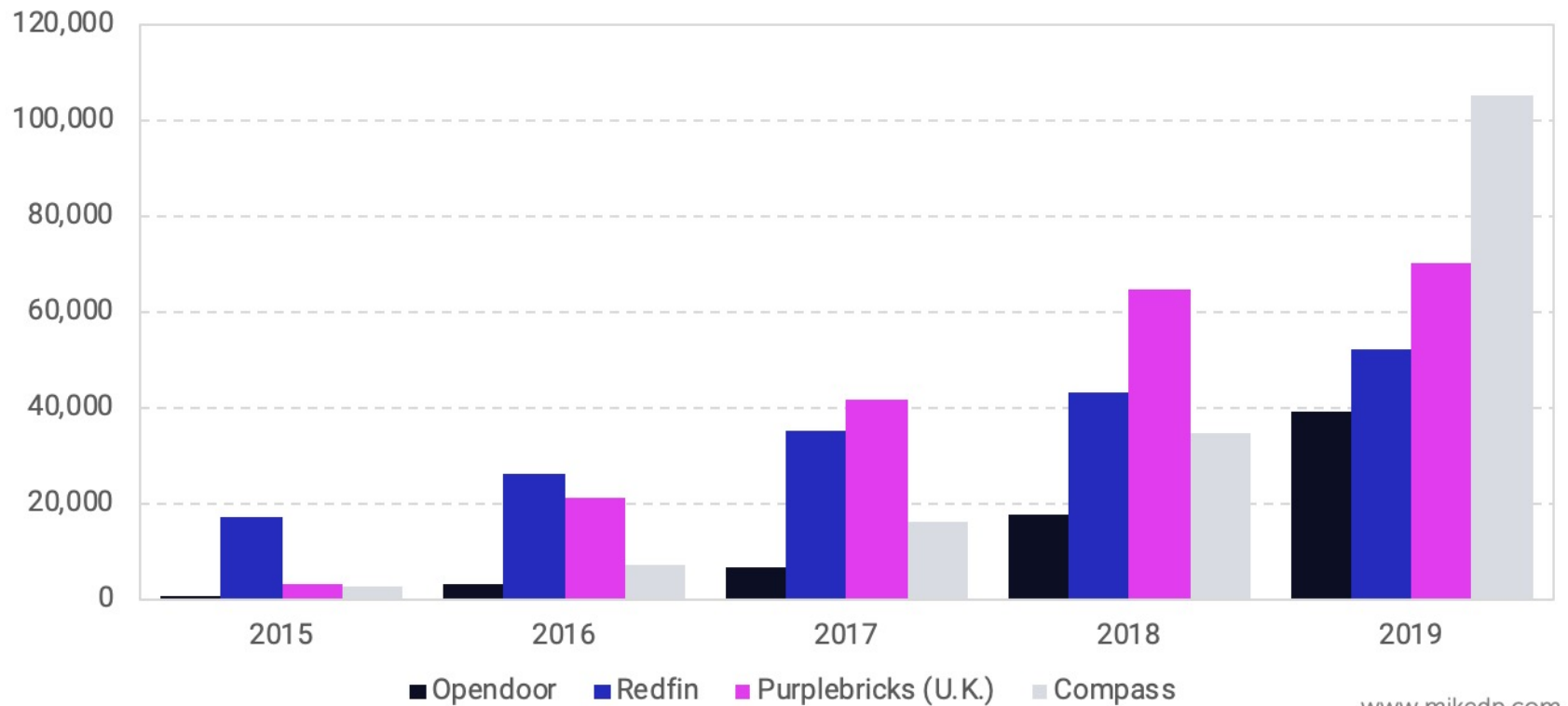


And each fills a specific consumer niche, ranging from luxury to mid-market.

	COMPASS	REDFIN	PURPLE BRICKS	Opendoor
Transactions (2019)	85,000	52,000	70,000	39,000
Listing fee	2.5%–3%	1%–1.5%	\$1,100	~7%
Average Transaction Sale Price	>\$1 million	\$460,000	\$220,000	\$240,000
	↑ Luxury	↑ Up-market	↑ Mid-market	↑ Mid-market

Their growth trajectories have also varied widely...

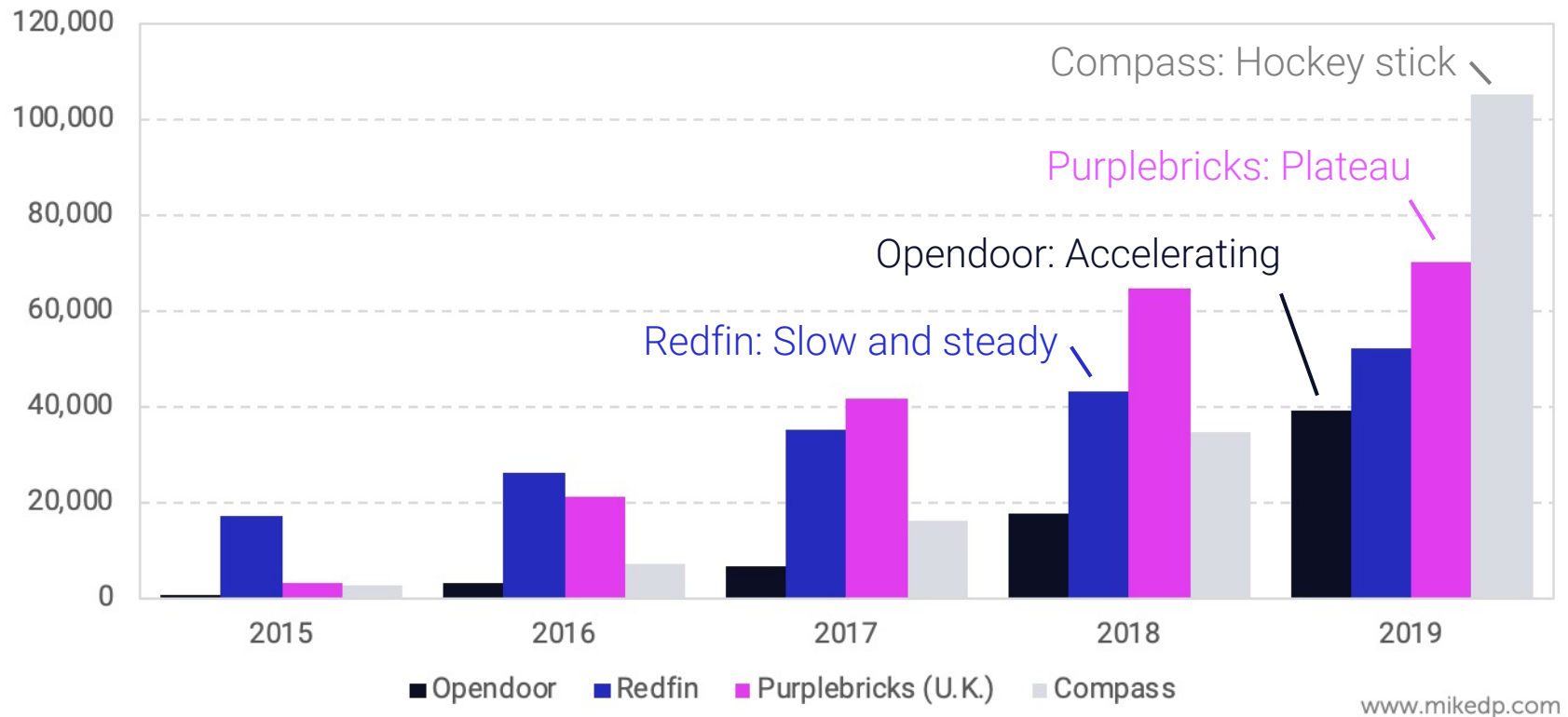
Transaction Volumes



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...some, like Compass, have hockey-sticked, while others have plateaued at market saturation.

Transaction Volumes



Collectively, Redfin and Compass doubled their market share to 3 percent of the U.S. market in 2019.

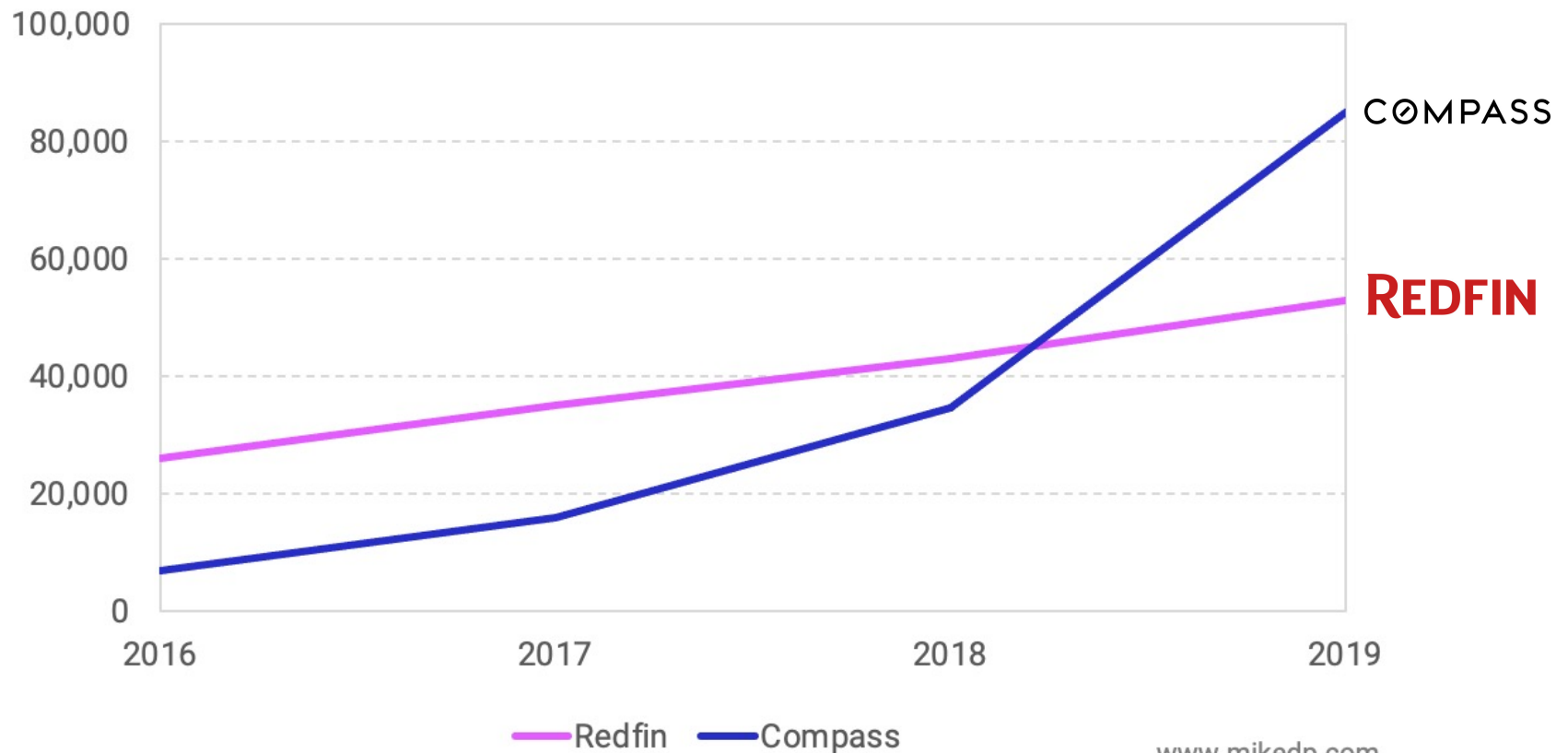
REDFIN COMPASS

1.5% → 3%

National Market Share (2019)

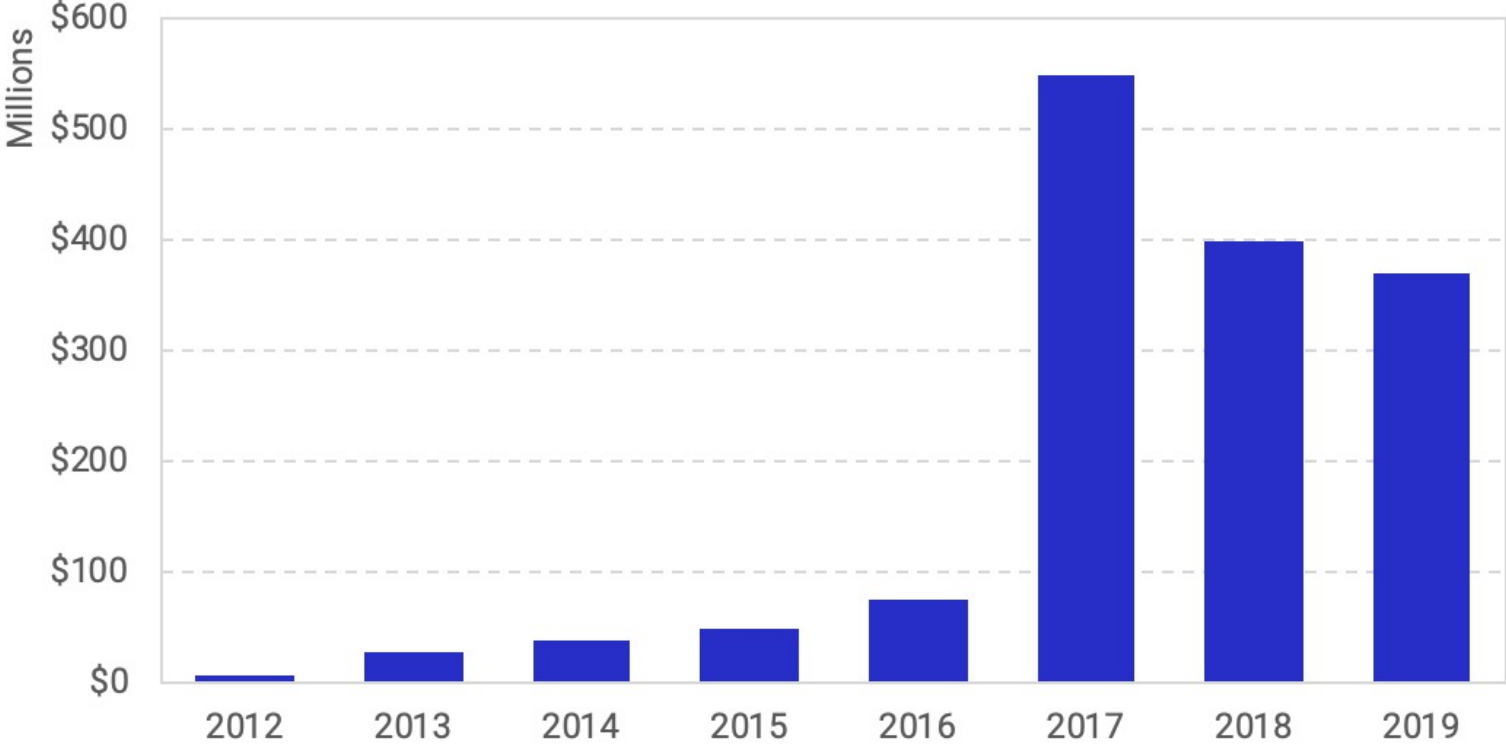
Much of that growth has been driven by Compass, which grew exponentially into 2019.

Transaction Volumes



Compass' growth has been fueled by massive amounts of venture capital: over \$1.5 billion.

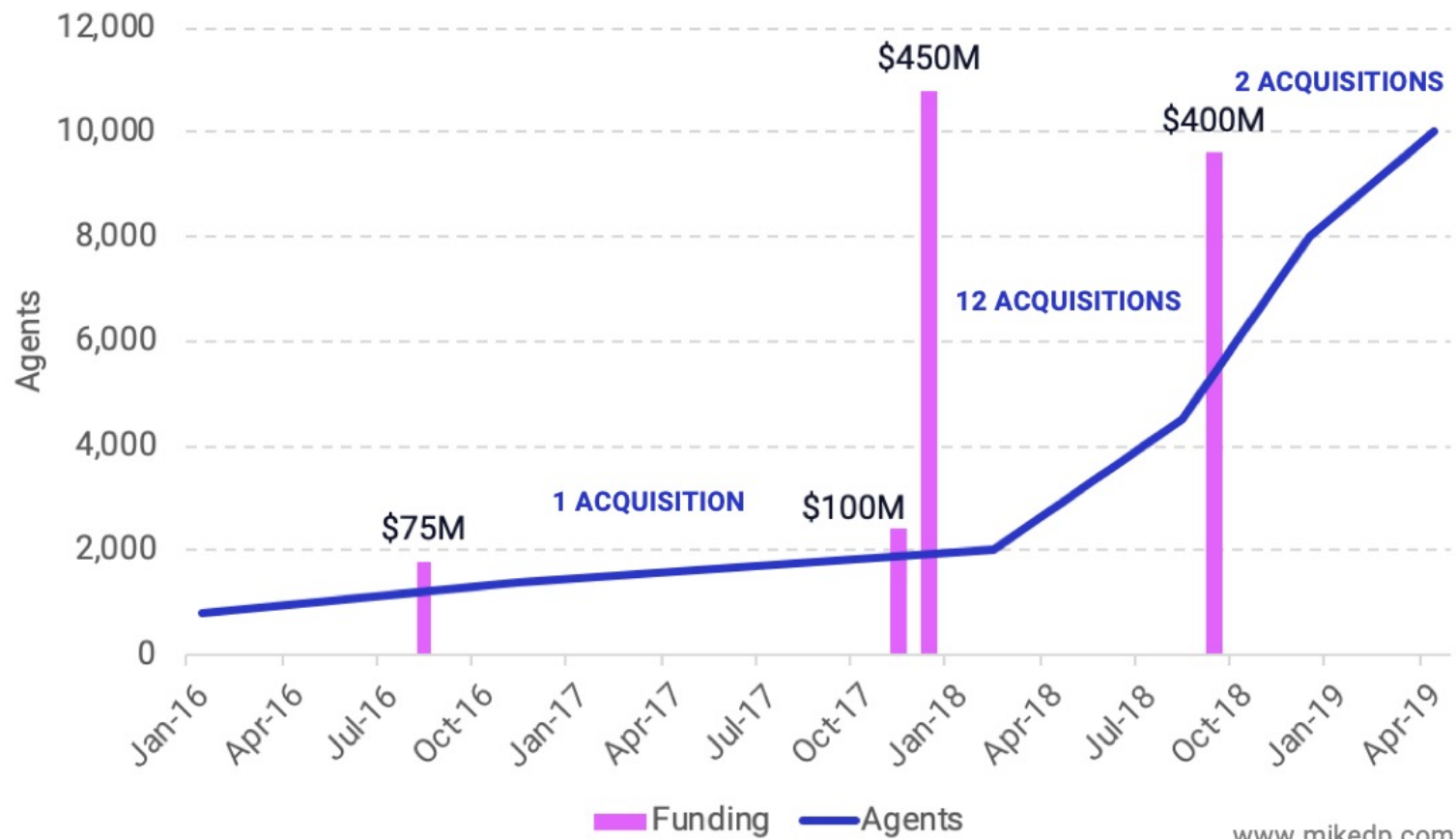
Capital Raised



Source: Public disclosures.

And it is using that capital to grow market share by acquiring brokerages and recruiting agents.

Compass Funding + Agent Count



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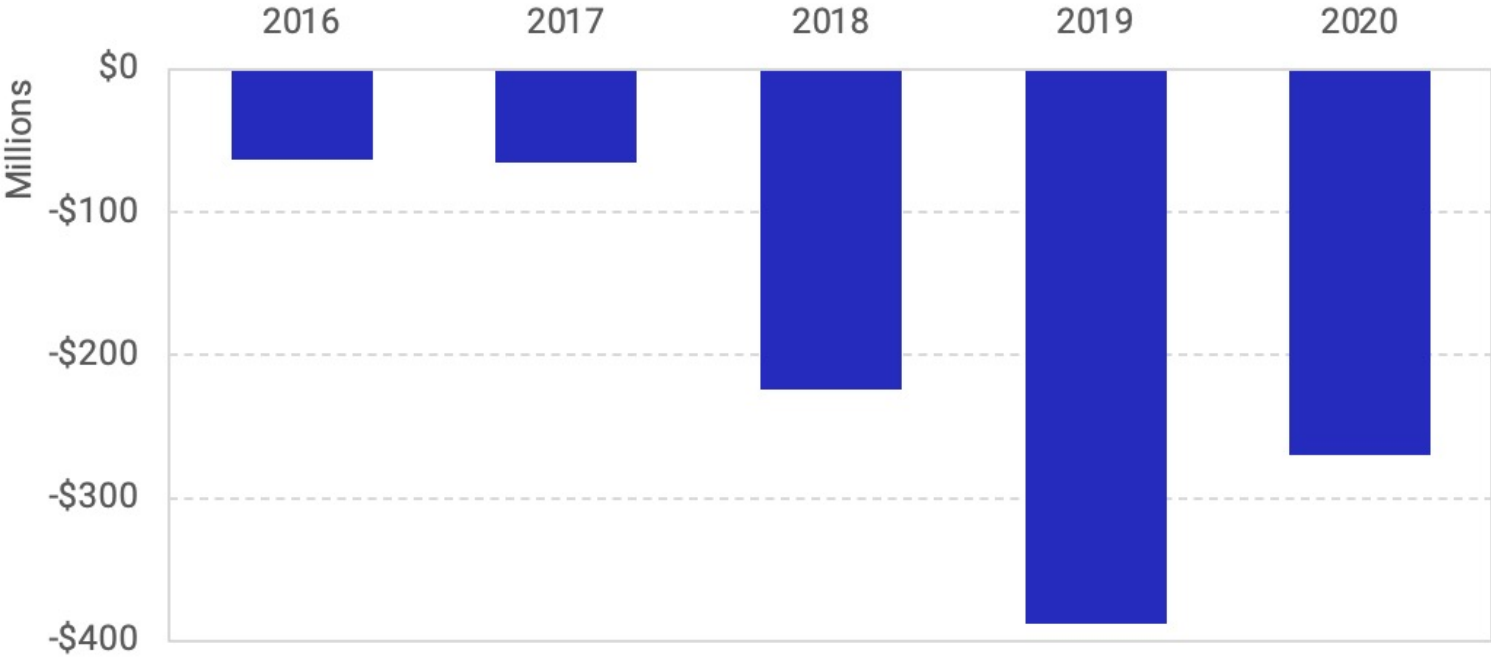
Compass' Brokerage Acquisitions: 2018–2019

	Purchase Date	Agent Count
The Collective	January 2018	13
Bushari	January 2018	45
Platinum Drive Realty	February 2018	100
P.S. Platinum	February 2018	40
Conlon Real Estate	April 2018	200
Northwest Group Real Estate	April 2018	25
The Hudson Company	June 2018	24
ICS Realty	June 2018	20
Paragon Real Estate Group	July 2018	236
Pacific Union	August 2018	1700
Avenue Properties	August 2018	110
Wydler Brothers Real Estate	November 2018	50
Alain Pinel Realtors	March 2019	1300
Stribling & Associates	April 2019	304

Between 2018 and 2019, Compass' agent count increased from roughly 2,000 to 10,000. Of those 8,000 new agents, around 4,200, or 52 percent, came from acquired brokerages.

Compass' strategy is incredibly unprofitable; the company has lost over \$1 billion since 2016.

Compass Net Loss



www.mikedp.com

Source: Company disclosures.

Compass' strategy appears focused on exclusive content: listings only found on compass.com

20 of 1,406 Homes Coming soon Sort by Recommended ▾



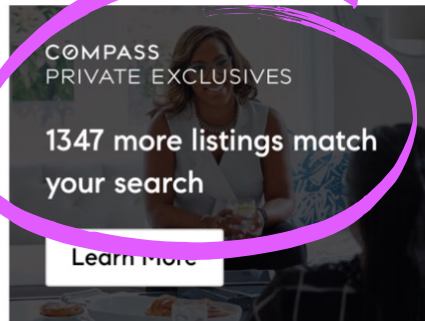
COMPASS COMING SOON

Coming Soon

\$450,000

20 Plaza Street East, ...
Prospect Heights

0.5 Beds | 1 Bath | - Sq. Ft.



COMPASS PRIVATE EXCLUSIVES

1347 more listings match your search

Learn More

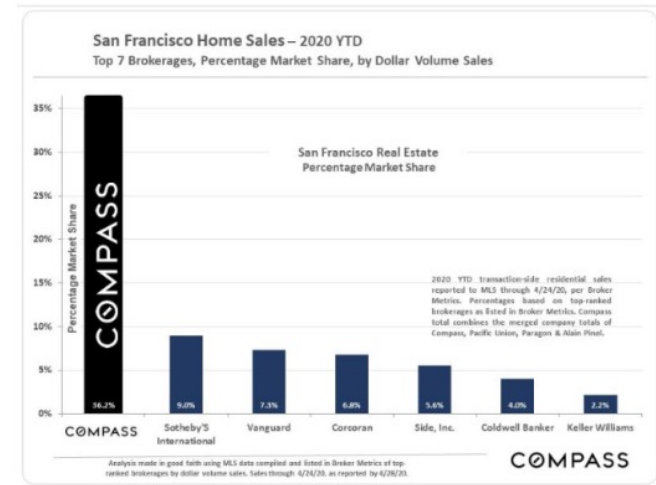
2867 Results
Only on Compass

See 12,515 Homes

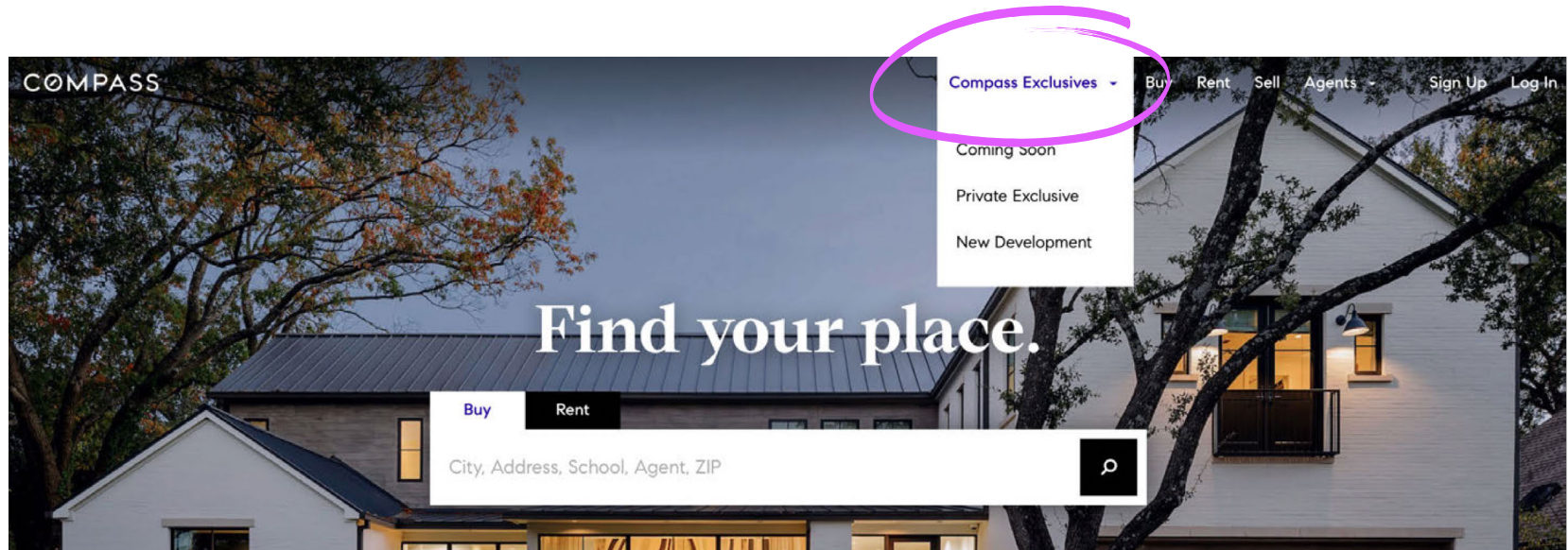


Real Estate Advisor @ Compass /
San Francisco
26m • 🌐

36% market share in San Francisco. When a brokerage has this much market share, its clients benefit--all of them--buyers and sellers. I have inventory (homes) on our private Compass platform that will never get listed on Zillow or Redfin. Get yourself a Compass agent ... or miss out. It's that simple.



This strategy is an effort to derive more power by becoming a consumer destination.



Compass is turning money into market share, and market share into market power.

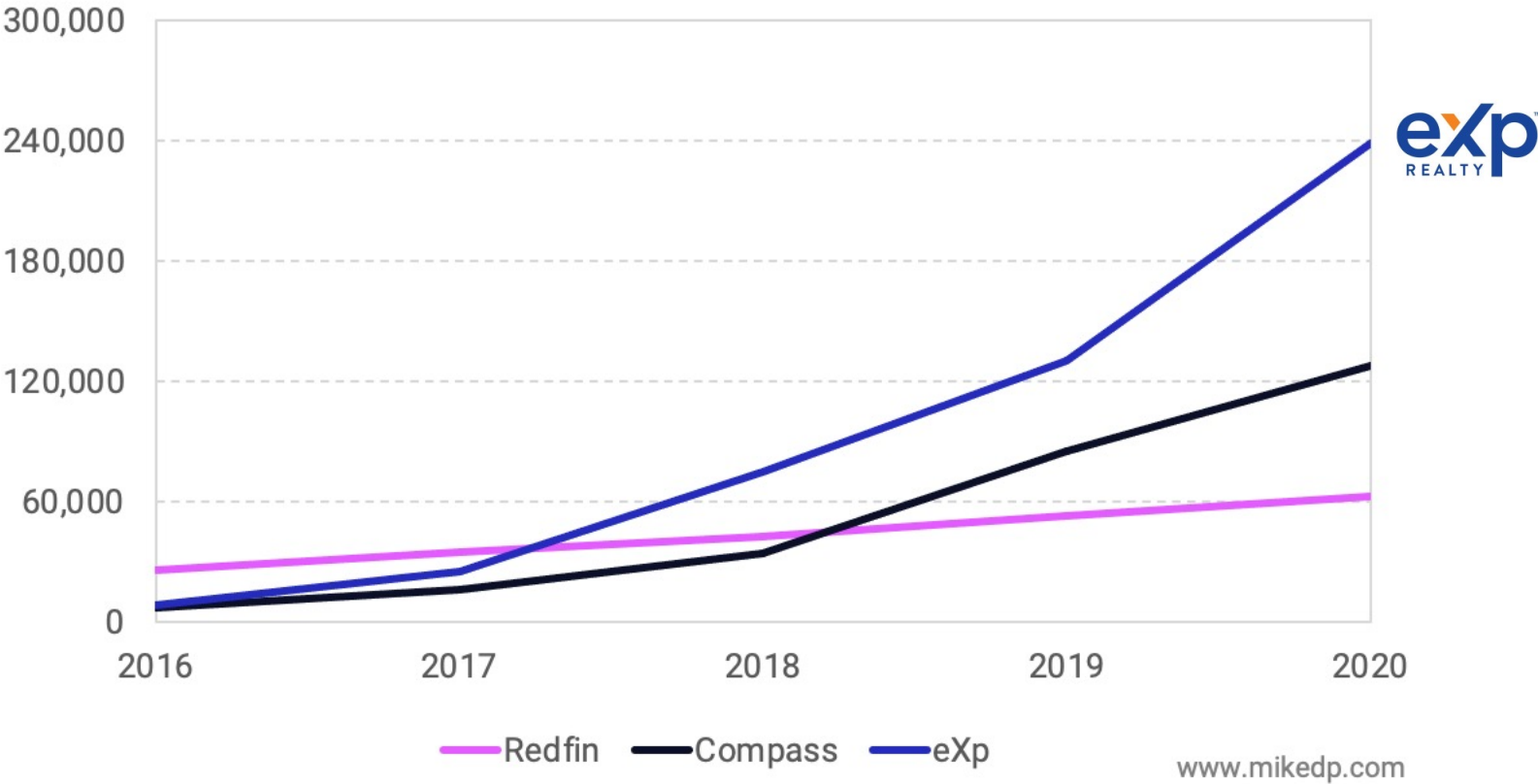
eXp Realty, founded in 2009, is another fast-mover in the U.S. brokerage space.

eXp's business model – and growth – is underpinned by three key pillars:

- High commission splits that are very favorable for agents.
- A robust multi-level marketing (MLM) scheme to encourage grassroots recruitment efforts.
- An online-only ecosystem, with no physical offices or branches, resulting in low overhead expenses.

eXp has grown its U.S. market share even faster than Compass and Redfin.

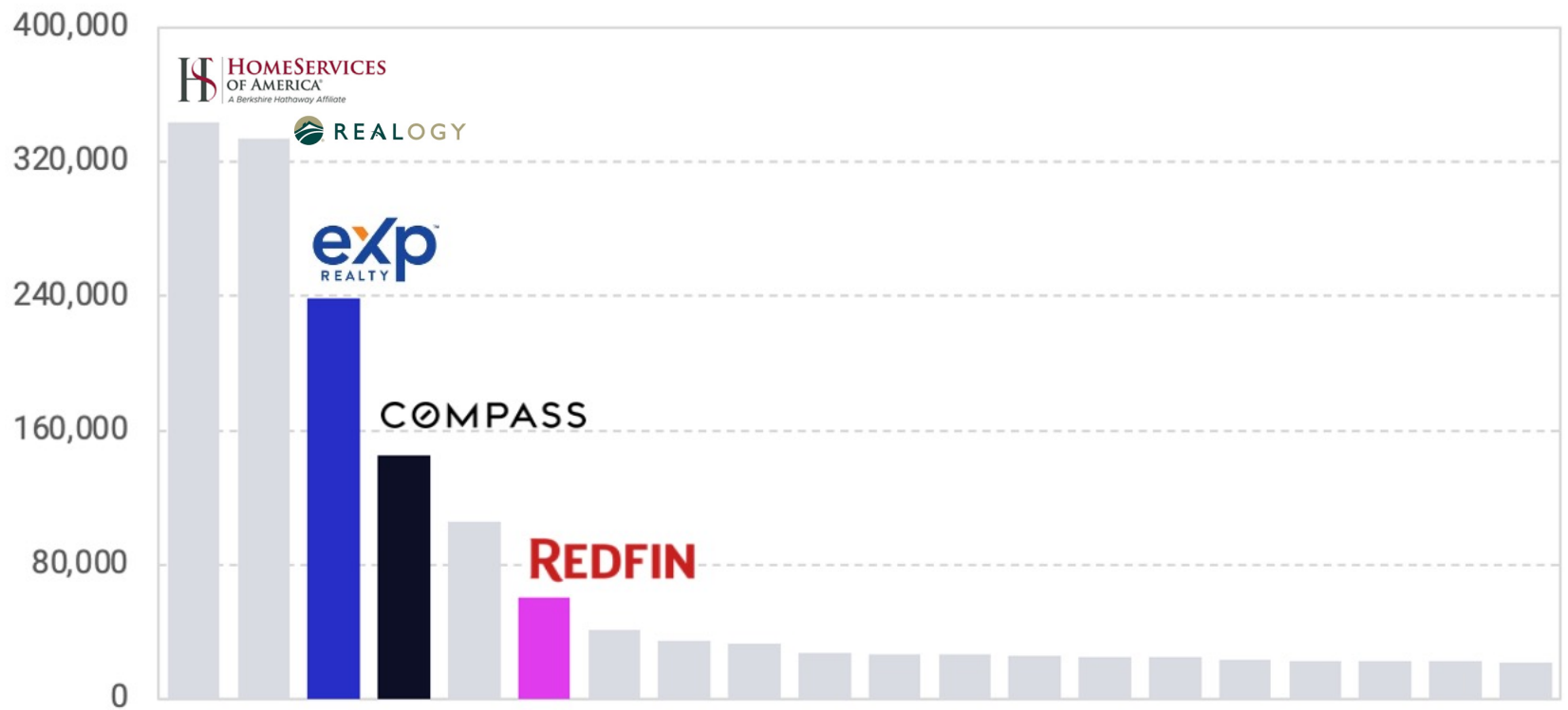
Transaction Volumes



Source: Transaction counts from the REAL Trends 500.

It is currently the third-largest broker by transaction count, followed closely by Compass and Redfin.

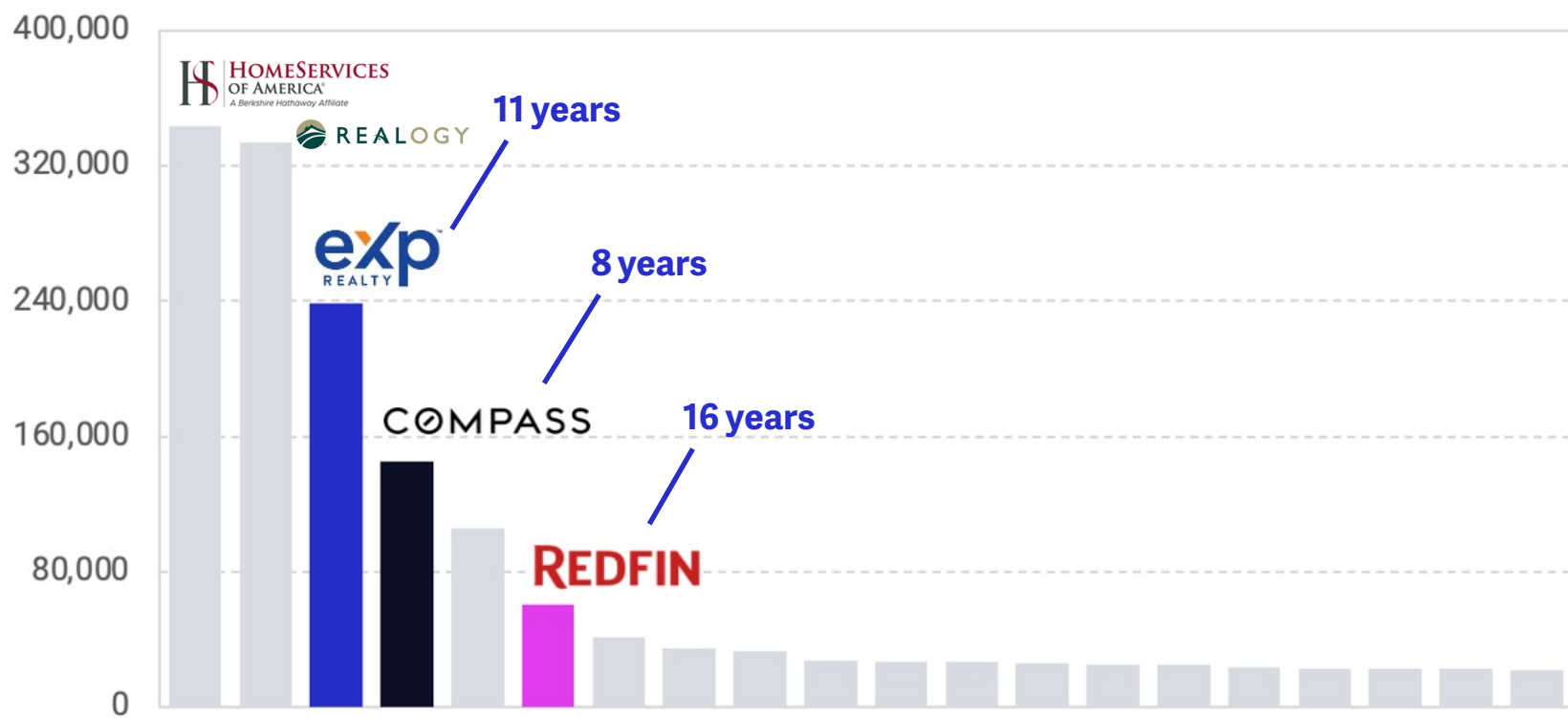
Annual Transactions (2020)



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None of these disruptors are overnight successes; it has taken years to reach this position in the top 10.

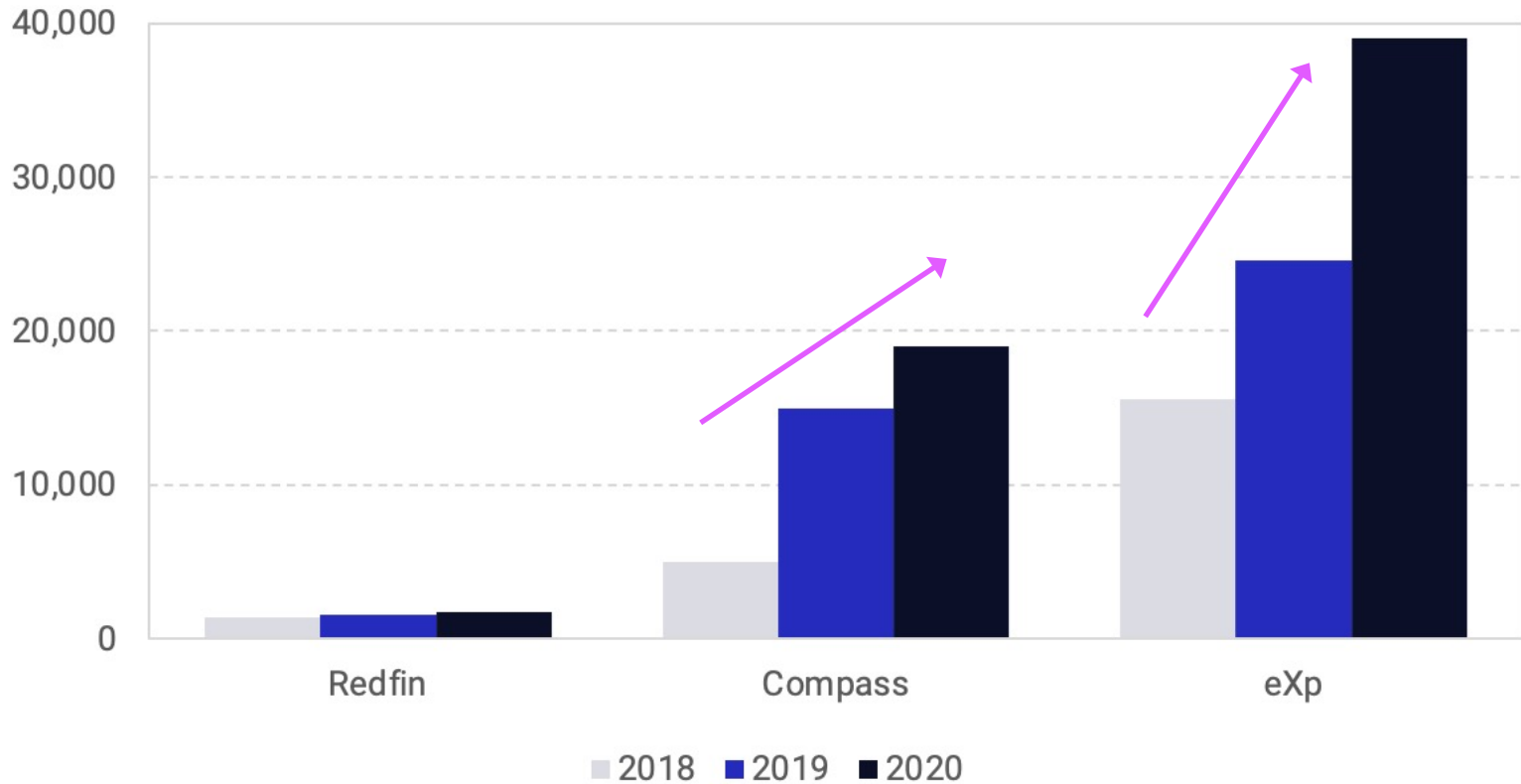
Annual Transactions (2020)



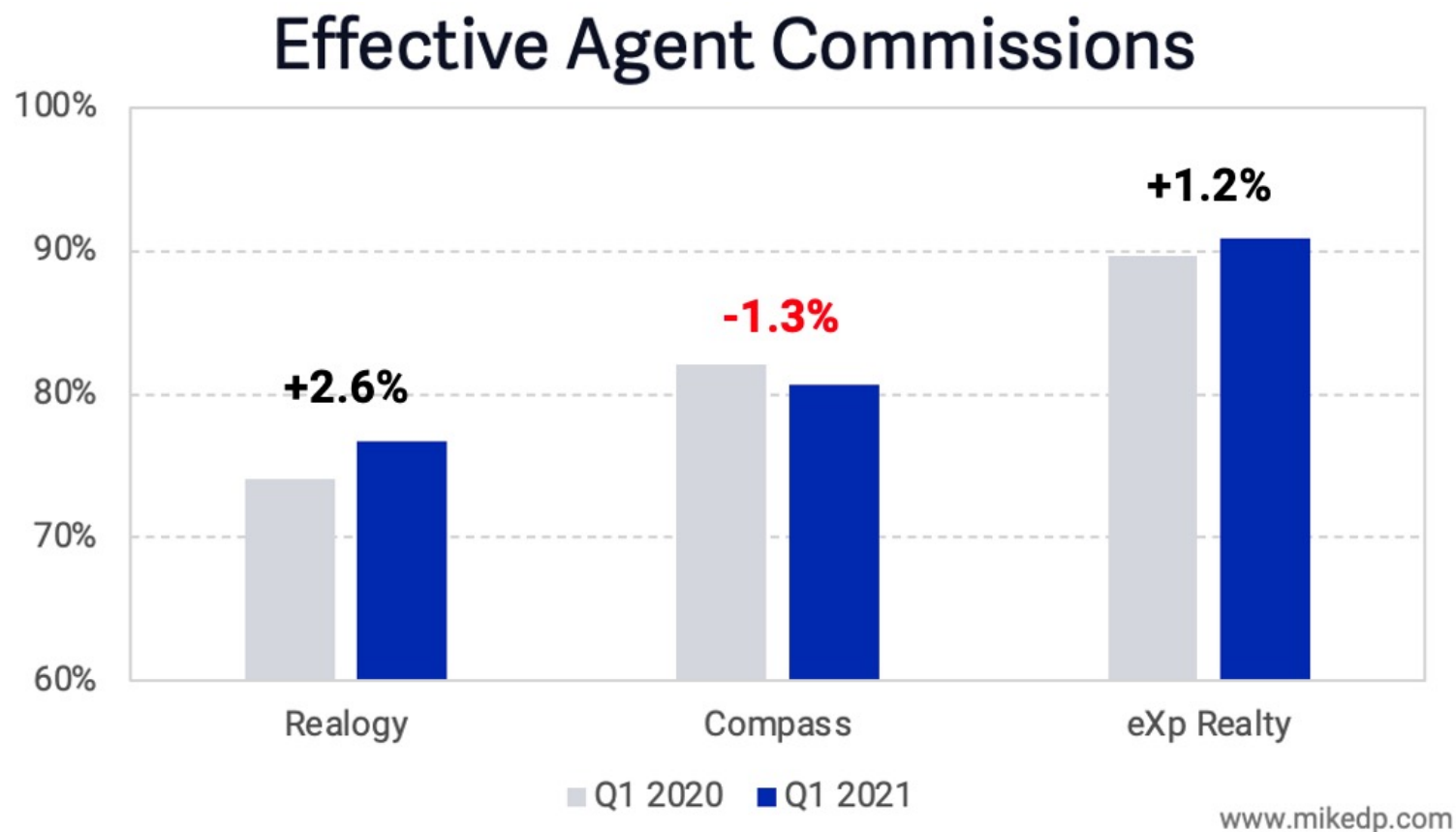
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Compass and eXp's growth is underpinned by agent recruitment; eXp's growth is unprecedented.

Agent Count

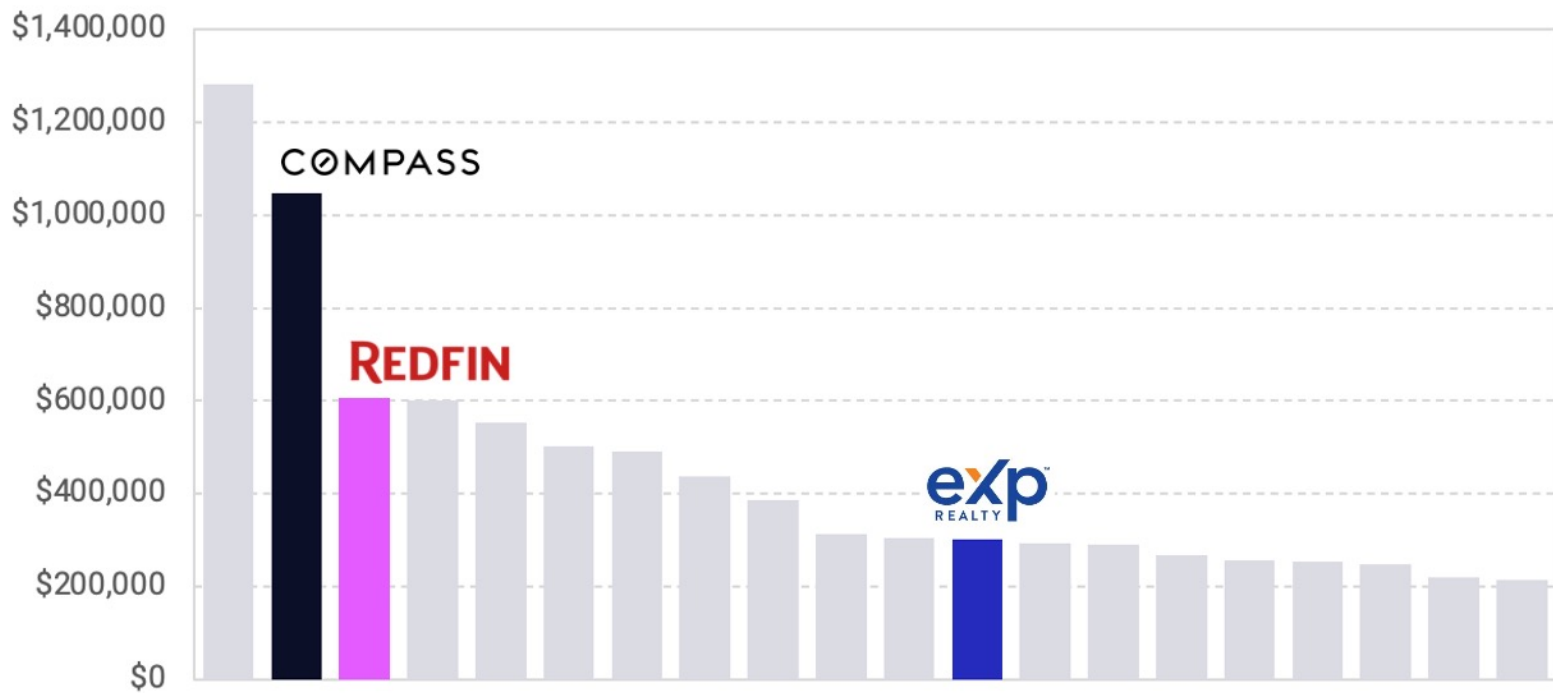


eXp has very high effective agent commissions, which have risen over the past year.



eXp's focus is on the mid-market, with a median price point lower than Compass (luxury) and Redfin.

Average Sales Price (2020)



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While all leaders, each company is achieving success in its own way – with common trends.

- The biggest models still look and feel like traditional real estate brokerages; there is little business model innovation around how they operate.
- The models are still pinned to agents and agent count. Technology doesn't sell houses, agents do.
- The biggest disruptor is a step-change in agent recruiting and compensation. This is the core of Compass' and eXp's growth.
- Growing market share takes time and money. Having more of one means needing less of the other.

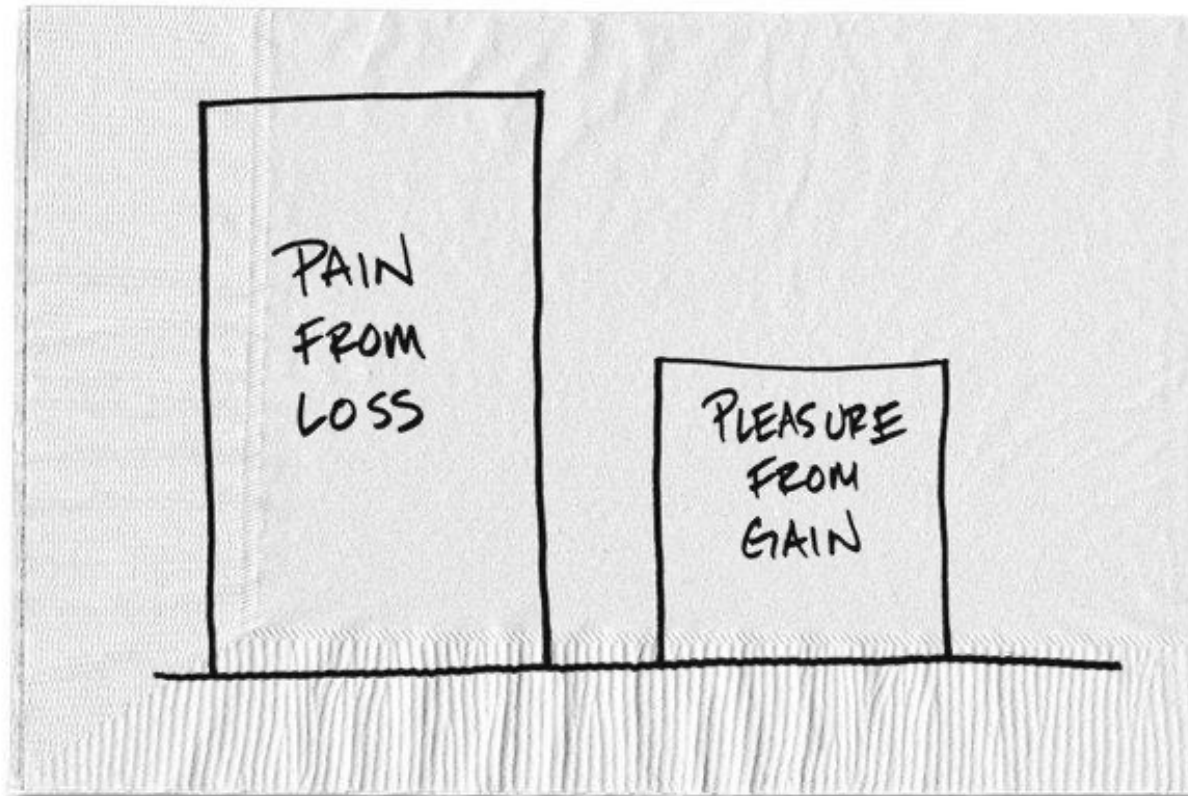
Real Estate Psychology

A discussion of real estate tech wouldn't be complete without highlighting the role of psychology.

Psychology > Technology

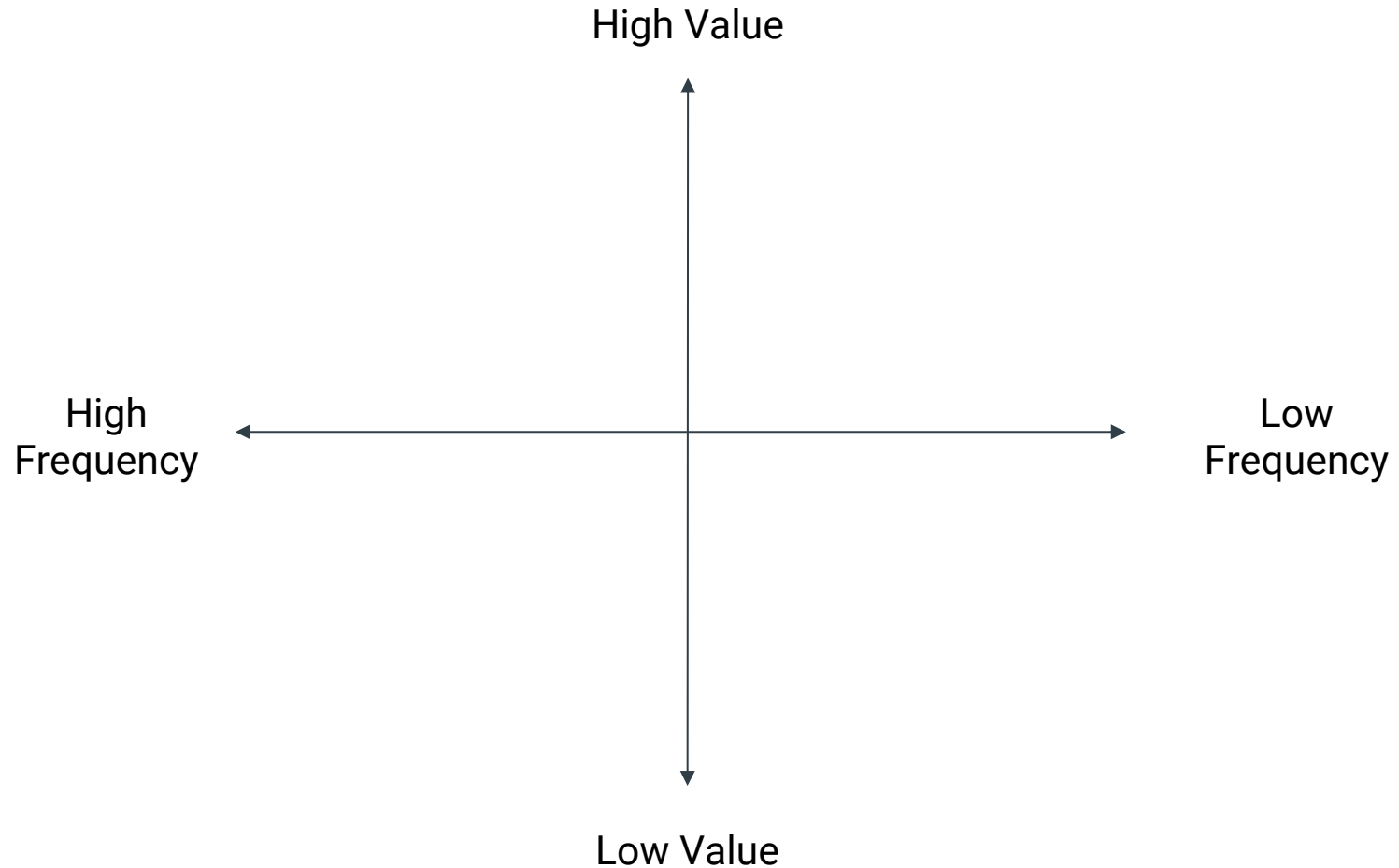
In the evolution of the real estate industry, psychology could play a more pivotal role than technology.

Loss aversion is the psychological concept when the pain from a loss outweighs the pleasure from a gain.

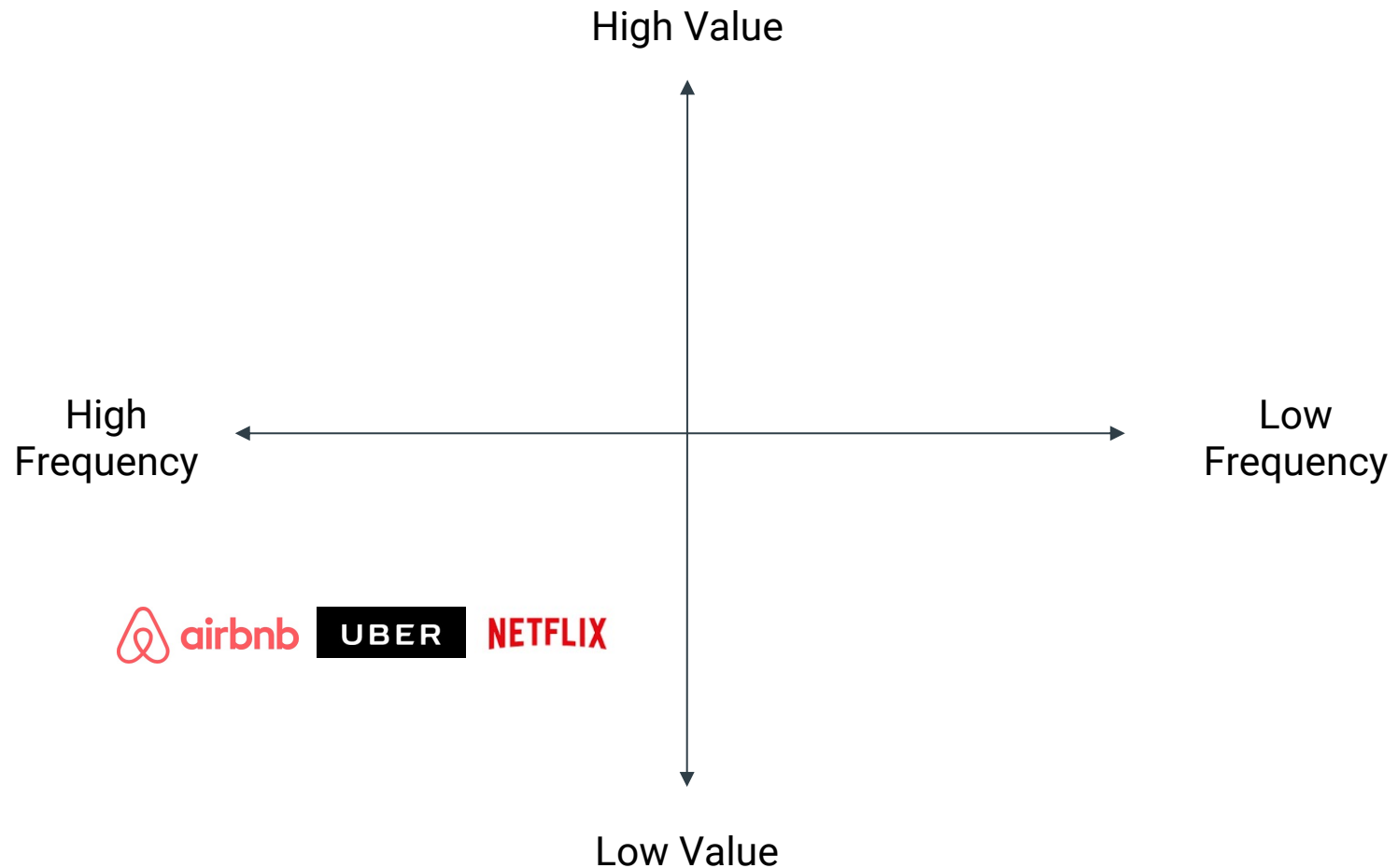


It means that humans are inherently risk adverse, and will avoid taking risks, especially in big transactions.

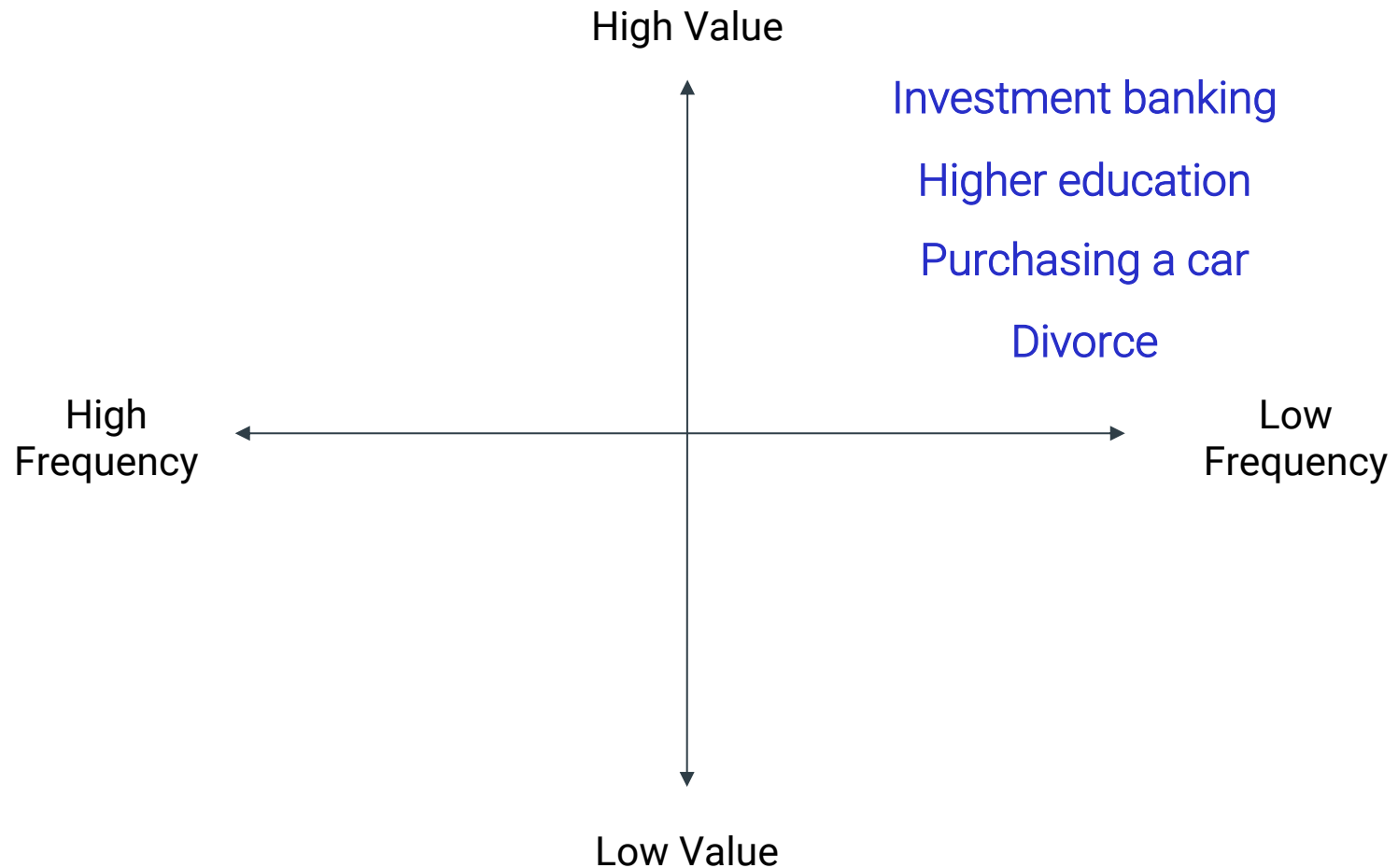
Transaction types can be plotted on a spectrum that measures value and frequency.



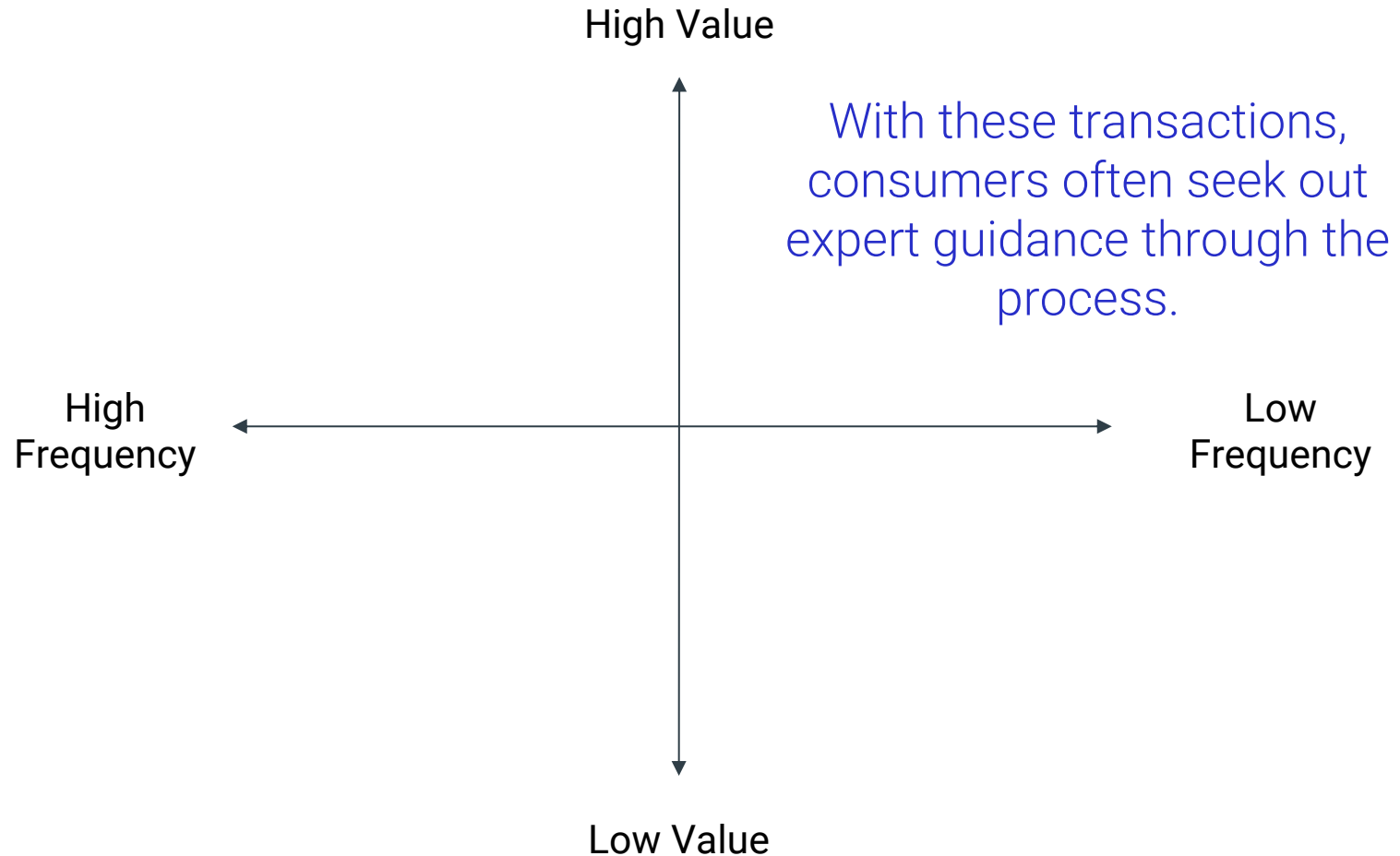
The cost of a mistake is low with high frequency, low value transactions. Consumers will take the risk.



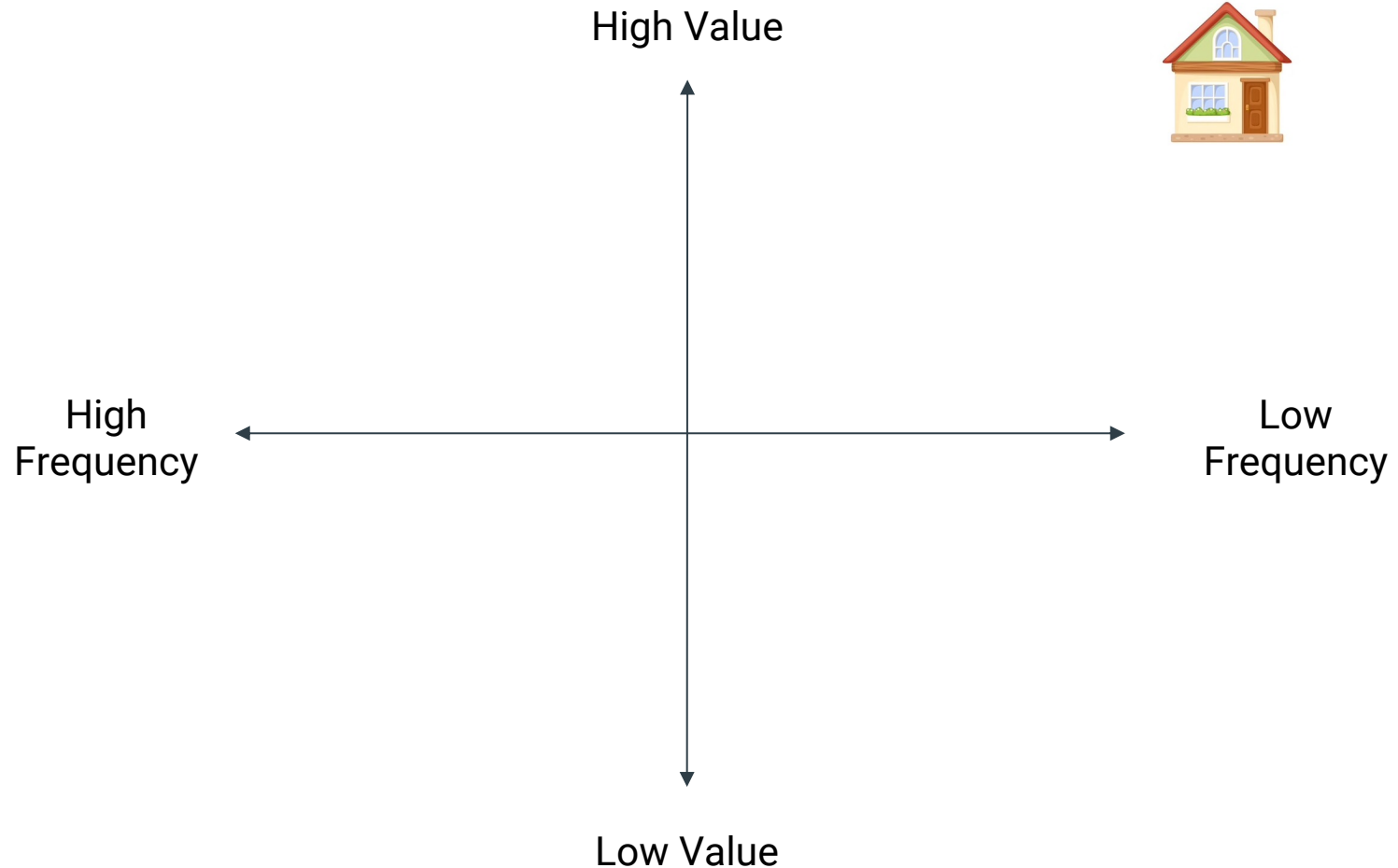
The cost of making a mistake is much greater with high value, low frequency transactions.



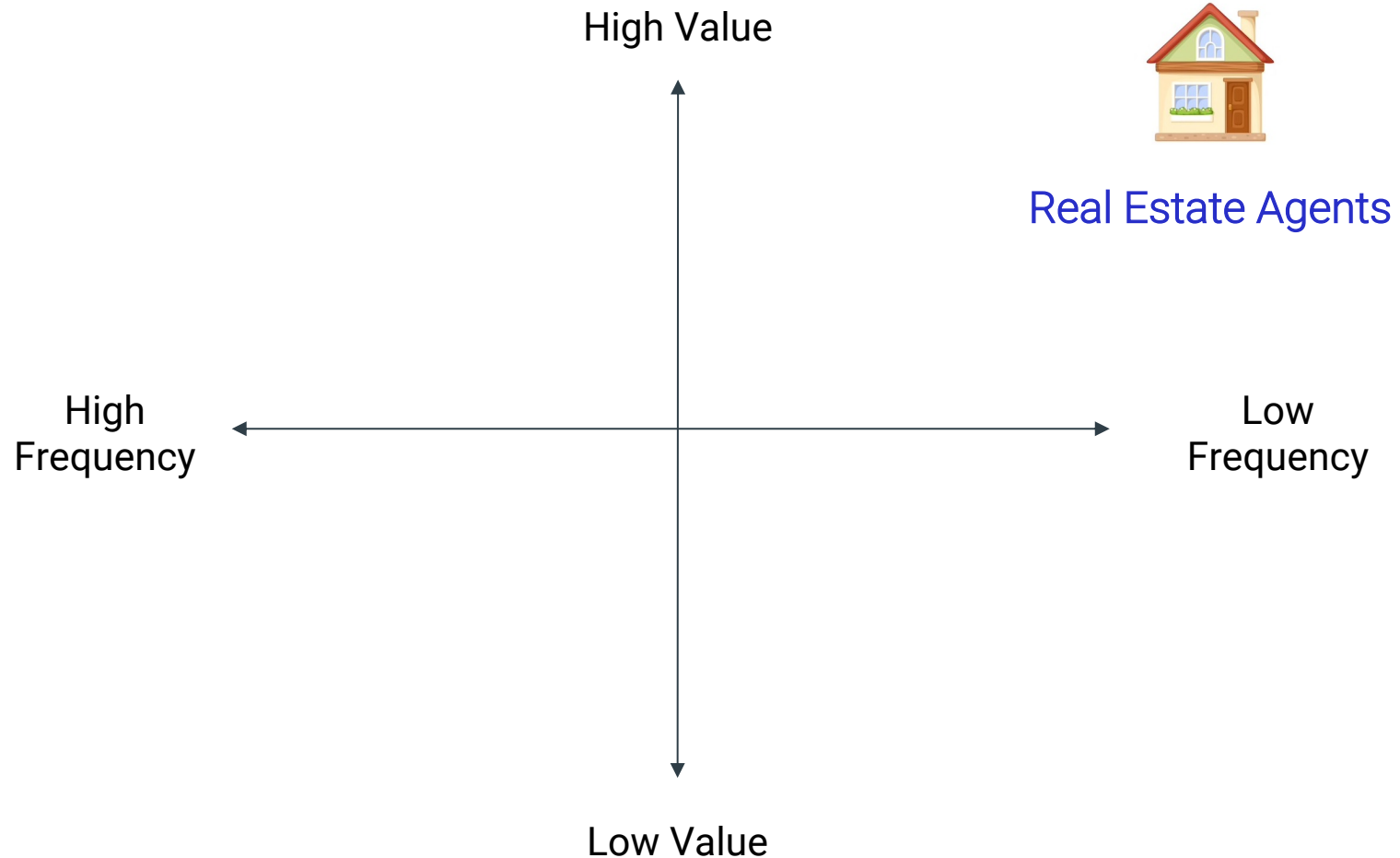
The cost of making a mistake is much greater with high value, low frequency transactions.



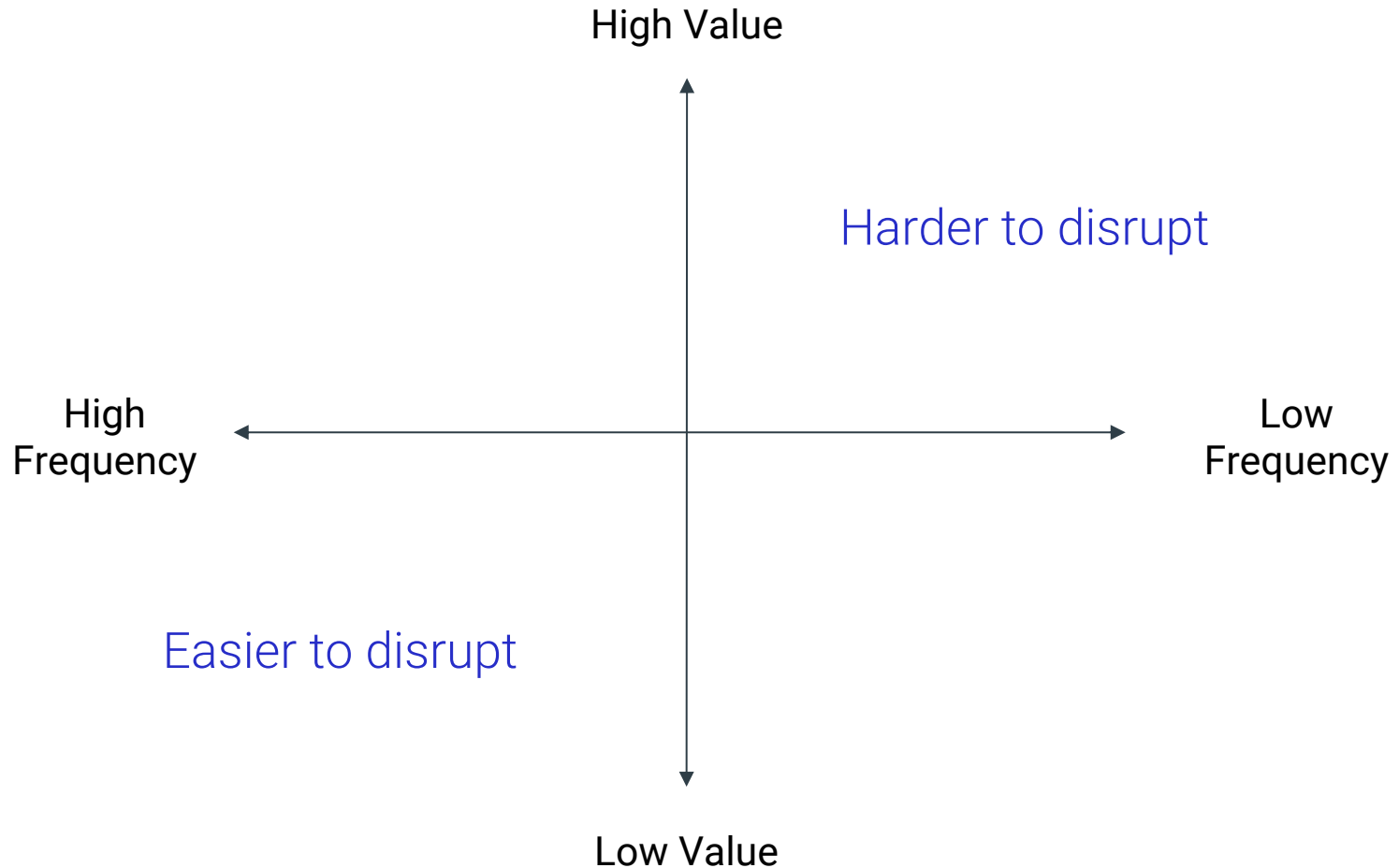
Transacting real estate is typically the largest, and least frequent, transaction a consumer will face.

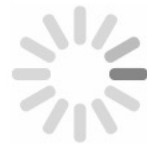


Loss aversion, to minimize the risk of making a mistake, is why consumers seek out expert guidance.



Generally speaking, it is easier to change consumer behavior when the pain from a loss is lower.





Loading...

The loading screen is meant to illustrate a concept called **artificial waiting**. That's when an artificial delay is created to increase the perceived value of what comes next.

TurboTax's submission screen takes several minutes to complete a tax return – an artificial delay.



Double checking for every possible tax break...

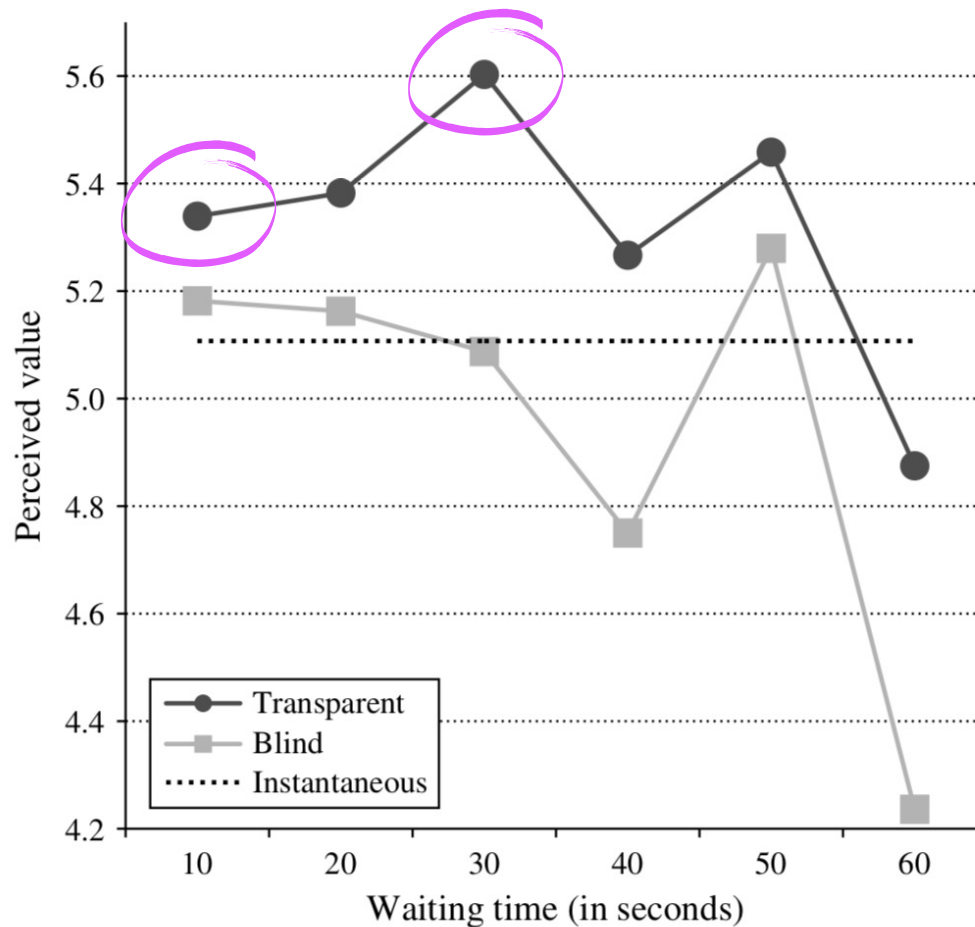
We're getting you every dollar you deserve by making sure we don't miss a thing.



Similar artificial delays are present in online travel searches, banks, and online security checks.

Dubbed the “labor illusion” by Harvard researchers, perceived value increases with wait time – to a point.

Figure 2 The Effect of Operational Transparency and Wait Time on Perceived Value (Experiment 1)



Researchers found that people generally preferred the **delayed results** and considered them **more valuable** over instantaneous ones.

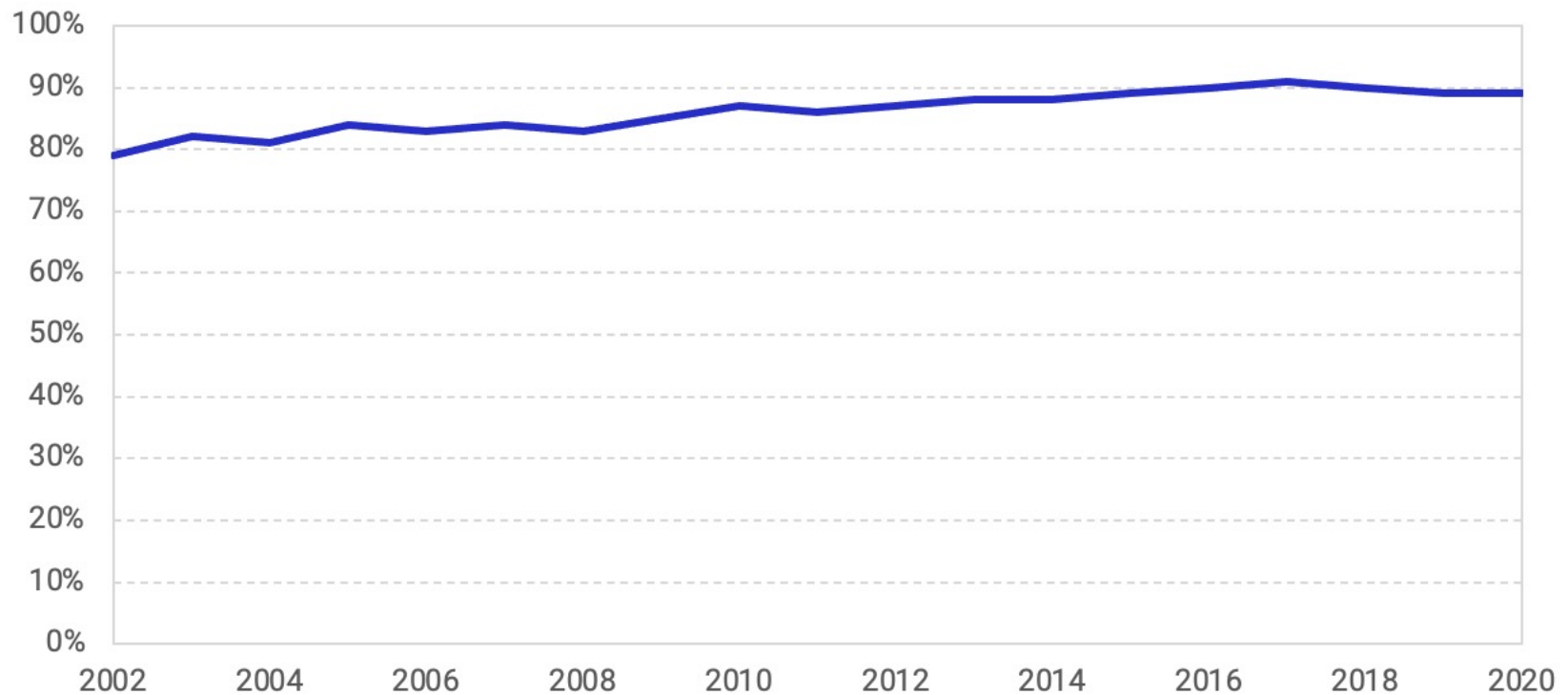
Human psychology leads the way in terms of limiting adoption of new technology.

- Many real estate tech disruptors are focusing on *instantaneous* transactions: buy, sell, and finance a house with the click of a button.
- But if consumers prefer a delay when submitting their taxes, do they really want an instant home purchase?
- Human psychology suggests that consumers prefer good things to take time. An *instantaneous home transaction* may be a solution in search of a problem.
- An **expert advisor** to guide consumers through the process remains critical to transacting real estate.

The Role of Agents

In the U.S., the vast majority of homes are still sold with an agent.

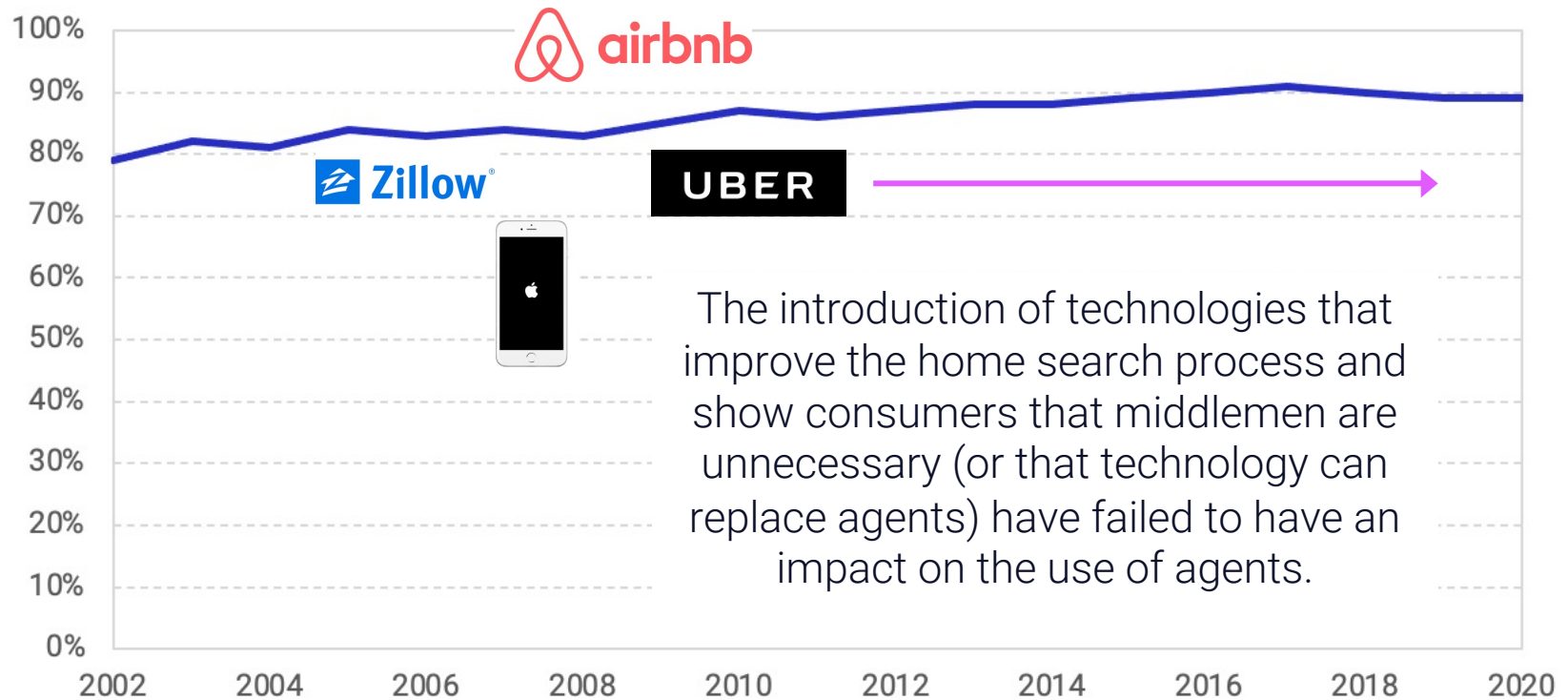
Homes Sold Using an Agent in the U.S.



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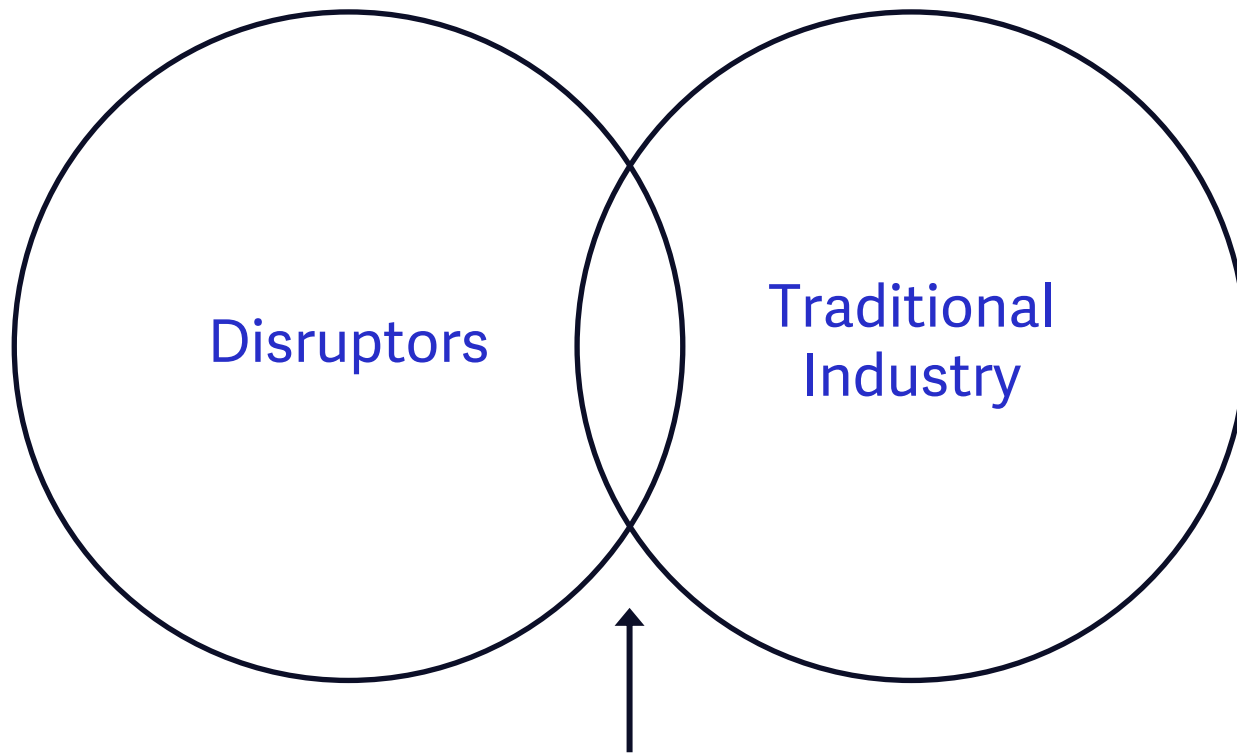
New technologies and platforms have failed to have an impact on the use of real estate agents.

Homes Sold Using an Agent in the U.S.



The introduction of technologies that improve the home search process and show consumers that middlemen are unnecessary (or that technology can replace agents) have failed to have an impact on the use of agents.

Smart agents are embracing new, disruptive models and making them their own.



Some independent brokerages are offering the same suite of disruptive services to customers...



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[Find a Property](#) [Find an Agent](#) [Our Services](#) **(404) 843-2500**

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Maximize Your Home's Value

bridge

Buy Before You Sell

instantsale

Guaranteed Cash Offers

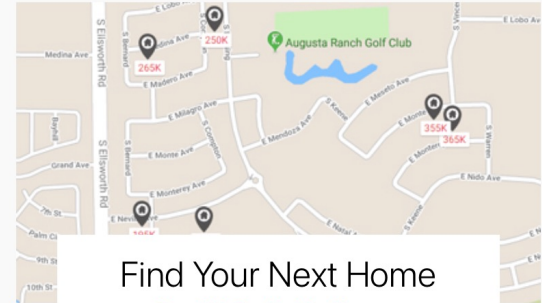
...and positioning themselves as the one-stop-shop for understanding all buying and selling options.



Home Selling Solutions
Including Multiple Instant Offers



Home Buying Solutions
Multiple Buying Options



Find Your Next Home
See All Available Homes

Your Arizona Home Buying and Selling Solutions

Welcome to KlausTeam.com, powered by local experts who are in the forefront of changing how we buy and sell real estate. When you're considering a move, it's a huge time in your life, and there are many options, details, and hurdles to move you from house to house. **Whether you're buying or selling, on this next adventure be sure you have the most experienced guide.**



Real estate is becoming more complex. The role of an expert advisor has never been more important.

- Agents are acting as unbiased expert advisors, helping consumers understand the myriad of new buying and selling options available.
- Agents are the ultimate “offer aggregator,” presenting offers from multiple companies to homeowners.
- The brokerages and agents that win will be those that educate and empower consumers to make the choice that’s right for them.

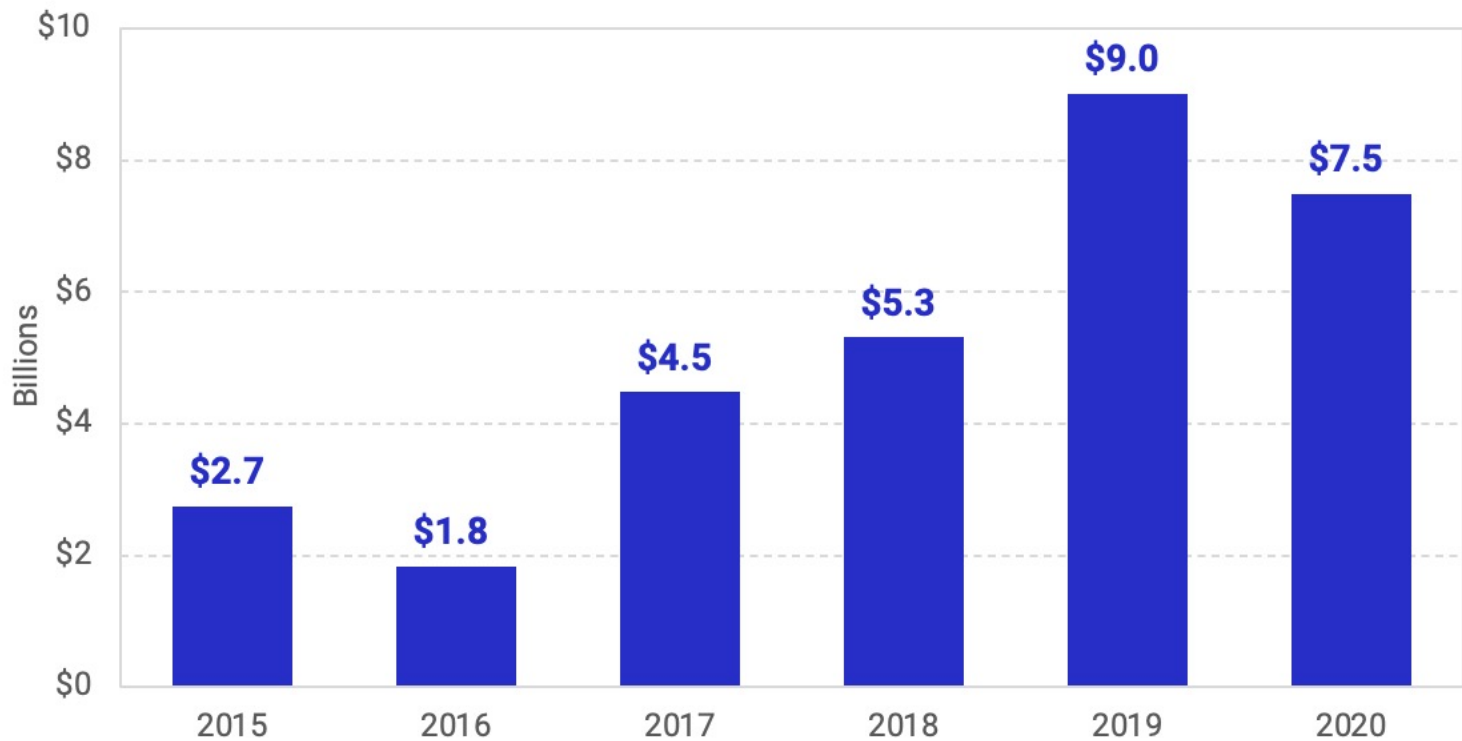
Real estate agents will remain an important part of the home buying and selling process.

- Home sellers still want someone to hold their hand. Real estate agents aren't going anywhere.
- Even with the advent of technology that could, in theory, replace agents, consumers still prefer to work with them.
- This is *loss aversion* at work; consumers want to work with an agent in order to reduce the chances of a potentially costly mistake when selling their house.

Key Learnings

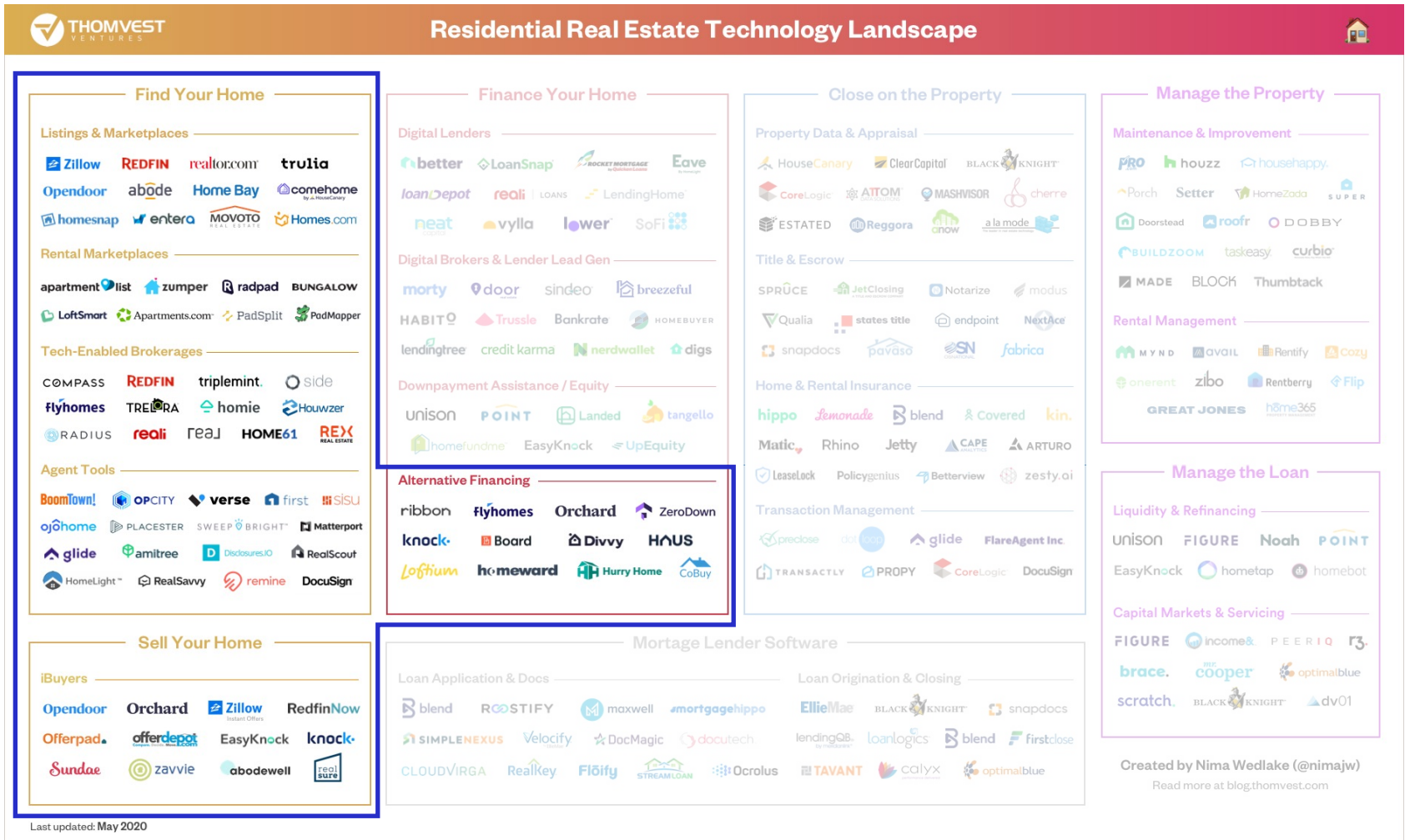
Disruption in real estate is being driven by unprecedented amounts of venture capital.

U.S. Real Estate Tech VC Investment



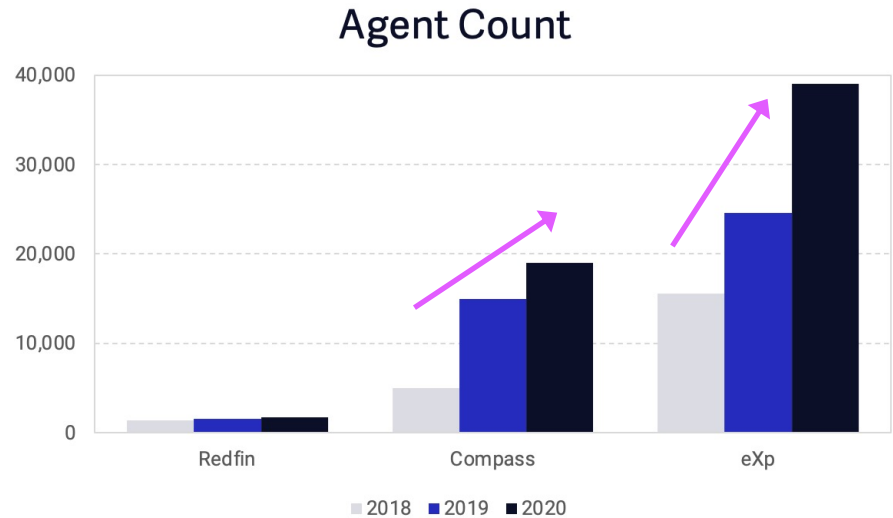
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The influx of new models is creating more ways to buy and sell – and adding ecosystem complexity.



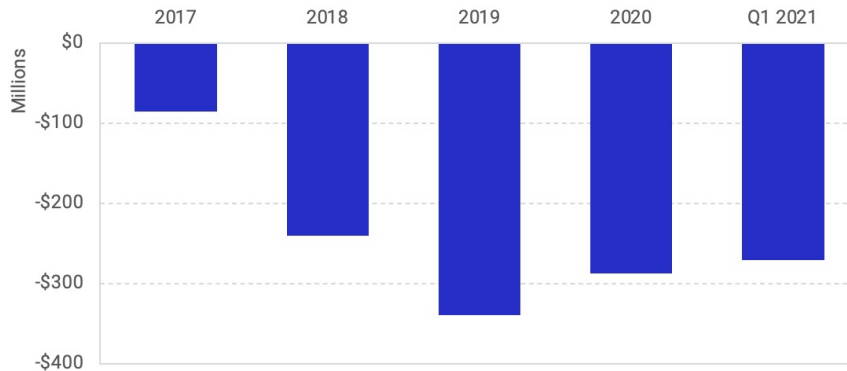
For the most part, growth in new brokerage models is still very much tied to agent count.

- Technology doesn't sell houses, agents do.
- Agents remain crucial, and central, to the transaction.
- Competition between new brokerage models still revolves around agent recruiting and retention.



Many new models are massively unprofitable. These companies are willing to lose billions to grow.

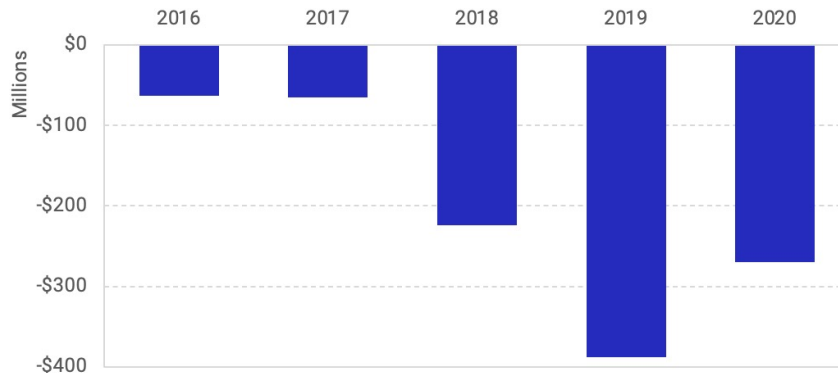
Opendoor's Net Losses



Opendoor

\$1.2+ billion loss

Compass Net Loss



COMPASS

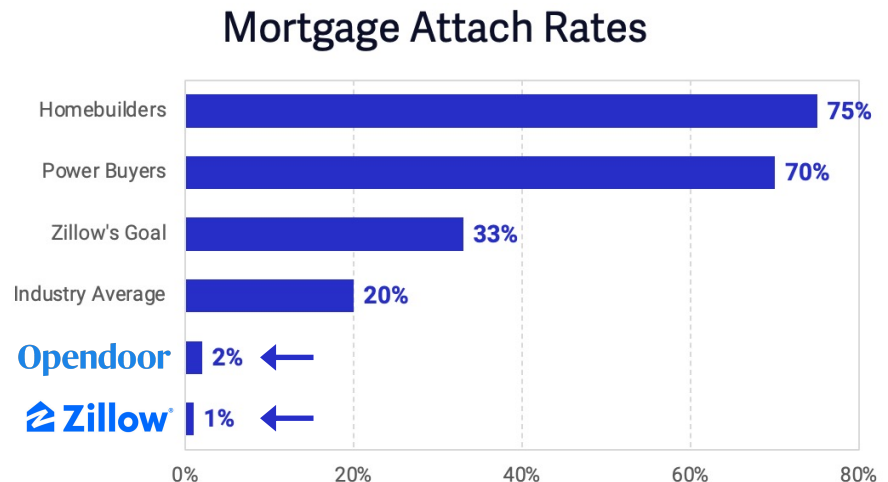
\$1+ billion loss

It's not about the house, it's about the transaction.

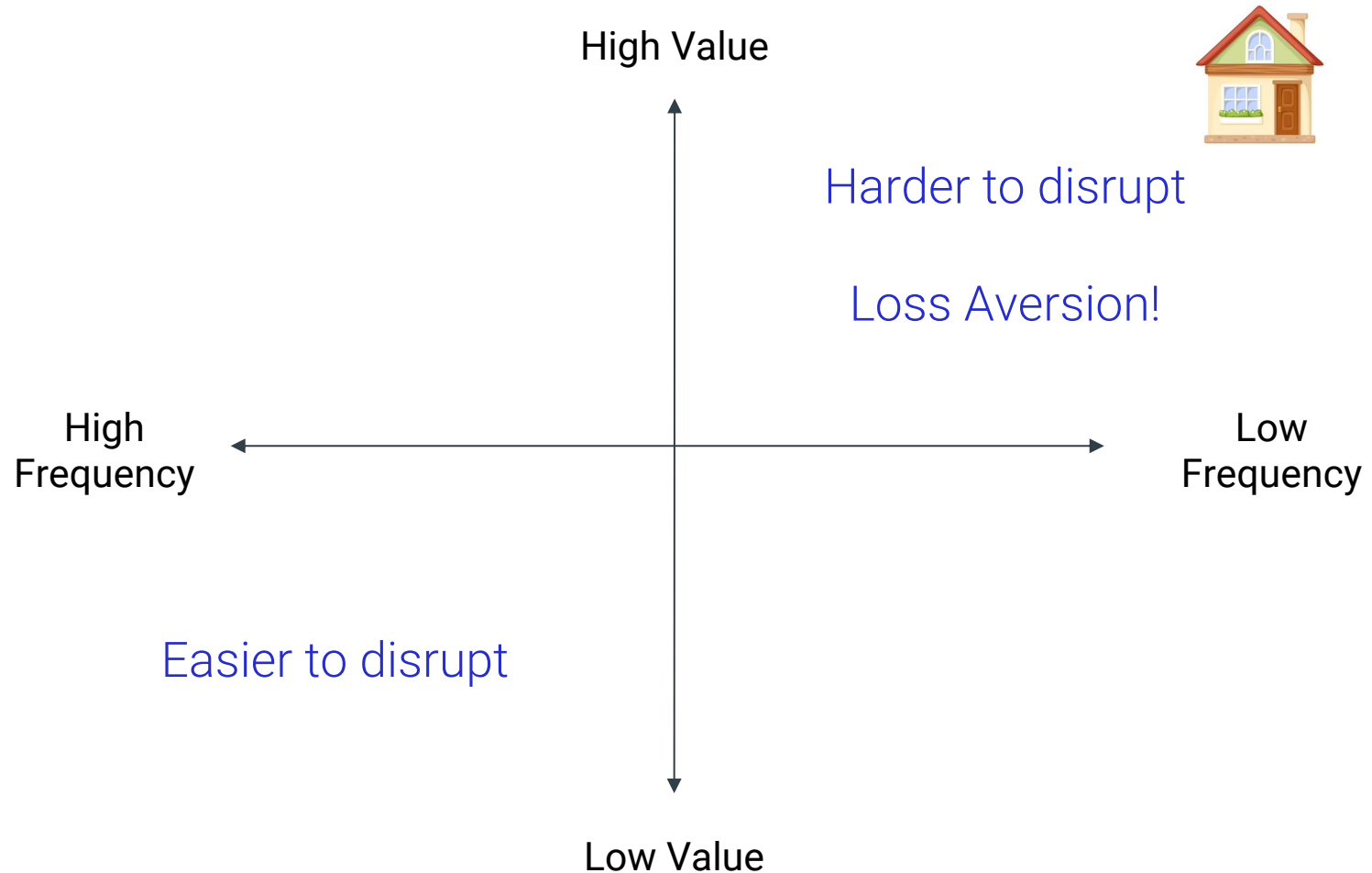
- Many new models are attempting to reach profitability through a wider ecosystem play, generating revenue from adjacent transaction services.
- But it's a difficult path forward, with low attach rates.

Adjacent services roadmap

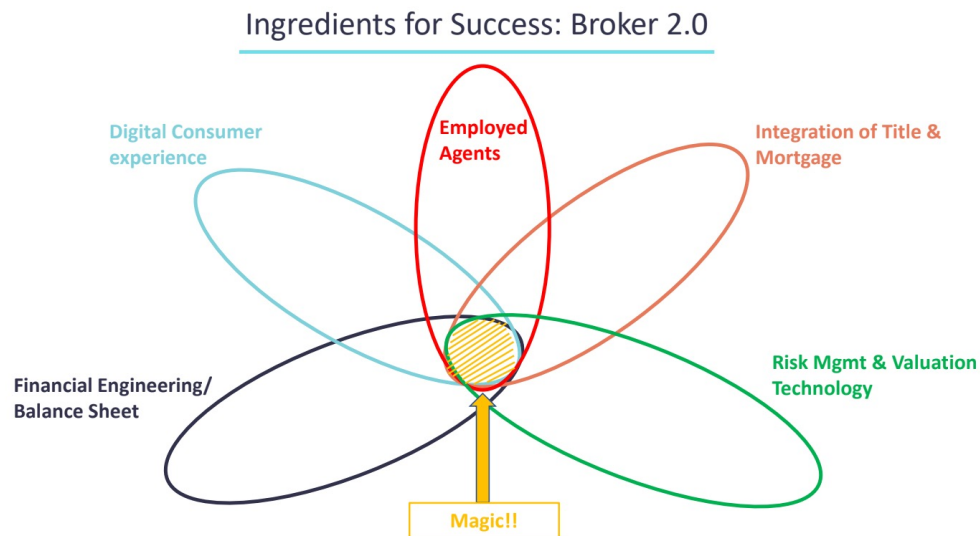
Established	Target CM / home
→ Title & Escrow	\$1,750
Recently launched	
→ Home Loans	\$5,000
→ Buy with Opendoor	\$5,000
→ List with Opendoor	\$3,750
To be launched	
Home warranty, upgrade & remodel, home insurance, moving services	\$7,500



Consumer psychology (loss aversion) remains one of the largest obstacles to mass-market adoption.



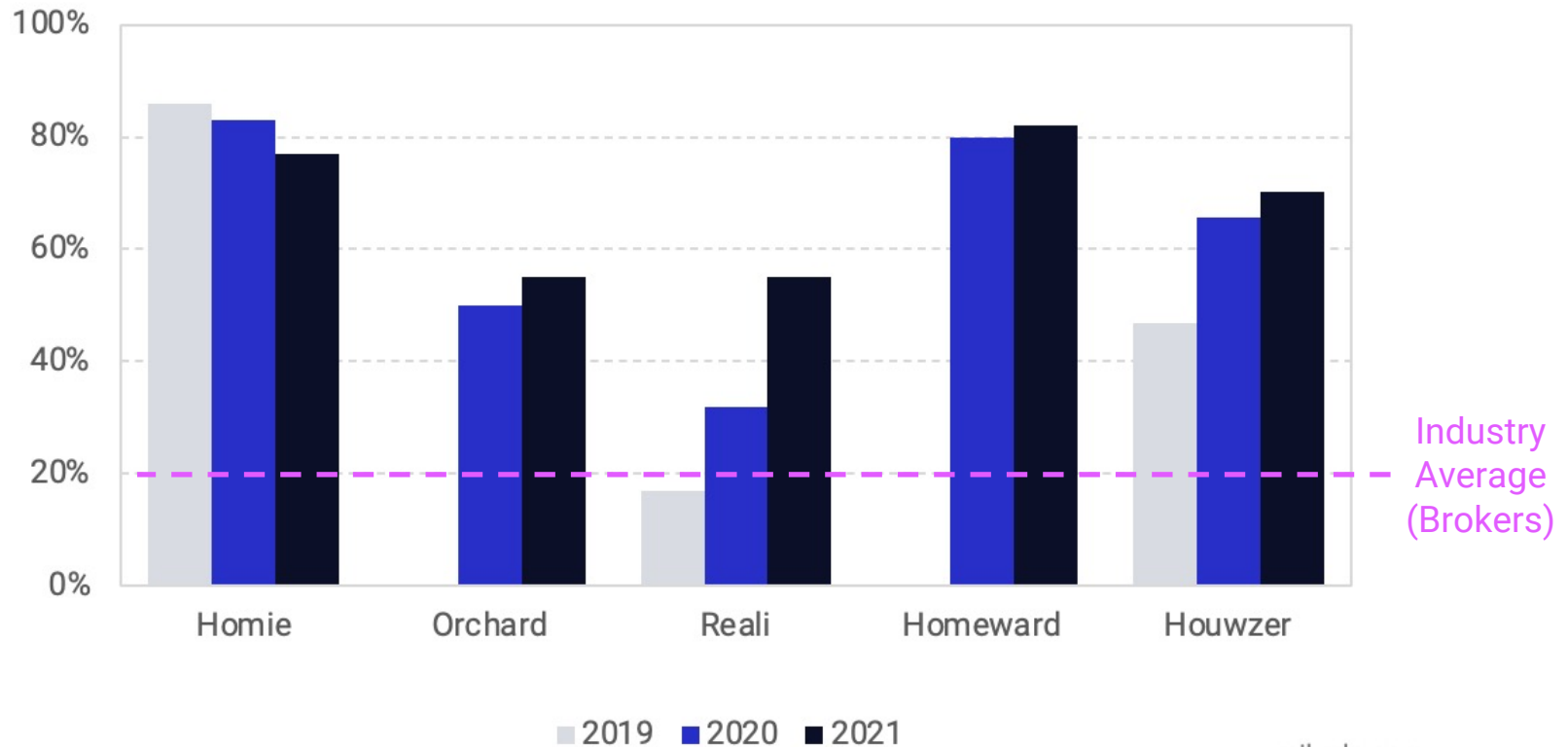
The next generation of new brokerage models are focused on three key areas.



1. Employed Agents
(Some, but not all, models)
2. Integrated Ecosystem
3. Digital Consumer Experience

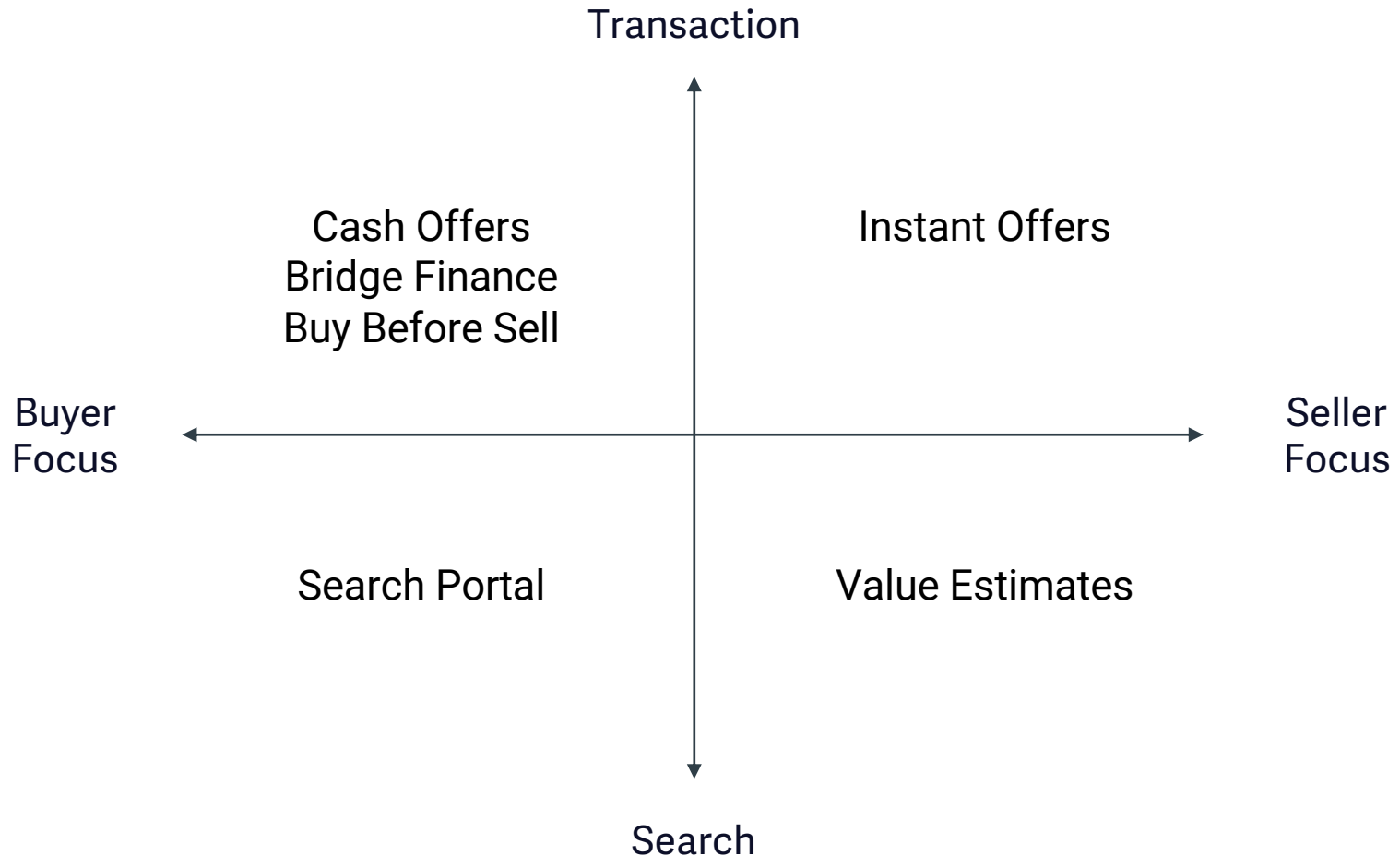
Which enable them to capture more of the transaction, namely mortgage and title.

Mortgage Attach Rates



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To thrive, brokerages of the future should have a presence in all four quadrants, from search to close.



There is much to learn from these global examples.

- The biggest new models are very well funded and willing to incur massive losses to build market share.
- The leaders are using technology to automate processes and increase efficiency, not to replace people.
- The traditional industry isn't sitting still: Smart agents and brokers are competing where they can win.



The industry is moving very slowly, but it's never moved this fast.

- These new models have proven traction and growing consumer demand – but remain a small fraction of the overall market.
- Change will occur slowly; this is evolution, not revolution. Changing consumer behavior takes time.
- It's spreading: Copycat models are popping up in markets around the world.
- Traction is coming from new models that feature a **smart combination of people and technology.**

MD

MIKE DELPRETE

About the author: Mike DelPrete

Mike is a global real estate tech strategist, and a scholar-in-residence at the University of Colorado Boulder. He is internationally recognized as an expert and thought-leader in real estate tech.

His evidence-based analysis is widely read by global leaders, and he is a sought-after strategy and new ventures consultant. His research and insights have featured in the New York Times, Wall Street Journal, Financial Times, and The Economist.



MD MIKE
DELPRETE

www.mikedp.com

[Mailing list](#)

mike@mikedp.com

I split my time between research & writing, teaching, and working with select clients.



University of Colorado
Boulder

I'm leading the University's new Real Estate Tech program, one of the world's first. [Learn more](#) →

**Strategy
Consultant**

I'm a strategy and new ventures consultant for businesses of all sizes, with a focus on real estate portals and disruptive models in real estate tech. [Learn more](#) →

**Start-up
Advisor**

I advise and invest in a select group of real estate tech start-ups and growth-stage businesses around the world. [Learn more](#) →

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