

iBuying is coming to real estate, but not through REA Group or Domain



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Australia will follow the US and see Instant Buying – or "iBuying" – residential real estate platforms take off in the medium term, but listings giants REA Group and Domain are unlikely to lead on it, Morgan Stanley analyst Andrew McLeod says.

US-based listings market leader Zillow, in which Australian investors such as hedge fund Caledonia Investments have taken significant stakes, stepped into the nascent iBuying market last year, but differences between the two housing markets made it unlikely REA Group and Domain would follow suit here, Mr McLeod said.

His comments suggest residential real estate business is likely to undergo even more disruption as players not currently involved in the buying and selling of homes but who have great data-analysis capacity, see a way to make money in Australia's estimated \$360 billion-real estate market.

"It's a big opportunity and my prediction is that you will see companies offering this iBuying mechanism to real estate sellers – of residential real estate – in Australia in the next three years," Mr McLeod said at the PropertyX conference hosted by e-conveyancer PEXA in Melbourne.

"It does work a bit better in the US market. It is high risk and I don't think we'll see it in Australia in the near term from either the listed companies REA Group or Domain."

iBuying is a convenience-based model under which tech-based platforms value homes and buy them upfront with cash settlement, before reselling them again. It accounted for 21,000 home sales in the US last year – less than 0.5 per cent of all transactions – but was likely to grow to 5 per cent by 2030, Morgan Stanley figures show.

There are already start-ups offering iBuying in Australia. The Dan White and Janusz Hooker-backed Sellable buys homes upfront and the vendor shares in the upside from a subsequent sale according to an agreed formula.

But there are differences between the US and Australian residential markets that influence the way iBuying could work here.

While sellers' advocates are rare in Australia, they are commonplace in the US – which also has buyers' advocates – and iBuying disrupts only one side of the home sale – the work of sellers' advocates. iBuying platforms resell homes through traditional sales agents.

If REA Group or Domain – majority owned by Nine, owner of *The Australian Financial Review* – started buying directly from owners, they would be competing with the very agents whose work feeds their listings businesses. This made it unlikely they would enter the business any time soon, Mr McLeod said.

"If they start iBuying in Australia that will effectively put them in direct competition with their largest customer group – the real estate agents themselves," he said. "That's never a good business model."

Further, agent commissions are much higher in the US – typically between 6 per cent and 8 per cent, compared with the 1.5-2.5 per cent rate in Australia, so the potential profit to be made by a new platform was lower, he said.

In addition, a site like Zillow does not make revenue from ad listings, but by selling property listings to agents as sales leads. This makes iBuying a complementary way to generate new leads to onsell to agents.

There are other differences too, Mr White said separately on Tuesday.

"There's more marketing, more auctions and there are more opportunities for vendors to sell quickly and efficiently in Australia compared with the US," he said.