

Lessons from the US iBuyer bubble burst for SA's property market

 By Gil Sperling

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The US housing market suffered a seismic shock recently when leading property listings portal [Zillow announced its exit of its iBuying business](#) after a \$1bn loss over the course of three years - and there are lessons in the move for the South African market.



Gil Sperling, co-CEO and cofounder, Flow

iBuying has been a growing trend over the course of the last three years, with companies like Zillow harnessing their knowledge of hundreds of millions of American homes and the areas in which they were situated and leveraging that data to make house flipping profitable at scale. iBuyers move quickly and offer home owners premium pricing, based on their predictions for the supply and state of the area – a real win for the owners in a globally-depressed economic climate.

It turns out that Zillow overplayed their hand and ended up buying homes at higher prices than they estimated they could sell them for. Current statistics show that the country's combined iBuyer market share is 1% of all US homes for the second quarter - around 60,000 of the nearly 6 million homes which trade hands each year. That said, competitors like Opendoor and Offerpad have had more success by making lower offers for homes – especially as the market there has cooled since July – but Zillow's exit will hold up a magnifying glass to the mechanics of the iBuyer movement and companies' path to profitability.

Flipping a massive challenge in SA

Flipping homes has become a popular trend in South Africa as an investment class of its own, but it's dogged by slow and expensive transfer processes which make it difficult to turn a profit quickly and move on to the next project. Holding such an expensive asset for that long in a fluctuating market – with interest rates only set to rise – is dangerous and makes flipping a massive challenge. Zillow's inability to shift houses in a market where transfers can be completed in days has more to do with an algorithm that predicted the price spread incorrectly than bureaucracy – but it has left them with an inventory of over 7,000 homes which they believe they'll have to sell somehow, at a loss – moving that \$1b loss upwards.

What Zillow's move away from iBuying reinforces in the South African context is that there will always be a role for estate agents in the home buying and selling process, rather than being replaced by proptech. Indeed, a combination of agent expertise and proptech benefits are the industry's future. Agents should be using tech and be active on social media platforms - but there'll always be a place for them.

At Flow, we have always been of the opinion that agents will always be a part of the sales and purchase process and we set out to build a platform that would focus one of the world's most fragmented industries, connect them to the 21st century social media world and allow them to easily target buyers and sellers on the platforms where they spend the majority of their time. Buyers and sellers also don't want to deal with a faceless algorithm that determines the value of their property and runs the transaction – they want to build a relationship with a person who they can trust on the back of their hard-won network and experience.



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Agents to remain at the forefront of property transactions

Even if there's a sudden and fundamental shift in the way the processing of property sales and purchases is handled, agents will remain at the forefront of completing these expensive, slow transactions that rely on a huge amount of trust. Tech can help create better communication and improve efficiency - and proptech that helps build their reputations, establish their brands and laser-target interested buyers and sellers with the right information, in the right place, at the right time, is the best way for them to entrench that position.

What this means in the South African context is that buyers can expect to keep working with agents and agents should expect to be part of the buyers' and sellers' transactions. New real estate models will continue to be tested out as the role of tech becomes more prominent, but in South Africa, specifically, there are major inefficiencies which need to be tackled one at a time. The Deeds Office process is one - but the lesson is that even in the US, where the deeds offices process is incredibly efficient, the iBuyer model still couldn't find a real foothold in a huge market, showing the flaw in removing the human element from the property transaction. That's not to say that things will never change - but even if they do, incrementally, proptech is going to play a role in helping agents position themselves as the one element that won't.

ABOUT GIL SPERLING

Gil Sperling is cofounder and co-CEO of Flow, a proptech company that goes straight to the source of the largest social platforms in the world - to match people with property.
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