Innovation in Real Estate: disruption or ongoing transformation?

July 1st, 2019
1. Context
Real Estate is a major GDP contributor facing significant profitability issues

A major contributor to the French economy

- ~17% Share of the Real Estate Industry* in the French GDP
- 1st First item on the French Households spending list
- 2 million Direct and indirect jobs

* Including construction
Sources: INSEE, OECD, UFC Que Choisir, BTP Banque, Real Estech, Strategy& Analysis

Significant profitability issues

Average profitability in the Construction business in France, 2008 and 2016 (net result in % of revenue)

- Structure
- Sub-trade
- Public Works

- 3.1% 2008
- 2.6% 2016
- 2.5% 2008
- 1.6% 2016
- 1.9% 2016
- 2.3% 2016

-0.2pp
-0.7pp
-1.5pp

July 1st 2019
The Real Estate value chain is highly fragmented and shows room for productivity improvement.
This situation stimulates innovation, born from start up and incumbent players

Start-ups creations in France, 2014-2018 (# of created start-ups)

Start-ups fund raising in France, 2015-2019e (€m)

“Innovation is critical for us and we are fully aware that harnessing it is a necessity. We decided to build a specific innovation team and create our own incubator to develop our innovative projects before rolling them”

Innovation Director, Leading player of the Real Estate Agencies

Sources: Real Estech, Analyses Strategy&

Cumulatively, 400 start-ups were created since 2014 which represents a tenfold increase
Our study aims at answering 3 key questions

1. How is this set of newcomers in the Real Estate market reshaping the industry?

2. How disruptive are they?

3. Are we talking about an evolution or a revolution?
We investigated six segments to understand what is reshaping the French Real Estate industry

1. Site coordination software
2. New house financing brokers
3. Fixed rate real estate agents
4. New software for asset & property managers
5. Short- and long-term house rental
6. New financing schemes for security deposits & rent guarantee

Sources: Strategy& analysis
2. Key facts
Key fact 1: we identify three major innovation applications across all investigated segments

Common features emerge: proposed solutions are highly specific, customized and user experience-oriented

Sources: interviews, Strategy& analysis
Key fact 2: all segments are not equally innovation-savvy

Illustration based on the first two segments

- **2003**: Launch of Resolving
- **2010**: Second wave of players
- **2013**: Finalcal starts its overseas expansion
- **2017**: Outbreak of the first platforms
- **2018**: Strategic partnership between Finalcad & Eiffage; Finalcad equips 90% of Eiffage sites
- **2019**: New players account for less than 1% of cumulated market share
- **2019**: New house loan brokers

Sources: interviews, Strategy& analysis
Key facts 3: innovation brought by start-ups does not necessarily mean disruption for existing players

There are three types of interactions between start-ups and incumbent corporate players

**Competition between start-ups and incumbent corporate players**

- **Plain competition**
  - Mostly on B2C segments
  - E.g.: new house financing brokers and fixed rate real estate agents

- **Market extension**
  - Less frequent: start-ups start addressing overlooked market segments
  - E.g.: new financing schemes for security deposits & rent guarantee

- **Complementarity**
  - Mostly observed in the B2B segments with complementary value proposition
  - E.g.: site coordination software, software for asset & property managers

Whether complementary or in competition, start-ups are boosting innovation among existing players

Sources: interviews, Strategy& analysis
3. Deep dive by segment
The site coordination software segment shows strong signs of imminent business transformation

Most of the building blocks for success are here...

1. Acute need from clients
2. Proven track record
3. Material means of implementation
4. Will it become the new standard?

“The SMEs market is extremely promising. There are tens of thousands of companies that are not equipped with our technologies but have a deep interest in site coordination software on smartphones and tablets.”

Start-up co-founder

“The adoption rate of site coordination software is growing among large groups, though it is still used on a minority of sites. It should increase in the coming years driven by productivity savings generated by this technology.”

Start-up co-founder

2019 Market size: €25m
Market potential over the next decade: €200m

Sources: interviews, players publications, Strategy& analysis
Sources: Strategy& analysis
In a thriving market, new house loan brokers bet on technology and evolving customer expectation

**House loan broker’s market share in volume, 2001-2022e (% of total loans)**

- 2005: 18%
- 2017: 34%
- 2022e: 44%

**House loan brokering market size (€bn)**

- 2005: €0.3bn
- 2017: €1.4bn
- 2022e: €1.4bn

**House loan brokering distribution channel by age bracket, (% of brokered loans)**

- Average: 80% In store, 20% Online
- <35y: 66% In store, 34% Online

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**Digitization of incumbent players**

“We are developing a set of digital tools to automate our process. However, we will keep on developing our network as customers’ key concern is to be supported through the process.”

Deputy CEO, Leading player in the house loan broker market

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**New entrants perspectives**

“We will benefit from millennials entering the house-buying age. Millennials are less loyal to their banks and ready to opt for a 100% online broker”

Co-founder, Start-up

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**Sources:** Interviews, Strategy & analysis
Fixed rate real estate agents are still trying to reinvent the agency’s business model

An apparent paradox

Significant customer dissatisfaction

85% of French people have a negative image of real estate agents

An unaffected rate of intermediation

69% of house sales are intermediated in France

Two sets of competing answers

Adding value...

“We have enriched our service offering: virtual visits, geo-tracking, … We do not want to level down our services to enter a price war with start-ups”

Innovation Director, Leading player

...vs. killing costs

“Thanks to digitization and process automation, we are able to provide a full range of services for a fixed price, way lower than traditional agencies.”

Co-founder, Start-up

An outcome still in balance

What about a hybrid model?

• Fixed rate agents business equation is tricky since they seem to be competitive only in large cities
• International benchmarks suggest that new players will need to find a balance between “do-it-yourself” and “do-it-for-me” business models

Sources: interviews, CNRS, Xerfi, players publications, Strategy& analysis
The asset & property management software segment shows strong potential for market cooperation.

**Best of breed approach**
- IT core model focused on finance
- Acquisition or in-house development of issue-specific solutions

Newcomers in the market should trigger renewed R&D investments among incumbent players and foster new market dynamics in a rather concentrated industry.

Sources: interviews, Strategy& analysis

Technology Expert, Consulting firm

« There is a clear trend towards hybrid systems. Companies will keep on investing in ERP for core functions but business related ones will be increasingly business-specific »

Expert, IT for Asset management firm

« There is a clear complementarity between start-ups’ software and ERP. I do not believe that start-ups will move up the value chain and become ERP providers. They will remain focused on analytics and reporting »
Short- and long-term house rental solutions drive productivity gains and favour disintermediation

Examples of pain points and solutions in the short- and long-term house rental segment

<table>
<thead>
<tr>
<th>Short-term rental</th>
<th>Long-term rental</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Solutions</strong></td>
<td></td>
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<tr>
<td>Short-term rental platform</td>
<td>Automated property ads (writing, posting)</td>
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<tr>
<td>Rating system on rental platforms</td>
<td>Automated check of applications</td>
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<tr>
<td><strong>Pain points</strong></td>
<td></td>
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<tr>
<td>Find a tenant</td>
<td>Select a tenant</td>
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<tr>
<td>Edit standard documents</td>
<td>Get rental payment</td>
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<tr>
<td>Make transition with new tenant</td>
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</tbody>
</table>

"Today, start-ups are structured around two main activities: productivity tools for landlords and 100% digital real estate administrators”

Co-founder, Start-up

"Rental management is one of the real estate segments that has evolved the least, mainly due to market fragmentation. It shows all the characteristics of a disruption in the coming years. »

Innovation director, Leading player

Sources: interviews, Strategy& analysis
Start-ups expanded the rent guarantee segment, by addressing overlooked customers

**Type of players**

**Risk carrier**
- **AXA**
- **CNP**
- **M**
- **M**

Through Real Estate admin. with white label

**Integrated player**
- **GALIAN**
- **sada**

Through Real Estate admin. with own label

**Real estate administrator**
- **FONCIA**
- **nexity**
- **Guy Hoquet**

Depending on players

**Start-up**
- **Garant Me**
- **Unkle**
- **Youse**
- **cautioneo**
- **ko-signt**

Partnerships with risk carrier

**Sources:** interviews, players publications, Strategy & analysis

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**Product design**
- Through Real Estate admin.

**Risk carrying**
- With white label

**Distribution**
- Depending on players

**End-customer**
- Tenant

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**Strategy &** July 1st 2019

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4. Conclusion
In the medium term, PropTech should radically transform the sector and introduce a new ecosystem.

We identified 3 different scenarios:

**Scenario 1: Epiphenomenon**
- Innovation internalized by large groups
- Most start-ups end their activity

**Scenario 2: Ongoing transformation**
- Selected start-ups increase market share, becoming challengers
- Incumbent players accelerate innovation

**Scenario 3: Disruption**
- General transformation of Real Estate industry
- Start-ups gain leadership position
- Players with lack of innovation effort end their activity
What will PropTech look like in 2050?

First building on Mars to be delivered by end of month

by PwC & Real Estech News Corp.

Tenants and landlords of this new condo can start booking their removal rocket: the project, started one year ago, will be delivered earlier than expected.

"Thanks to offsite construction handled from Earth and Big Data, we have been able to anticipate potential defects and to reach our “zero-reserve” objective. We will be able to deliver the project 1 month ahead of schedule."

The building is to welcome ~500 happy few, who were the most reactive when the sale opened online.

"I am so excited to move in. I have already started to choose my apartment layout thanks to my VR headset” says Mary, landlord of a penthouse on the 56th floor. “At first, I was a bit anxious to move in so far away from home. But I already know most of my future neighbours now thanks to our digital community.”

For those who missed their chance of buying a flat, some apartments will be available for short-term rental in a few months.

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