

# Engaging Minds<sup>1</sup>

Time: 9.30 pm IST on Saturday 20<sup>th</sup> January.

Topic : Real Estate Tech: A Crumbling House of Cards

<https://www.youtube.com/watch?app=desktop&v=nXcz6CHDtwo>

In 2014, there was one Silicon Valley startup that was widely applauded for its ambition to revolutionize a massive high-stakes industry as old as the Middle Ages. That company was called OpenDoor and their idea was to make it possible to buy or sell a home in just a few clicks. OpenDoor in 2014 was the perfect mix of all the hottest Silicon Valley trends from the 2010s - online to offline platform businesses, data science, machine learning, algorithms, artificial intelligence, and automation applied to the old-fashioned world of real estate. OpenDoor was not flipping homes, instead, in their own words, they were a once-in-a-lifetime quote on quote market maker that could transform the American residential real estate. As OpenDoor built up hype, industry giants like Zillow and Redfin started to worry that they were missing out. This ushered in the “Instant Buying” or iBuying phenomenon, where Zillow, Redfin, and OpenDoor burnt millions of dollars flipping thousands of homes across the country based on algorithms. Fast forward several years to 2020 where iBuying has revealed itself to be a short-lived fad. Zillow, the company with the biggest market share, presence, and pockets, terminated its iBuying business as a high-profile failure, laying off thousands of employees after losing over half a billion dollars. In this episode, we’ll explore OpenDoor, the iBuying business model, and the long-running misconception that computers make better decisions than humans and the crumbling house of cards that is real estate technology.

In short, the following happened

a. The Company could procure 35% of what it initially assessed as sellers mostly used it to get a preliminary assessment of the price they could get. This greatly increasing its costs. This because those that actually wanted ready cash right away were few, in other words it was a niche market and not able to address the entire business as forecasted. Most sellers were prepared to wait for higher returns that would come from a waiting period. The additionalities that the algorithms provided in the end turned out to be mostly superfluous as the Company was purchasing at less than the market value in return for ready cash, the realtors on the other hand could factor in variations and also trends, averaged out by OpenDoor. The end result was that even though OpenDoor had record high sales, its cost were higher. With the hot market/ low interest rate regime during COVID petering out, this has resulted in the bubble bursting.

b. Company resorted to many tricks to hide the padded up costs, like billing them to renovations, escrow etc. Despite this they were still not able to cover the costs.

c. Offerpad a copy cat of OpenDoor however took a cautious approach to buying, keeping in mind what it could realistically sell. The result was that Offerpad registered profits. So while some questions relating to costs and consequently returns actually have got addressed by the lower scale that Offerpad operates on, the larger issues related to scale remain largely

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<sup>1</sup> Season 1 Episode 3 Real Estate Tech: A Crumbling house of cards

unaddressed. AI is far far away from comprehensively establishing that it can make better decisions than the variety that exists on the open market.

The discussion then turned to the state of the art in other business models offering High Tech/ AI. In short the experience as of now showed that the high initial start up costs and consequent high running costs have forced most businesses to resort to padding real costs.

What is the possible way out ?

[http://ielaind.org/wp-content/uploads/2017/05/A-Participatory-Ecosystem-Assessment-of-issues-in-Ahmednagar-region\\_Relevance-of-Geo-Spatial-tools-to-enhance-community-participation.pdf](http://ielaind.org/wp-content/uploads/2017/05/A-Participatory-Ecosystem-Assessment-of-issues-in-Ahmednagar-region_Relevance-of-Geo-Spatial-tools-to-enhance-community-participation.pdf)

This short paper by IELA points to a hybrid solution where real time research and related solutions can be speeded up by modern technology aided by the human brain. Here the reference is to Geo Spatial tools aided by community participation that helps identify the real questions on the ground with the variation that exists due to nature, markets and community response to both. This is still in nascent stage but AI tools have helped those with experience to quickly map the variables involved. More on this later.

CGA- VERRM