



"Real" Real Estate Disruption - Matching Self Qualifying Buyers with Motivated Sellers

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Finding Value

With a conga-line of so-called industry commentators, analysts, and experts lining up to dance on the grave of Purple Bricks Australia and its pending exit from Australia, it is probably worth thinking through the value of the Purple Bricks entry into the Australian market, the underlying strategy, and what we learnt for future reference.

The real estate market is complex and highly localised

There is little doubt that the Australian real estate market is complex and highly localised due to variations in state-based regulation and licensing, concentrated economic activity, targeted high-growth immigration, layers of constantly changing state and federal taxation policies, ongoing reliance on property as a reliable investment asset, and irregular changes to government policies and incentives. All these levers work in various ways and can be altered at any time. However, Australia is by no means unique in the global context and as such the industry would be foolish not to acknowledge global real estate disruption trends.

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There is little doubt that the "old economy" real estate agency model (1) is ripe for disruption but exactly how. The traditional "old economy" business model, largely promoted and perpetuated by established real estate industry players, is characterised by a relatively high cost of sale (commissions and marketing), diminishing perceived value particularly in softening markets, elongated (by design) marketing campaigns (time on market), decreasing incremental gains in property sale price (incremental value proposition), fragmented lines of agent communication, an engagement model focused on turning buyers into sellers, and supported by "old" technologies and "old" business processes.

Disruption Horizons

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It could be argued that Purple Bricks UK understood these market dynamics but failed to adequately address the local Australian and perhaps even the US context.

While Purple Bricks was one of the new entrants (**1a**) to the Australian market place, it is anticipated that few, if any, of these, have a sustainable, profitable, high growth future. Most of these new entrants to the real estate industry are focused on only two key business drivers - No Agents and a Lower Cost of Sale.

Let's avoid "high cost" portals like REA and Domain.

However, there is already evidence that there are margin pressures on these models and an increasing reliance on established "high cost" portals like REA and Domain. Furthermore, there is virtually no reliable guide on the property price resulting in an elongated time on the market. While the underlying technology platform is a slight improvement, the tradeoff in cost is more than likely at the expense of value and a longer period of time on the market.

One of the more depressing observations from media and industry commentary is the belief that operations such as Purple Bricks and others are online platforms and their inability to grow and sustain a meaningful market presence in Australia is terminal. Perhaps those platforms that compete on cost with no agent will die but a post-mortem of the business will reveal many executions and structural faults that have nothing to do with the technology.

The new entrants to the market place (2) are characterised by the highly innovative peer to peer business models built around the real estate ecosystem underpinned by new technology. What makes these business models so compelling is their focus on both Seller and Buyer enablement through proprietary cloud-based technologies and tools, AI, algorithms, analytics, chatbots, and voice-activation supported by highly specialised "concierge" services embedded in the platform. They compete on value, not cost, trading a marginal increase in the cost of sale against a measurable and sustainable increase in incremental value resulting in a dramatically reduced time on the market.

On the global stage, these models are poised to transform "old economy" business models

On the global stage, these models are poised to transform "old economy" business models through disruption with the old model struggling to adapt to a new market place dominated by tech-savvy, intelligent, informed, and skilled buyers and sellers. Furthermore, derivations of "old" models in the market place (1a) will ultimately either die or be consumed into true second horizon market leading entities.

In conclusion, there is no doubt the Australian real estate market is going to be dramatically disrupted.

The old models will continue and cater to vendors who are motivated by fear and/ or greed. On an international basis, the new tech-enabled business models have already carved out a strong market presence, up to 40% of sales in some jurisdictions.

Horizon 2 is just the start with real disruption coming from existing horizon 2 and new entrants moving to horizon 3.

Written By John Weste

Business Executive, Company Director, Private Investor, and Corporate Adviser

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