Hamburg, 14 December 2018

Proptech study by Union Investment and GTEC: Why partnerships between startups and established real estate companies often fail

- **Slow and cumbersome decision-making processes are a primary obstacle**
- **Building use phase offers the biggest potential for cooperation**
- **Building performance benefits the most from technology**

Great ideas and viable business concepts are often worlds apart. In the context of the proptech market, what separates these worlds from each other is frequently a lack of understanding on the part of young company founders when it comes to decision-making processes in the real estate sector. “Regulations, IT security and documentation requirements, combined with a myriad of prescribed processes, all create an obstacle course for startups which hinders cooperation with established real estate companies,” said Jörn Stobbe, Chief Operating Officer and managing director of Union Investment Real Estate GmbH. In the recent startup study conducted by Union Investment and the German Tech Entrepreneurship Center (GTEC), which involved polling some 100 proptech companies worldwide, more than 52 per cent of the digital innovators cited “slow and cumbersome decision-making processes” as a major problem when trying to initiate cooperative partnerships with established companies. For 68 per cent of the respondents, speeding up their partners’ decision-making processes is high on their wish list for effective cooperation, followed by a greater appetite for risk on the part of established companies and more willingness to embrace different collaboration models (60 per cent in each case).

“Decision-making processes cannot be changed by taking a disruptive approach,” said Jörn Stobbe, commenting on the survey results. “Startups need to learn that complex decision-making processes and the openness shown by many real estate players towards entering into alliances of various forms are not mutually exclusive – in fact, they are two sides of the same coin. Pilot projects are the most efficient way of getting to know each other and finding out where the client’s pain points are. It’s important not to wait until everything is perfect before you get going, though, otherwise you’ll probably be too late to market.”

For nearly three quarters of the proptechs questioned in the study, pilot projects are in fact the main way of meeting real clients and putting their idea to the test. Of the various forms of cooperation, proptechs find joint ventures and discussions with experts particularly important, whereas there is less demand for co-investment, the development of minimum viable products (MVPs) or joint events.

Access to expertise and large real estate portfolios

According to the study, proptechs believe that the building use phase offers most potential for working with established real estate players (48 per cent); however, other phases of the property lifecycle – including development (34 per cent) and investment (21 per cent) – are also considered to provide interesting opportunities for collaboration. Overall, the study confirms that proptech startups are very much interested in cooperative partnerships with the industry, with more than 70 per cent of respondents more or less actively seeking access to established players. In doing so, they place less emphasis than expected on access to big data, capital or regional markets as their main drivers for forming alliances. Tapping into the knowledge and expertise of large companies clearly plays a vital role (57 per cent), but nearly 80 per cent of the respondents indicate that it is large real estate portfolios, i.e. the assets themselves, that make cooperative partnerships attractive for proptechs.

Accordingly, proptechs believe that property management, with its direct access to properties, is the field that will be first to experience widespread technological change (63 per cent). Some 42 per cent of the proptechs surveyed believe that transactions will be at the forefront of digitisation. “In Germany, the land register system makes it impossible to digitise the entire transaction process. However, subprocesses such as due diligence or contact functions could definitely be streamlined. Proptechs would therefore be well advised not only to think about large-scale challenges, but to develop an understanding of subprocesses that represent real pinch points,” commented Jörn Stobbe. When it comes to technological change, fewer respondents see asset management/letting and real estate research as being at the forefront (40 per cent in each case). Only some 27 per cent of the respondents cite real estate development as high on the digitisation agenda.

Integrating sustainability into business models

When asked about the most significant impact of new technologies on the real estate sector, the overwhelming majority of proptechs (67 per cent) cite improvements in building performance. “Proptech startups should link improvements in building performance to benefits for the environment and users, and incorporate sustainability into their business models,” advised Jörn Stobbe. Startups are also confident that technology will have a positive impact on the decision-making processes of real estate companies (64 per cent), deliver higher profitability (59 per cent), allow faster transactions (59 per cent) and enable greater customer loyalty (24 per cent).

Looking ahead to the next five years, the biggest impacts for the real estate sector are attributed to a group of three technologies: smart building/the Internet of Things, (big) data analytics, and deep learning/artificial intelligence. Various new companies are already being set up in these fields. “It’s interesting to see that blockchain has lost some of its shine for company founders after the recent negative discussions around cryptocurrencies like Bitcoin,” said Jörn Stobbe. “Startups that are engaged in developing blockchain solutions for the real estate sector should not be discouraged, though. There are few industries in which blockchain offers such huge potential as the real estate sector, and it therefore remains high on our digital agenda.”

“The study shows how important it is for major corporations to have the right partner and the right access to the startup scene to ensure that successful mediation between the parties leads to successful collaboration,” said Benjamin Rohé, managing director and founder of GTEC. “This is especially important when it comes to strategic investments or co-creation. Particularly in old, established industries like the real estate sector, startups and major corporations can learn a lot from each other and create value together.”

The proptech study can be ordered via the following link:
http://www.gtec.center/proptechstudysignup/

Information on the PropTech Innovation Award 2019 initiated by Union Investment and GTEC is available at:
http://www.gtec.center/proptech2019/

About the study

Around 100 proptech startups worldwide were surveyed online for the study by Union Investment and GTEC. The main focus was on Europe, with the majority of respondents being based in Germany, the UK and Spain. Around 50 per cent of the participating startups had been operating for two to three years when the survey was undertaken (October–November 2018); 32 per cent had been in the market for up to one year. Accordingly, most of the respondents (60 per cent) were at the (pre-)set-up stage (seed or pre-seed). Some 32 per cent were at the earliest stage of financing (Series A). The overwhelming majority of the respondents (84 per cent) are currently working with established real estate companies. Real estate industry players have taken equity stakes in around 36 per cent of the startups.

Press contact:
Fabian Hellbusch
Head of Real Estate Marketing, Communication
Union Investment Real Estate GmbH
Valentinskamp 70 / EMPORIO
20355 Hamburg, Germany
Tel: + 49 40 3491 94160
E-mail: fabian.hellbusch@union-investment.de
Internet: www.union-investment.com/realestate