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# From fusion of real estate and finance to fusion of real estate and IT

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## Executive Summary



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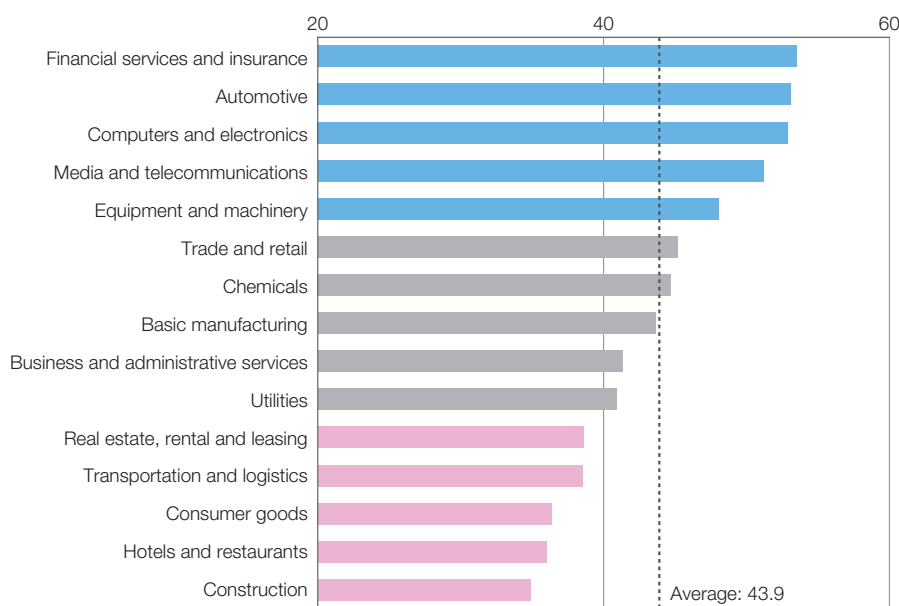
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*Real estate has historically been an opaque, inefficient asset class marked by an unlevel playing field and pronounced information asymmetries. In recent years, however, so-called real estate tech companies have been garnering attention, following in the footsteps of their FinTech counterparts in the financial sector. In addition to the fusion of real estate and finance, the fusion of real estate and IT is also starting to gain momentum.*

### Is real estate behind the times in comparison to financial assets?

The real estate industry is seen as conservative, largely static and slow to innovate. Many experienced investors seeking to invest in real estate for the first time have encountered a paucity of market data and inscrutable industry customs. Even seasoned professionals often have to rely on gut instinct, intestinal fortitude and experience when investing in real estate. In the eyes of investors in traditional financial assets, the real estate market is opaque, inequitable and inefficient.

**Exhibit 1. Industry Digitization Indexes**



Source: Strategy&, "The 2012 industry digitization index", March 2013

**NOTE**

1) Industry Digitization Indexes measure the degree of digitalization in 15 European industries.

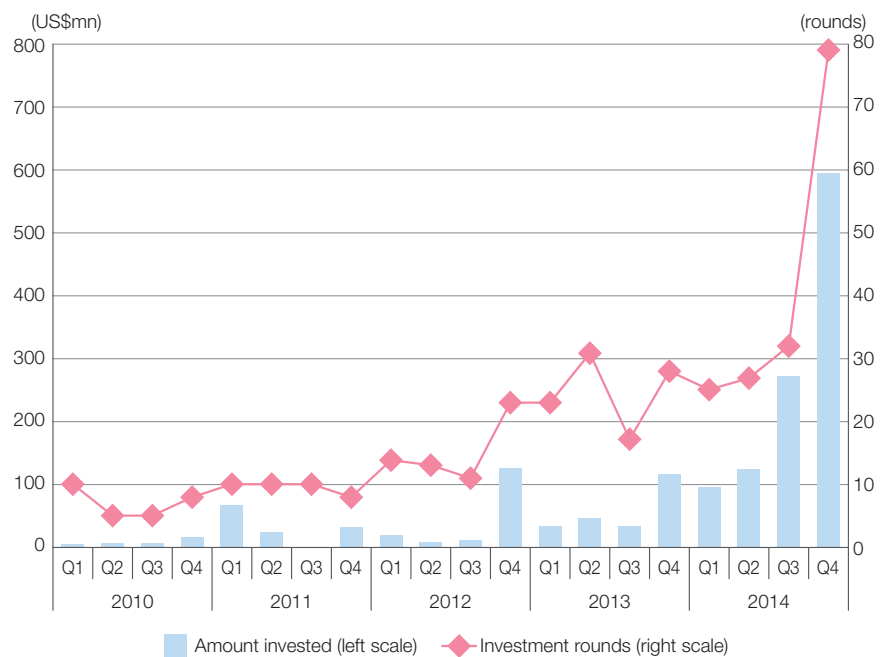
One respect in which the real estate market lags behind financial service and insurance markets is digitalization. According to the Industry Digitization Index<sup>1)</sup> data presented in Exhibit 1, real-estate-related industries have lower digitalization scores than the financial services and insurance industry. Based on these data, the real estate industry appears to be lagging behind the times. Despite the passage of more than a decade since the fusion of real estate and finance was first hailed in Japan and the popularity of the term "FIRE (finance, insurance and real estate) economy" overseas, a yawning digital divide currently exist between the real estate industry and financial services and insurance industries.

**From FinTech to Real Estate Tech: Is the Digital REvolution finally underway in the real estate industry also?**

Since 1990, MIPIM, the world's largest real estate tradeshow, has been held every March in Cannes, France. Drawing over 20,000 attendees from around the world, MIPIM is an international gathering of players involved in real estate investment and urban development.

While MIPIM is usually dominated by exhibitions of scale models of urban development projects, MIPIM 2015, held in March 2015, focused for the first time

**Exhibit 2: Venture capital investment in real estate tech companies**



Source: TechCrunch, "Venture Investors Splurge On Real Estate Tech", October 2014  
Nikkei Real Estate Market Report, May 2015

on the Digital REvolution (i.e., fusion of real estate and IT) as one of its themes. It included many presentations on topics such as real estate businesses that utilize open data, real estate market analysis based on Big Data, the sharing economy for vacant homes and idle land and crowdfunding of real estate investments and loans. These presentations highlighted disruptive innovations instigated by countless startup companies as a wake-up call to the conservative, hidebound real estate industry.

In recent years, many so-called real estate tech companies have achieved rapid growth facilitated by venture capital funding, following in the footsteps of their FinTech counterparts. Exhibit 2 shows growth in venture capital investment in such companies<sup>2)</sup>. Venture capital investment in such companies has burgeoned since 2013, a trend indicative of rapidly growing interest in the fusion of real estate and IT.

2) These venture capital investments are mainly investments by US venture capital funds in unlisted companies around the world.

The most prominent real estate tech company is Zillow, which has already grown into a major real estate information site, but numerous other innovations are proceeding apace in the real estate industry. For example, CompStak provides a service whereby real estate professionals can anonymously share information on commercial lease terms that were previously treated as confidential. Its service has dramatically increased real estate market transparency. Another example is SmartZip, which uses proprietary algorithms to analyze Big Data to identify properties likely to be marketed for sale within 6-12 months. SmartZip provides information on such prospectively available properties instead of properties currently on the market. It is revolutionizing conventional analog real estate marketing methods.

In sum, real estate tech companies are driving numerous innovations that would have been inconceivable in the real estate industry of yesterday. Such innovations include improving real estate transaction efficiency, using open data and/or Big Data to build real estate analytical frameworks on a par with those used for financial assets, and providing tools to expedite and reduce the cost of real estate transactions, which have historically entailed expensive property searches and long escrow periods.

### Advent of Japanese real estate tech

The first MIPIM Japan was held in Tokyo in May 2015. Its main themes were development projects in preparation for the 2020 Tokyo Olympics, non-Japan Asian urban development projects, and smart cities, but one of its sessions featured a presentation on Japan's fledgling Digital REvolution<sup>3)</sup>.

3) The session was entitled Digital REvolution: Towards an Open, Fair and Transparent Market.

4) For example, in March 2015 the Ministry began publishing a Tokyo housing price index based on actual sales prices dating back to April 1984.

While Japan has a reputation for being one of the world's least transparent real estate markets, open data availability has been increasing in recent years through government and private-sector initiatives<sup>4)</sup>. For example, the Ministry of Land, Infrastructure, Transport and Tourism has started publishing real estate sales price information and real estate price indices. It has also built a real estate database. As such information infrastructure has become available, a number of leading-edge private companies are incorporating data-based analysis into their real estate investment decisions and urban development projects.

Real estate investors and developers have historically profited from information asymmetry and internal sequestration of information. The advent of Japanese real estate tech, however, is likely to precipitate a shakeout among companies that employ such old business models. Real estate players' ability to capture true abnormal returns even in an open, fair and highly transparent real estate market will be tested going forward.

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