New crop of fintechs partners with brokers and lenders as they disrupt real estate

Sep 14, 2017, 2:42pm PDT

Startup entrepreneur Andrew Flachner has waved the white flag — literally — on attempts to disrupt the real estate industry from outside.

TODD JOHNSON | SAN FRANCISCO BUSINESS TIMES
Nima Ghamsari, CEO of Blend: "We have a long way to go with this industry. We're just scratching the surface."

Flachner, CEO of RealScout, carried the banner on a stick as he took the stage at a real estate industry conference in San Francisco last month, a signal of his desire to make peace with the brokers who still dominate the residential real estate world.

It's also a good visual metaphor for the divide emerging within the crowd of startups trying to bring innovation and technology to an industry with a long history of avoiding change.

Some of the best-known startups are taking direct aim at the entrenched positions of brokers and mortgage lenders. Others, like RealScout, have adopted the opposite approach, joining with residential real estate's established players rather than trying to beat them at their own game. Several of these below-the-radar startups are enjoying dramatic growth. They are raising hundreds of millions in venture capital, hiring at a breakneck pace and signing up some of the region's and nation's biggest players by realizing that the industry's power structure isn't going to change anytime soon.

"The broker is still, and will continue to be, the legal and transactional center of real estate," Flachner recently wrote in a RealScout blog. "This is not a trivial advantage."

RealScout is working with Climb Real Estate and Pacific Union, among other brokerages, to provide more sophisticated online searches. Homebuyers working with agents are able to look for homes near tech shuttle stops, or with open floor plans, wood floors and other features. RealScout has raised just over $20 million, with DCM and Formation 8 as major investors.

Zeroing in on investors

San Francisco-based Blend, meanwhile, is enjoying strong growth as it provides technology that allows mortgage lenders to move their borrowing processes onto smartphones.

Last month, Blend said it raised $100 million in venture capital and revealed for the first time that it's now working with Wells Fargo and U.S. Bank, two of the nation's largest mortgage lenders.

Blend's software allows Wells and other traditional mortgage lenders to better compete against popular, tech-focused offerings such as Quicken Loans' Rocket Mortgage to dramatically speed up the mortgage application process.

"Our partners command around 25 percent of the total U.S. mortgage market, and with this round of funding, we have the opportunity to expand the breadth of our product and serve more borrowers," said CEO Nima Ghamsari.

Blend's latest round brings its total fundraising to $166 million. Founded in 2012, its investor base also includes Peter Thiel's Founders Fund, Andreessen Horowitz and Max Levchin.

"We have a long way to go to with this industry. We're just scratching the surface," Ghamsari said. "The industry was relatively slow going early on, but the rate of change now is so much faster, because everyone is aligned in the industry around bringing simplicity and transparency to mortgage lending."

Blend has been on a hiring spree, doubling its workforce to almost 200 people. It recently moved into about 50,000 square feet, taking most floors in a new low-rise building at 500 Pine St. in San Francisco's Financial District.

But even as hard hats were still required on some floors of Blend's new space, the company could see itself outgrowing its new offices quickly.

"We are probably going to be around 400 people or more by the end of next year, so we're probably going to outgrow this space in a year," Ghamsari said, noting that the volume of mortgages on Blend's platform has tripled in just the last six months.

Blend's rapid growth on the back of big mortgage lenders means more business for its own partners, such as San Francisco startup Plaid. Plaid connects users of numerous fintechs, including Blend, Venmo and Robinhood, with the nation's banks. Specifically, Blend relies on Plaid to confirm bank and brokerage account balances for use in mortgage applications.

Plaid's workforce recently crossed over 100 people, prompting the company to move into larger quarters in downtown San Francisco this month. Real estate is just one segment of fintech driving Plaid's explosive growth.

"Our mission is to enable innovation in consumer services," said Zach Perret, co-founder and CEO at Plaid, which has raised almost $60 million from Goldman Sachs and NEA, among other investors. "We process a lot of data for an exponentially growing number of users."

Ranking realtors

Another startup working closely with the industry's traditional players is San Francisco-based HomeLight, which helps home buyers and sellers find top real estate agents by ranking them based on previous deals.

While the service is free to homebuyers and sellers, it collects 25 percent of the commission on homes sales sourced from HomeLight.

In the last year, HomeLight has connected almost 118,000 buyers to agents, said CEO Drew Uher. It's also boosted revenue by 500 percent, though he won't disclose specific dollar figures.

Last month, HomeLight raised $40 million in a second round of funding led by Menlo Ventures. Since its founding in 2012, the company has raised $55 million from an investor roll that includes Alphabet's Google Ventures, now called GV, and 500 Startups.

What's high on HomeLight's agenda has a familiar ring: doubling the company's workforce. The company employs a total of 60 people spread across its San Francisco headquarters and an Arizona office.

After leading HomeLight's latest round, Menlo Ventures' Tyler Sosin said, "Menlo has become increasingly interested in the real estate tech market.

"While the ecosystem is populated with companies covering many of the aspects of the process, we see a huge hole when it comes to services for the home seller," Sosin said.

Also working within the existing mortgage industry is Alight, based in San Francisco's Financial District.

Alight's analytics allow a mortgage company's leadership to quickly make projections on its loan volumes and staffing needs based on various scenarios involving interest rates, unemployment and other factors.

Alight, which is looking to move into larger quarters in San Francisco next summer, serves about 40 of the nation's top independent mortgage brokers. The startup is now expanding its target market to include the mortgage operations of regional banks.

In June, Alight raised $11 million in its first round of financing led by its chairman, Steven Berger, with Caterpillar making a strategic investment in the company. Its workforce of 56 people is expected to hit almost 100 by year-end.

"Our market opportunity is very large," said Alight CEO Michele McGovern.

Menlo Ventures is far from the only company turning over rocks in search of opportunities in real estate tech.

Oakland-based Mynd, which seeks to bring technology and innovation to the highly fragmented business of residential property management, has embarked on a roll-up strategy to build a national company in five to seven years. (See story Page 16.)

Mynd's co-founder and CEO Doug Brien said conversations with potential investors have changed since the startup was founded early last year.

"When we first started, we had to tell our story and explain why we see an opportunity to disrupt residential property management," Brien said. "In the last six to eight months, investors began calling us to say they see opportunities in property management and want to know what we're doing."

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