BERKERY NOYES
INVESTMENT BANKERS

The Evolving Real Estate, Media and Ad Tech Market Landscape

White Paper

John Guzzo, Managing Director
Vineet Asthana, Managing Director

Introduction

The national housing market continues to show signs of improvement since the recession. Existing homes sales and housing starts in 2016 are expected to increase 3.0% and 15.4%, respectively. In addition, housing starts in 2016 are projected to reach the long-term average of nearly 1.5 million units, compared to 1 million units in 2014 and 550,000 units in 2009.[1]

From a regional perspective, certain areas are showing especially strong signs of growth. For example, closed sales of single family homes in Florida rose 14.7% over the previous month and 7.7% on a year-over-year basis.[2] Access to credit is anticipated to rise at an annualized rate of 5.1% through 2019, which could also help drive increases in transaction activity.[3]

Real Estate Market Trends

There are several trends contributing to a robust real estate sector. First, mortgage rates are beginning to slowly increase after remaining quite low for several years. Potential homebuyers might be prompted to enter the market if they believe rates will rise further.[4] Credit standards are also easing somewhat, which should make the market more accessible to first-time homebuyers and others.

Second, millennials have refrained from making home purchases due to a wide variety of factors, most notably high student loan debt, a difficult entry level job market, and the inability to save for a sufficient down payment. As delayed life events such as marriage and child rearing finally occur amongst this generation, there should be plenty of pent-up demand for homeownership.

Third, rents are rising faster than incomes in many cities and suburbs. With a lack of affordable rentals, due in part to the ongoing need for the construction of new apartments, home buying is becoming a more attractive and viable option.

Emphasis on Marketing and Ad Tech

As the real estate market heats up, an increase in digital advertising budgets will likely follow. The use of technology is complementing rather than supplanting the role of real estate agents. There has been a heightened emphasis in several areas, for instance marketing automation, real-time bidding and programmatic technology. All of this represents a shift in digital ad spend. Moreover, there is innovation occurring in many areas, as seen by the plethora of companies that provide predictive marketing analytics, CRM solutions, virtual property viewing services, broker-free search engines, and technology-enabled property and lease management brokerages.[5]

Beyond just basic online display, there is growing use of video advertising and social media, as well as the desire to reach consumers via their mobile devices. In terms of mobile, geo-fencing and iBeacons are an emerging tool being used by brokers, whereby prospective buyers receive automated push notifications on their mobile phones based on GPS location.[6] These alerts can vary given factors such as zip codes, square footage, and the number of bedrooms. Providing real-time updates and making information more accessible allows agents to better manage their open houses and generate more leads.

Meanwhile, some digital publishers have not yet fully embraced ad tech as they wait for specific concerns to be addressed. One example is the inability to control the ads that appear on their sites and how the data is shared when partnering with certain third party vendors.[7] Others worry about slower website loading times and a diminished user experience. At the same time, publishers may be focused on different areas such as sponsored content, which is paid for by brands. This does not mean these publishers are adverse to embracing technology. On the contrary, they are often building products and tools to distribute content while maintaining a heavy focus on analytics.

It's also worth highlighting that the majority of advertising dollars in the real estate sector have not yet migrated to online or mobile channels. Along these lines, Zillow's acquisition of Trulia for $3.5 billion in 2014 indicates how the digital real estate advertising market is being transformed. Interestingly, Trulia and Zillow have limited consumer overlap, such that half of Trulia's monthly web traffic is distinct from Zillow's visitors.[8]

The combined company, with two distinct brands, will allow for differentiated products and user experiences while maximizing the distribution of content across multiple platforms. Possible benefits of this deal include an expanded suite of mobile and web-based solutions, as well as better access to housing trend analysis, forecasts, and other data. Advertisers might also see a greater return on their investment as marketing platforms and other services are shared.

Deciding Whether to Buy or Build

As brokerages, publishers, and others focused on the real estate sector expand their technology offerings, they sometimes need to decide whether it makes more sense to buy or build technology and/or content. There are distinct advantages and disadvantages to each option, and the right answer depends on the circumstances. Developing in-house allows companies to maintain complete control of their products, although it could take years for their plans to come to fruition. They also run the risk of going over budget and not achieving all of their desired results.

Completing acquisitions or seeking an investment from a private equity firm to supplement organic growth is another possible approach. According to CB Insights, a projected $1.5 billion was invested in real estate tech startups in 2015, which represented an increase of more than 350 percent compared to 2010.[9]

Conclusion

Real estate professionals are looking for tools that will give them a competitive advantage over their rivals, whether it's by better targeting and reaching more prospects, shortening the sales cycle process, or communicating more effectively with clients. Homebuyers want access to accurate and timely data in a variety of forms. The shift in ad spend to digital marketing should continue in the real estate sector as firms attempt to stay ahead of the curve.

About Berkery Noyes

Founded in 1980, Berkery Noyes is an independent investment bank that provides M&A advisory and financial consulting services to middle market companies in the information and technology industries. The firm offers skilled transaction management to publicly traded and privately held businesses and private equity groups in both sell-side and buy-side transactions. Berkery Noyes has managed over 500 transactions, ranging from several million to more than four billion dollars in value.

About John Guzzo

John Guzzo is a managing director in the Financial Technology Group at Berkery Noyes. He has worked on over 80 M&A transactions during his career, representing more than $3 billion in value. John has over 20 years of experience in all facets of M&A and has successfully closed numerous M&A transactions in the mortgage and real estate technology services sectors. He received his MBA from Columbia Business School.

About Vineet Asthana

Vineet Asthana is a managing director at Berkery Noyes with 12 years of investment banking and corporate finance experience. He focuses primarily on Telecom, Media and Technology M&A transactions. Vineet has significant experience from leading bulge bracket firms and mid-market boutiques. He brings a global perspective having worked in the US, London, Middle East and Asia. Vineet holds a BBA from Franklin & Marshall College and an MBA from University of Chicago Booth School of Business.

Footnotes

[1] Anderson, Elise. "UCLA Anderson Forecast: Nation and Region Remain Healthy." UCLA Newsroom. 28 September 2015. http://newsroom.ucla.edu/releases/ucla-anderson-forecast:-nation-and-region-remain-healthy

[2] National Association of Realtors. "Existing-Home Sales Surge Back in December." 22 January 2016. http://www.realtor.org/news-releases/2016/01/existing-home-sales-surge-back-in-december

[3] IBIS World Industry Reports. "Real Estate Sales & Brokerage in the US: Market Research Report." 2015 September. www.ibisworld.com

[4] Shulman, David. "Five U.S Housing Rebound Prediction for 2016." 4 January 2016. Urban Land.

http://urbanland.uli.org/economy-markets-trends/five-u-s-housing-rebound-predictions-2016/

[5] CB Insights. "The Real Estate Tech Market Map." 19 October 2015. https://www.cbinsights.com/blog/real-estate-tech-startups-market-map/

[6] Mobile Wallet Marketer. "Using iBeacons and Geofencing for Real Estate Open House Marketing." 12 August 2015. http://mobilewalletmarketer.com/using-ibeacons-geofencing-real-estate-open-house-marketing/

[7] Shields, Mike. "New Breed of Digital Publishers Just Say No to Ad Tech." The Wall Street Journal, CMO Today. 28 July 2015. http://blogs.wsj.com/cmo/2015/07/28/new-breed-of-digital-publishers-just-say-no-to-ad-tech/

[8] Saettler, Michelle. "Zillow and Trulia Combine Resources to Up Industry Ad Sales." Mobile Marketer. 29 July 2014. http://www.mobilemarketer.com/cms/sectors/real-estate/18331.html

[9] Solomont, E.B. "Real Estate's Tech Arms Race." The Real Deal. 1 January 2016. http://therealdeal.com/issues_articles/real-estates-tech-arms-race/