

LEFT AND RIGHT: PROPERTIES IN HAMBURG, IMMO CAPITAL'S LARGEST OPERATING MARKET



# Breaking through in SFR

With its tech-powered approach to sourcing and managing single family rental housing and a €2.4 bn war chest, IMMO is betting on the sector's growth

BY ROBIN MARRIOTT

In April, a London-based company currently spreading its wings across Europe registered the largest ever Series B fundraise by a proptech company in Europe. The landmark was achieved by Immo, which attracted \$75 mln (€69 mln) of growth capital to drive an ambitious business plan to acquire an initial 10,000 single family residences (SFR) for rent across Europe – crucially, with technology sitting at the heart of operations.

Tech-based real estate platforms are springing up everywhere, not least in the traditional residential real estate market, dominated by amateurs who are keeping the market fragmented. In between these private landlords, Immo is out there aggregating SFR assets for rent at scale, using efficient processes to unlock the sector for institutional investors who hitherto have been frustrated by the lack of professionalised ways to invest at scale. Samantha Kempe, Immo's co-founder and CIO, says she believes the firm is 'uniquely unlocking' residential real estate – the world's largest asset class – for pension funds and insurers, knowing the struggle such investors face.

'Many of our partner institutions are tech-savvy – but haven't found the right platform to execute an SFR strategy,' she says. 'Numerous successful "iBuyers" use tech to find and "flip" properties, but one of our USPs has been the creation of an institutional-grade management platform which deals with the full lifecycle from sourcing to operations with the level of reporting and governance top-tier investors demand.'

## TECH-DRIVEN PLATFORM

In 2017, Hans-Christian Zappel, Avinav Nigam and Kempe set up Immo. The trio recognised the immense opportunity of a sector worth around €34 trn. They also recognised the huge 'value-add' that a tech-driven platform could bring if it were able to collect and put to investment use the vast wealth of data that exists in the European single family residential market.

Banging on many doors, the firm's first client turned out to be a German family office which gave Immo the mandate to build a portfolio across major German cities. The investor was impressed by the model, as subsequent investment partners would be. What Immo does is utilise Artificial Intelligence and Machine Learning to survey hun-

dreds of thousands of homes for sale within the firm's chosen markets.

In-house software crunches away at data points from assets offered by its broker network and direct-to-consumer channels, constantly screening out those which do not meet certain parameters.

Next, Immo's team physically inspects selected homes, collecting over 300 data-points to refine its valuation. Post purchase, it then upcycles the properties with the data, enabling investors to benchmark the uplift in environmental performance.

They are then rented at affordable prices using the firm's 'living as a service' app. The assets are given a light refurbishment. With a pressing need to green Europe's housing stock – a major source of carbon emissions – Immo is helping institutional capital to direct itself into upgrading existing housing stock to create more environmentally friendly homes, thus neatly dovetailing with the growing ESG push by investors and governments alike.

Immo's financial model is fee-based, whereby it earns income for aggregating assets, executing light touch refurbishment to homes, before renting them out and managing them thereafter.

So far, the firm has attracted a combined \$2.5 bn (€2.37 bn) of mandates from institutions, and behind the scenes, at least a further €1.5 bn of new mandates are being negotiated and signed.

This is quite a feat. Should a well-known established manager announce it had raised €4 bn of equity to acquire European SFR it would rightly earn headlines around the world.

## FALSE START

As with many businesses, at first things did not go exactly according to plan. Initially, the company wanted to begin by investing in the UK, but it got off to a false start. Kempe recalls how the UK reached a 'peak of negativity' after Brexit, and interest rates also moved against Immo. A client grew increasingly nervous, given the perceived risk it was with a new company with a new approach, and Immo was forced to pull out of the deals it had under offer.

But this turned out to be a blip. Immo pivoted to Germany instead, where nowadays it is busy making acquisitions.

To give readers an idea of the number of deals it analyses, in Hamburg its automated lead-generating software wades through 20,000 leads from direct-to-consumer e-commerce, broker partnerships and scraping websites, which the company says reduces the amount of time to reach an inspection point from seven days to just one day. And, Hamburg is just one city in Germany. Indeed, Germany is just one country it is investing in.

Investors have seen enough to sign mandates since that Hamburg family office. About a year ago, an institutional investor whose identity has still not been made public, signed an approximate €1 bn deal for Immo to acquire assets in the country.

In addition, Immo explains it has a €500 mln mandate with another investor for Germany and there is talk of yet another mandate for a further €300 mln.

Spain is the company's second market where it now has an office to add to the UK and Germany. Apparently, the company also has commitments for investing in the Netherlands and France, with investors also keen for Immo to expand not only across Europe, but also to the Asia Pacific region.



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SAMANTHA KEMPE, CIO OF IMMO

Says Kempe: 'This is the beauty of the model. It's so scalable across different markets with technology. Eighty or ninety percent of the tech is essentially ready to "copy and paste", and then there is 10% which is about localising and finding local data sets.'

## BUILD TO RENT UNDER PRESSURE?

The European market is currently awash with investors investing in residential rental markets by building the homes, often with specialised partners. However, with inflation

rearing up, Immo says there are signs of investors thinking of changing tack.

'There is a critical need for new housing supply, but the build-to-rent operator model is hard to scale quickly,' she notes. 'With sky-rocketing construction costs, investors are being enticed by what is a lower-risk, alternative route into housing. While we target sub-standard properties that have been under-invested in, the exposure to development cost inflation is much less because we are doing relatively light touch refurbishments. All of our projects have been within budget over the past quarter and the data we collect means we are able to clearly report against ESG targets.'

Kempe explains how the tech platform helps automate every area of cost. 'We've essentially built a very sophisticated calculator which crunches all the different data points we've gathered during the inspection, to estimate pretty accurately what the costs will be. We then carry out the renovation. We have built processes for the contractors we work with whereby we can quality control this remotely as much as possible, whether it's photographs, reports, and so on in a very streamlined, efficient way so that we only have to go to sites for an escalation issue, or for the final sign-off. There's still a physical final sign-off today, but maybe we can get to the stage where we don't even need that.'

## EUROPE LAGGING US

The institutional SFR for rent market in Europe is in its infancy compared to the US, where the likes of New York stock exchange-listed Invitation Homes has been buying single family residences for rent since 2012 and today is the largest owner of single family rentals in America with around

## Immo's record Series B funding

Proptechs that have met certain milestones promised to investors in order to secure their first round of funding (Series A), can progress to Series B. On 12 April this year, Immo announced it had raised \$75 mln (€69 mln) for its Series B round – the largest Series B in European proptech history. New York-based Oak HC FT, which specialises in early-stage investments in healthcare and fintech, led the round alongside Moore Speciality Credit, and existing investors FinTech Collective and Talis Capital. Immo said it will use the capital to accelerate its aim to buy 10,000 homes across Europe.





IMMO ASSESSES 45,000 PROPERTY LEADS PER CITY PER YEAR



IMMO WANTS TO PROVIDE NOT ONLY A BETTER PHYSICAL PRODUCT, BUT ALSO A BETTER RESIDENT EXPERIENCE

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80,000 properties. In Europe, it seems, many people still see the residential market as being about Build to Rent (BTR), and for good reason given the lack of supply of quality single family rental housing. The buy to rental area meanwhile is much, much bigger, yet still dominated by ‘mom and pop’ landlords. Yet the potential to turn this segment into a data-led institutional market is colossal. Says Kempe: ‘We think it will become the most sophisticated end of the real estate industry because of the frequency and volume of data. It is so liquid that you can create far more sophisticated investment strategies. ‘With this asset class, you can start to perform analytics and quantify your risk exposure, and really start to build portfolios of existing SFR using portfolio theory the same way as people look at equities and bonds. ‘That’s why I think the existing SFR market is so exciting, because there is so much data relative to other types of real estate assets.’

**GROWTH TRAJECTORY**

Immo has grown a lot since its establish-

ment five years ago. It employs 160-plus people with offices across the UK, Germany, Spain and India.

**45,000 PROPERTY LEADS**

Using its tech, the company says it assesses 45,000 property leads per city per year, and buyers appreciate the deal flow certainty. It professes not to get into competitive bidding processes alongside consumers, often letting deals go.

Explains Kempe: ‘We’re scouring literally thousands of opportunities. Within that, we’re able to cherry-pick the deals where the numbers do stack up and structure bespoke strategies depending on an investor’s requirements. We aren’t only looking at five opportunities per quarter, for example. By assessing thousands of leads, we are able to narrow in on the deals which work.’

Typically, the assets it buys are apartments suitable for families as that is more common on the Continent. It buys the empty properties, say, from an owner when a tenant lease has come to an end and the owner no longer wants it.

But interestingly, there are signs the model can shift further.

For example, in the UK the company is likely to be buying houses, not just apartments. Decisions around property type, for example one-bedroom flats versus three-bedroom houses, are based on localised market data. Also, instead of always buying apartments or houses with investors’ JV capital, Immo will start ‘warehousing’ assets on its own balance sheet and credit lines. This is because some investors indicate they would prefer not to take the risk of aggregating assets but wait until a portfolio is assembled before invest-

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ing. That can particularly suit those investors seeking lower risk and lower returns.

Kempe says the German residential market is currently still ‘super hot’. Investors have to jump on properties within 24 hours or risk missing out. Immo says it can move fast and the legal conveyancing side sounds simple enough. The firm does not internalise this part of the process. Instead, it uses Germany’s system of notaries as well as its standard legal contracts to get deals done.

Kempe says the company has ‘a good strong conversion rate’ relative to players in the US. ‘However we don’t have to win every single deal because it is a numbers game.’

**SOCIAL MISSION**

Beyond creating a successful business, Immo has an overarching social mission. When announcing its \$75 mln Series B funding, co-founder, Zappel, said: ‘When we founded Immo in 2017, our ambition was to address the only fundamental human need that is still not served by a professional consumer industry: housing. ‘We started diving into the issue and discovered near-infinite complexity from every angle. The challenges begin with what is –

for buyers – the largest purchase of their life and for renters, the biggest expense from their monthly pay check. Buying and selling homes is an extremely volatile transaction, where many sales fall through due to uncertainty on the side of the buyer.

‘At the same time, renting continues to consume ever larger chunks of household budgets in exchange for limited choice and a rental product that has barely changed or adapted to the developing needs of consumers over the past 50 years.’

He continues: ‘Renters often face poor quality housing in a market overwhelmingly controlled by brokers or dominated by private, non-professional landlords.

‘The challenges in the housing industry also touch some of the largest problems of our lifetime. Construction of new homes is a massive contributor to pollution, while a growing population of renters, today up to 85% in European urban areas, continue to pump money into a sector that does not connect to their long-term planning and savings. ‘To us, the housing problem was, and is, much more than fixing a process or changing industry. It is about changing an entire category and rewriting a social contract.’

Kempe agrees. ‘We want to provide not only a better physical product, but also a better resident experience. We really believe that it makes absolutely no sense that you can spend three euros on a cup of coffee, and you typically get a consistent product and good service. Yet a basic, human need such as housing, which is also the largest expense every single month for a consumer, does not at all guarantee a consistent or quality product. In no other consumer-facing industry would this still be the norm.’ ■

**Tech challenge**

For several years, a myriad of proptech companies have come forward with products aimed at solving a particular part of the real estate value chain. The challenge for large institutional asset managers and investors is whether their existing in-house tech infrastructure can be plugged into such products to extract the benefits. Experts say digitalisation reformation requires everybody within the firm to ‘buy into’ such ‘change management’; it cannot be accomplished simply by appointing a chief technology or chief innovation officer. Still, proptech companies continue to come forward in an industry not famed for moving quickly. We highlight eight such companies below:

an iBuyer model in Europe. Founded in 2018, the firm promises sellers immediate liquidity. The idea is to quickly improve a property and then sell it on.

**Her Roomies**

Husband and wife-led company focused on female rental accommodation that launched in Spain in October 2020, offering an online way to find apartments, rooms, student residences, co-living, home stays and hostels. Has just announced a partnership with Crystal Roof for London listings and for the rest of the UK.

**Hococo**

Danish company providing tenant experience technology to the residential sector. It effectively acts as a remote control for users to navigate and enjoy their buildings, all with a view to helping landlords and agents increase ‘stickiness’ with their assets.

**Housfy**

Barcelona-based residential start-up that provides an ‘end-to-end’ residential real estate service. Via the platform, users can manage any transaction for their home including buying and selling, mortgage services, rentals, refurbishments, moving between homes, services for real estate companies, and insurance brokerage advice. The company expects to grow net revenue by 200% year-on-year to €43 mln and staff from 370 to 500 by the end of the year after securing an additional €30 mln in Series B funding.

**Homesearch**

London-based start-up that provides a property data and prospecting system for use by estate agents. Earlier this year it announced a €6 mln Series A funding round led by Octopus Ventures.

**Casavo**

Italian digital residential platform that says it is redesigning the experience of selling and buying homes in Europe. Recently said it will invest over €100 mln to acquire houses in Portugal. The company expanded to Spain in 2020.

**Lavanda**

London-based firm that proclaims it is the world’s leading rental technology software as a service (SaaS) platform, powering short- and medium rental strategies for multifamily and student accommodation.

**Clikalia**

Spanish firm that late last year secured \$518 mln in debt and equity to advance

**Ukio**

Barcelona-based company that raised \$9 mln (€8.6 mln) to help progress a company aimed at offering fully furnished and serviced apartments for monthly stays.