Proptech and SPACs: Why 2020 May Have Created the Perfect Storm

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2020 was an undoubtedly turbulent year. As real estate / property technology ("proptech") investors, Adams Street was not immune to the macro environment. The pandemic encouraged investors to recalibrate to what a "new normal" was going to look like. It also forced many proptech businesses to look inwards and ask the hard questions about whether they could survive, let alone operate, in a restricted world (think Airbnb's dramatic decline in April[1]).

Digitization within proptech dramatically accelerated as in-person activities such as tours, property management, notarizations, appraisals, and more had to take place virtually. In addition, trends such as record-low interest rates and the desire to live outside dense city centers has led to the largest residential real estate boom since the 2008 Great Recession[2] – a phenomenon we are seeing help spur exponential growth at our portfolio company, Homeward, a next-generation residential real estate platform that enables home buyers to reduce the normal friction associated with buying and selling homes.

Despite many of the obstacles proptech companies faced due to COVID-19, financings and exits in the space soared in the second half of 2020 and into the first quarter of 2021. Airbnb went public[3] in December. OpenDoor went public via a SPAC[4] that same month. Regorra, an appraisal software company, announced a $30 million Series B[5] in January of this year. Notarize, a company providing electronic notarizations, announced a $130 million Series D[6] last month on the heels of 600% growth in 2020. Also announced in March, short-term rental property management platform and Adams Street portfolio company Turnkey was acquired by Vacasa.[7] The list goes on.

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OpenDoor's exit, however, provides a look into another interesting facet of 2020 that impacted proptech companies and investors. Special purpose acquisition companies ("SPACs"), or blank-check companies, rose to prominence. There were 248 SPAC IPO transactions last year, up from 59 in 2019, and the count for 2021 is already over 300,[8] with many more in the pipeline. Companies such as DraftKings and Virgin Galactic went public via SPAC and new SPAC managers range from former House Speaker Paul Ryan to former NBA star Shaquille O'Neal.

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In the proptech world, SPAC activity was noticeably high with blank-check companies leading some of the highest profile deals of 2020. WeWork announced in March that it would go public via a SPAC,[9] and OpenDoor, Offerpad, Porch, AppHarvest, View, Open Lending, Latch, Matterport, United Wholesale Mortgage, and Vivint have all announced or completed SPAC mergers in the past 18 months. There are additional proptech-focused SPACs still in the market for targets, so we expect elevated activity levels to continue well into 2021.

Why have SPACs been so interested in proptech (and vice versa)?

We think about this phenomenon through four lenses: capital needs, business model complexity, M&A potential, and evolving market dynamics within proptech.

- **Capital needs** for proptech companies tend to be higher than traditional software companies. Many software companies are almost exclusively connected to the digital world – allowing them to scale quickly (perhaps even encouraged to by the "move fast and break things" ethos) and in a capital efficient manner. The same principles, however, don't directly apply to many verticals within proptech, as they deal with the physical world – where their work is tied to real assets, usually resulting in more capital intensive business models (i.e., buying and selling of homes, purchasing raw materials for construction, smart home technology, etc.). OpenDoor, for example, raised ~$4.4 billion before their SPAC transaction[10] and WeWork notoriously raised nearly $15 billion of debt and equity[11] before theirs. In 2020, when the outlook for many proptech businesses was uncertain, being well capitalized became mission critical. Given that SPACs offer quicker access to – and often larger sums of – capital, the attraction becomes obvious. Not surprisingly, SPACs are popular with other capital-intensive sectors like electric vehicles, which accounted for numerous blank-check transactions over the past 12 months[12] – Noikola, Canoo, Lodstown Motors, and XL Fleet Corp, to name a few.

- **Proptech business models** are often incredibly complicated – made more so by the fact that these companies typically operate in markets that have complex laws and regulations – thus requiring deep sector expertise for an investor to fully appreciate. Given how blank-check companies are structured, SPAC managers often have the opportunity to spend a significant amount of time with management to deeply understand the company's business model. As such, managers can assist their chosen target in educating the broader market and PIPE investors about the business.

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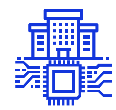
- **The M&A environment** in proptech has historically been robust, and the last 12 months were no exception. Given the restrictions imposed on many sectors within proptech as a result of COVID-19, companies were forced to quickly meet the demands of this “new normal” and thus turned to M&A to offer a broader set of tech solutions to clients or to automate some of their own features. For example, Compass acquired title and escrow software company Modus[13] in October, CoStar acquired digital residential real estate solutions provider Homesnap[14] in November, and Adams Street portfolio company BoomTown acquired transaction management and back office automation provider Brokermint[15] in March of this year. This is relevant to the SPAC world as SPAC managers often take a private equity-like approach and sell investors on their ability to build leading platforms – and subsequently scale – through acquisitions. Scale and speed to market are massive competitive advantages in proptech (more so than most sectors) which, in combination with the fact that real estate is a highly fragmented market, help make proptech a fruitful sector for M&A. SPAC managers looking to proptech have plenty of opportunities to put complementary businesses together and extract revenue and costs synergies to maximize the total value of their vehicles.



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- **Finally, changes in the proptech market** have coincided rather serendipitously with the SPAC boom. Real estate suffers from some of the lowest levels of digitization and tech adoption across any industry. And while pandemic-related restrictions have encouraged an unprecedented acceleration of technology adoption, plenty of growth opportunities in the sector remain. So with (i) COVID forcing the real estate industry to innovate, (ii) SPACs on the hunt for fast growing private companies that might not otherwise IPO, and (iii) proptech businesses growing at unprecedented rates with the need for capital to gain scale, we believe the perfect storm was created.

What does this all mean for proptech businesses and investors going forward?

First, Adams Street believes that many of the shifts seen over the past 12 months will remain in a post-COVID world as consumers get used to, and develop a preference for, tech-enabled platforms in real estate dealings. Second, although we have seen the proptech market undergo massive changes, we believe the opportunity remains in its early stages. Real estate is one of the largest assets classes in the world and, as a result, we believe there are plenty of opportunities to create big companies in areas of the industry that are still adopting technology – transaction management, property data and appraisal, mortgage and loan management, to name a few. As investors, Adams Street is interested in partnering with proptech companies that are tackling some of these underpenetrated sectors or working to further digitize real estate. ■

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