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THE FUTURE OF FINTECH IN REAL ESTATE

IS FINTECH THE FUTURE OF REAL ESTATE INVESTING AND FINANCING?

Financial technology development (FinTech) is a 'disruptive innovation' (Christensen, 1997). Three waves of FinTech disruption, namely the emerging competition, increased collaborations, and partnerships in building a FinTech ecosystem. For example, Zillow's iBuyers, P2P lending platforms, and tokenisation technologies in commercial property all seek to speed up the process of property transactions and financing and transform the way of property investing. In this discussion forum, we are going to investigate by case study method on advantages and disadvantages of applying FinTech in the property industry and the potential challenges faced with the widespread adoption of FinTech.



JEREMY'S REPORT

CASES OF OFFERPAD

With Fintech integration verticalising under property innovation, future adoption of property fundamentals depends primarily on the fundamental responses of the property sector. Offerpad, like much iBuyer competition, thrives under high-appreciation market cycles. In 2021 Q3, 1,673 homes were arbitrated solely from appreciated sales in exchange for an upfront cash offer (Geron, 2022). However, such efficiency may outweigh sellers' circumstances of desiring lucrative appraisal, decreasing returns overall.

Processing for residential property experiences the majority of tech-related disruption, whereby traditional brokers are optional for the seller. Offerpad exemplifies this by achieving a 3% industry-high for referral fees as a part of their "Agent Partnership Program," which provides sales software for improving sale conversions. Therefore, Offerpad's platform maximises B2B affiliations if third-party agents are preferred. Consequently, the network effect and transparency surrounding Fintech create an exponential value-add for less disintermediation for traditional processing partners.

Conversely, Fintech poses a significant risk for macroeconomic price indexes, specifically regarding the "*financialisation of housing*." The Landa app is an early-backed platform aiming to democratise residential property ownership through indirect REIT investment, equivalent to the stock market (Landa, 2022). Increased liquidity also risks speculation occurring during high-confidence markets. Speculative debt can become a primary determinant as volatile consumer-sentiments contractions may diminish homeownership prospects as a potential use for residential spaces becomes subordinate to economic exchange. Indeed, future start-ups can capitalise on socio-economic inequity through contrarian lending practices, although non-existent, which may break modern paradigms of property commoditisation altogether.

References:

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GEORGIA'S REPORT

CASES OF BLEND

The general consensus is that the integration of Fintech into the property market is an inevitable trajectory. However, this will depend on how future organisations address the challenges posed by the core characteristics of the property sector.

"RedfinNow" (Redfin, 2022) represents one of the top 'ibuyer' companies that provide users with an efficient sale process by cutting out the middleman and creating a hassle-free experience. This platform, and other 'Tokenisation' and peer-to-peer lending platforms, offer consumers an efficient, transparent and affordable way to interact with the property industry.

The main challenge of RedfinNow is their lack of ability to redirect the focus from their technology roots to be more inventory intensive. Fintech technology's strengths are its simplistic innovation, so drastic changes from the core business model can prove challenging. The instability of the property market could also prove a threat to the future of fintech integration. The asset-light nature of fintech companies will make it challenging to adapt to the inventory-intensive nature of the real estate sector. If a property price crash occurs, this could prove fatal to companies such as RedfinNow.

'Blend' (Blend – Powering the Future of Banking, 2022) was able to address the challenge of Fintech's niche focus through partnerships with national banks such as Wells Fargo. Collaboration would allow RedfinNow to tap into other players' strengths, skills and knowledge to provide a stable future for their company. Another solution is the adoption of 'property caps' during each financial period. By placing a limit on the number of properties, they purchase and flip, RedfinNow could maintain a stable profit and ensure its future in the event of a financial crisis.

References

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