

Deep insights, broad solutions: How banks can win in the vast housing ecosystem

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Introduction

The digital revolution has upended the value and supply chains of many global markets, but so far has made little impact on the very largest: housing. The value of residential real estate is staggering – \$24.5 trillion in the United States alone, greater than its \$20 trillion GDP, and approaching the \$27 trillion value of its stock market.¹ Globally, annual revenues earned for housing-related services run into the trillions of dollars.

For most individuals, housing dominates the financial picture, making up their largest investment and annual expenditures. It is also often a painful undertaking. The markets for buying, financing, and maintaining homes are fragmented, slow-moving, and costly, and operate much as they did 50 years ago – particularly in traditional markets such as the US and UK.

This state of affairs is understandable: the housing market is complex, and customers have to make life-changing decisions while navigating legal obstacles and seeking customized advice. However, these challenges make the housing market an ideal testing ground for ecosystem models that reduce complexity for customers. Given the size of the housing market, our analysis suggests that it will become one of the largest ecosystems in the global economy. And while banks are well positioned to take the lead, there are non-financial firms with potential advantages as well.

Recent McKinsey research also reveals that significant percentages of home buyers in the US and the UK are either enthusiastic about, or open to, an ecosystem for home buying. Initial attempts at housing ecosystems have focused primarily on selling mortgages and insurance, with the addition of home searches. This narrow scope ignores the substantial value inherent in an end-to-end approach that embraces many more

aspects of the homebuying process; for example, transaction fees, home renovations, and moving from one property to another.

To develop true housing ecosystems that meet the full spectrum of customer needs, banks need to balance two perspectives that may at first appear to be in conflict: On the one hand, they need to broaden their scope. The value of an ecosystem is closely tied to how many connections it can make in the service of customer needs. Banks should look beyond home buying and traditional mortgage and insurance products to address the entire customer journey—purchasing a home, living in it, rental, and eventual sale—and recognize broad issues in national and global housing environments. At the same time, as they take a wider view of the customer housing journey, banks need to continue to deepen their understanding of customer needs and preferences, focusing on the details that will make the ecosystem a time- and money-saving solution for individual consumers.

Banks start from a strong position in the race to provide ecosystem solutions for housing, with their established position in mortgage lending, extensive knowledge of customers' financial habits, and digital banking capabilities. But with such an enormous market at stake, there will be competition from other industries. Large technology firms can capitalize on the relationships and extensive data in their rich retail platforms. Some of these firms are already established in digital personal finance, and adding mortgage capabilities would be a logical extension. Banks may have a natural advantage in starting ecosystems, but they will not be able to rely solely on that advantage in competing with digital superpowers.

¹ Sources: Federal Reserve, *Financial Accounts of the United States, Fourth Quarter 2017*; U.S. Department of Commerce Bureau of Economic Analysis, *National Economic Accounts First Quarter 2018*; MSCI Corporation, *MSCI US Broad Market Index fact sheet*, April 2018.

An enormous market, one home at a time

Broadly defined, the housing market is one of the largest product and service markets in the world. In the US alone, housing is valued by the Federal Reserve at \$24.5 trillion, exceeding the country's \$20 trillion GDP. McKinsey projects that by 2025, housing ecosystems will generate annual revenues approaching \$3.8 trillion globally, across the following value chains (Exhibit 1):

Buying: Planning a purchase; searching for a home; estimating its value; executing the purchase transaction; developing mortgage financing (including fractional ownership); moving in, renovating, and furnishing; and insuring the property

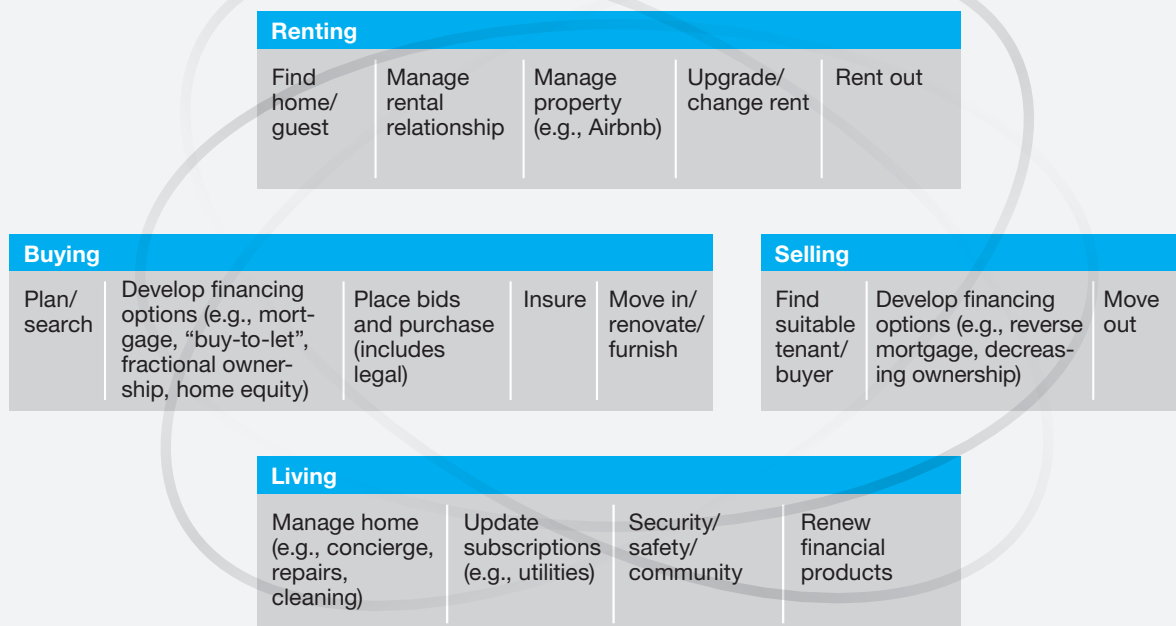
Renting: Finding tenants for landlords; executing rental agreements; and managing and maintaining properties. For prospective landlords, evaluating the rental economics of properties, and developing financing options

Living: Managing the home; establishing utility and security services; and renewing financial products

Selling: Bringing the property to market; managing the sale; developing financing options; and arranging move-out

Exhibit 1

The housing ecosystem has four core value chains: buying, renting, living, and selling.



Source: McKinsey analysis

Early housing ecosystem efforts

A few steps in the homebuying journey made the digital leap in the early days of the internet, in particular, listings of homes for sale and databases of sales transactions. Today, more than 100 bank and nonbank organizations around the globe have either developed housing ecosystem solutions, or are in the process of doing so. So far, banks have built on their natural competitive advantages in mortgage financing, digitizing the complex and painful mortgage application process as an entry point.

From that start, they have extended platforms in other directions: Danske Bank uses its knowledge of Northern European customers to offer impartial, active suggestions for each part of the housing journey, while in Australia, Commonwealth Bank's housing platform combines chosen locations and public data to assist customers with property searches and valuations. In China, Ping An launched its innovative platform in 2014, and currently offers a range of internet-based finance products. In the US, financial software developer Quicken has offered the digital Rocket Mortgage service since 2016, and Bank of America introduced a digital product in 2018; both offer a streamlined application process online or via smartphone app.

Non-financial companies have joined the market as well, such as UK-based Zoopla, starting as a home search service, and extending into mortgage brokerage (through the acquisition of Money.co.uk, and an investment in online broker Trussle), insurance, and utilities services.

Several startups have introduced solutions for valuable but isolated parts of the housing journey. Opendoor purchases homes immediately from urgent sellers in several US metropolitan areas and refurbishes them, speeding up the sales process, avoiding the cost of carrying two homes, and providing liquidity to the housing market. Hubdoc's cloud solution converts paper documents into searchable and exportable data for the Canadian and Australian markets, while Cozy provides an end-to-end solution for rent management and insurance in the US.

Matterport, in California, uses interactive 3D and virtual reality to offer virtual home tours. Some have redefined parts of the housing experience, pioneering home sharing and more energy-efficient and secure smart homes.

In the fintech realm, Silicon Valley-based Point purchases shares of people's homes, enabling owners to raise capital without periodic interest and principal payments. Digital mortgage applications are available through several fintechs, including Habito and Trussle in the UK, which link prospective buyers to banks, making financing simpler and quicker.

Examples have also sprung up in the emerging markets. African bank Absa assists prospective buyers with home searches, places them in touch with agents and mortgage lenders, and lists properties for sale. Such home journey startups could make interesting partners or acquisitions for banks looking to quickly extend their housing reach.

A bifocal approach to easing the housing journey

To develop successful housing ecosystem offerings, banks need to balance two ways of looking at the challenge: On one hand, they should take as broad a view as possible of the housing journey; this is the value of the ecosystem model, connecting the disparate strands into a seamless process. On the other, they need to develop a deep and detailed view of the needs and preferences of customers.

The broad view

McKinsey's Global Ecosystem group estimates total housing revenues at \$3.8 trillion annually by 2025. While mortgage-related revenues make up a significant portion, the contributions of real estate transaction services, or the markets for

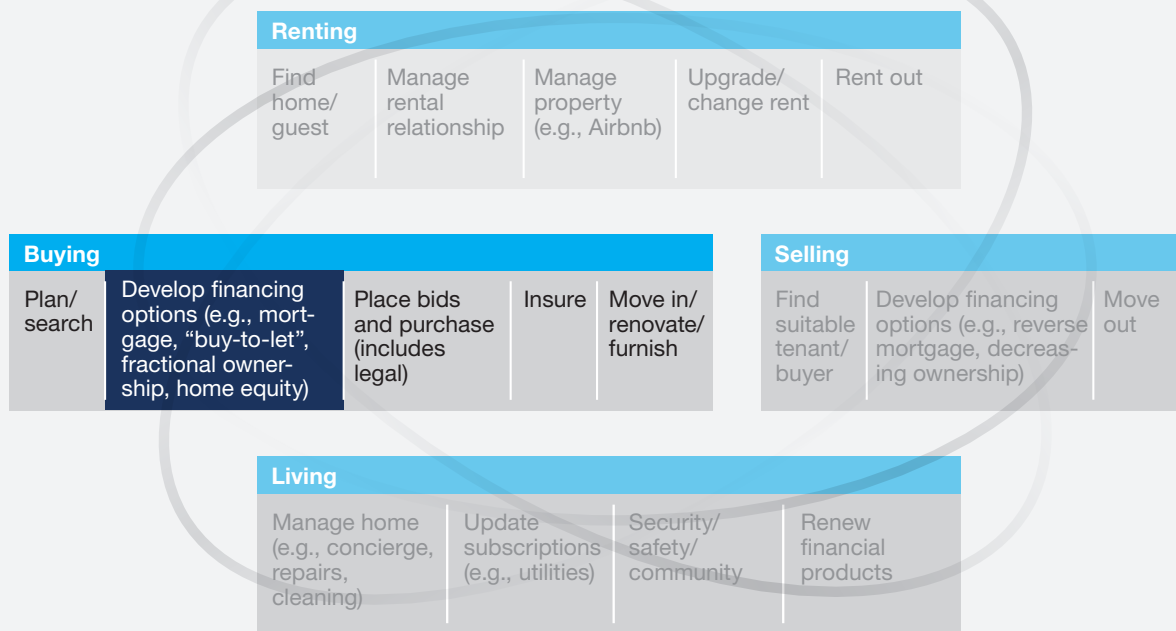
furniture, or architecture and engineering services, are forecast to be just as large. Early incumbent ecosystem efforts, however, have stuck to the familiar ground of mortgages and insurance (Exhibit 2), with some extras tagged on.

Buying a home demands time-consuming handwork and personal attention from prospective buyers, and forces them to rely on a long chain of disparate service providers. Pain points crop up throughout the process, so that focusing only on the financial aspects and failing to consider the full scope of the process will not solve customers' problems.

By covering the full housing journey, banks can defend their current mortgage revenues, and

Exhibit 2

Banks are currently focused on the buying ecosystem, particularly mortgage.



Source: McKinsey analysis

The economic potential of a full housing ecosystem

The aim of developing a housing ecosystem is not only to expand revenues, but also to build a critical mass of customers and provide them with end-to-end solutions. Mortgages will still offer the largest individual sources of revenues, but other sources will emerge from minor investments in new areas. Moreover, profitability should increase as customer acquisition costs decline, rates of customer churn improve, and mortgage servicing becomes more efficient. Another significant source of value will likely emerge in the rental market, where transactions are more frequent,

and may become more so as research suggests millennials prefer renting to buying.

In the longer term, banks can maintain their current fees and commissions for services within the buying journey. However, many natural cross-selling opportunities will arise from the other value chains (e.g., fees on house-cleaning and moving), delivering incremental revenue and ROE. But as many points in the journey are outside their current skill sets, banks should consider partnering with established experts, or startups that bring a novel approach to a market.

A future for real estate agents

Real estate agents occupy a crucial vantage point the housing value chain. Historically they have brought together buyers and sellers, capitalizing on their ownership of information on past transactions, and providing buyers with discovery of property prices.

In the US and UK, they still have a role in most sales. More dynamic markets have leapfrogged real estate agents, as access to digital databases of completed transactions and homes currently on sale has reduced the asymmetry of information. Moreover, low-cost real estate agents already allow sellers to manage their own online listings and pay reduced commissions, while virtual reality allows prospective buyers to preview houses at a distance, and eliminates much of agents' roles in showing homes. Thus, in many markets, a significant proportion of everyday home sales are executed without the help of an agent, simplifying the process and reducing costs for consumers.

That said, real estate agents still bring important skills and information to many types of transactions. For large or unusual properties, they help buyers and sellers set prices where comparable transactions are not readily available. Buyers and sellers also may require an agent's services for transactions carried out at a distance, or in managing rental properties. In all these cases, however, the agent role evolves from salesperson to advisor.

In a world where the lion's share of transactions can be handled digitally by the principals, real estate agents will still play a role, although one that will be radically different. Developers of housing ecosystems will therefore have to define whether real estate agents are to be viewed as partners that bring expertise and value to their services, or as competitors building their own streams of transactions.

build new revenue streams in adjacent areas. They also need to stake out other points in the value chain, to defend their mortgage markets from attacks by housing providers approaching from other directions.

While isolated savings of time and money are an important part of winning consumers, developers of housing ecosystems will generate far greater gains through scale effects from drastic redesigns of the entire value chain, potentially saving customers months of time and thousands of dollars.

Deep thinking on customer needs

Banks need to think in broad terms about how they can improve the housing journey for customers; however, they must also pay attention to details that will make an ecosystem work for individual customers. They need to identify which customer segments are most attracted to the ecosystem proposition, how to approach them, and which are most valuable. Deep insights on what provides value to customers – saving money, saving time, or finding convenience – will lead to effective solutions that engage customers in the ecosystem approach.

Home buyers' wants and needs: A survey

Importantly, the end market for the housing ecosystems opportunity is receptive: In 2017, McKinsey conducted focus groups among recent home buyers in the US, followed by a survey of 1,500 buyers of varied demographics.

The survey posed more than 130 questions, and in addition to measuring age, income, financial security, and experience and attitudes toward home buying, gauged people's enthusiasm for a housing ecosystem: that is, their affinity for new technologies, engagement with social media, willingness to share personal information, and preferences for in-person contact with lenders and agents versus integrated online offerings.

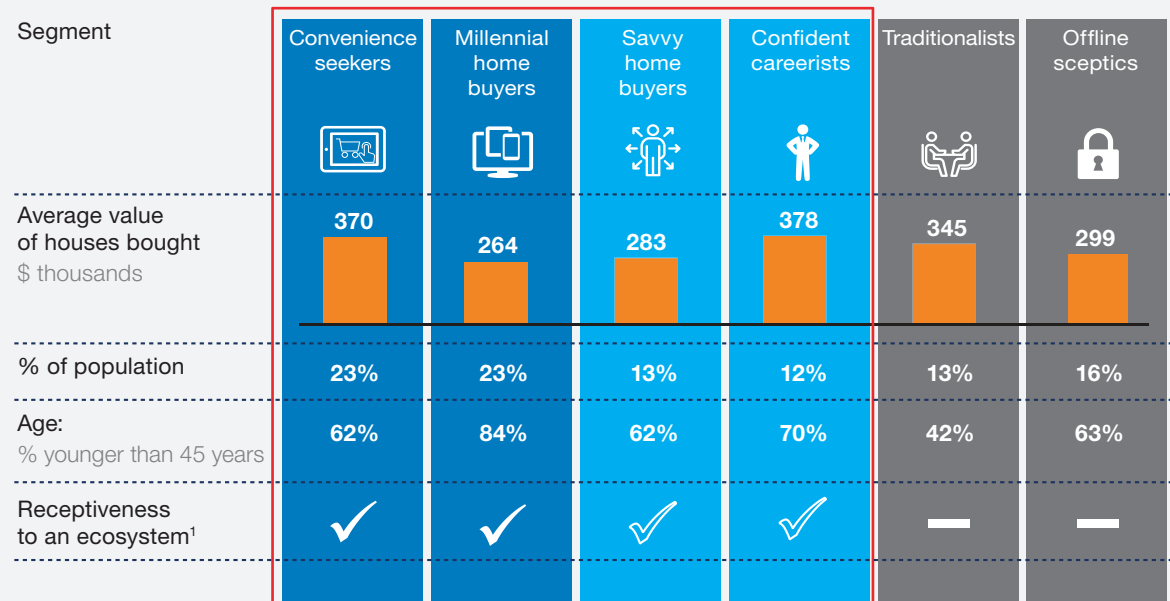
On these criteria, six broad categories emerged in the US market of recent home buyers, differing primarily by age and digital inclination. In summary, about half the surveyed group was enthusiastic about the prospect of an end-to-end ecosystem, and an additional 25 percent would be receptive under the right conditions (Exhibit 3).

Two groups were particularly enthusiastic about the possibilities in ecosystems for home ownership. One segment, designated "convenience-seekers," averaged about 40 years of age and accounted for 23 percent of the survey sample. More than half had already gone through the home-buying process previously, and

Exhibit 3

Four of six US home buyer segments are either enthusiastic or receptive to an ecosystem model.

Characteristics of home buying and home services by segment, US market



Focus segments for ecosystem providers

¹ Receptiveness to be defined based on combination of attitudes towards key ecosystem features.

Source: McKinsey Global Ecosystem Customer Survey; McKinsey Panorama

Exhibit 4

A look at a millennial home buyer.

Millennial home buyer: EMMA

"I use the latest digital solutions and social media, but would need help in my first home purchase".

Age: 31	Type of home bought: Apartment
Occupation: Event Organizer	Price of house: \$385,000
Lives: Chicago	
Household income: \$103,800	
Marital status: single	

Emma moved into Chicago eight months ago after taking a new job. She decided to buy an apartment instead of renting, but would like to have flexibility in moving forward in the next few years.

She is confident using the latest digital tools in every other part of her life, but needs guidance during her first home purchase.

NEEDS

Portal to learn the steps of the home buying process

Flexible mortgage construction

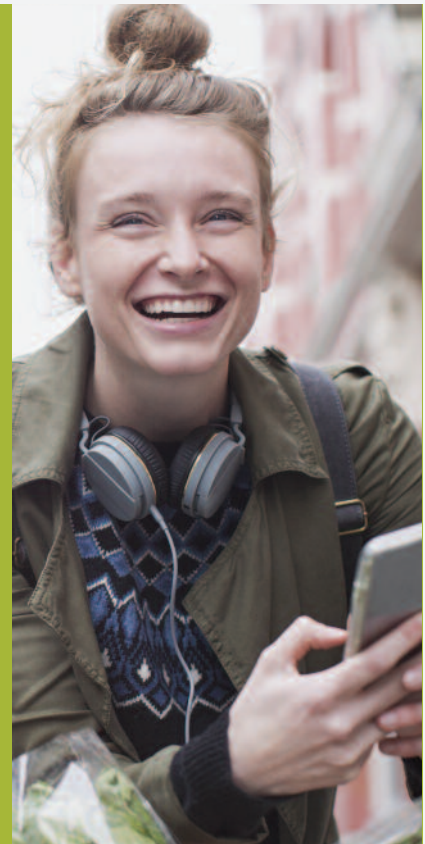
Ability to manage renovation and furnishing

ATTITUDES

Her career is a high priority

She is a digital expert – her smartphone is a central part of her life

She likes personalized offers but is careful with sharing her data



"I would like to learn about the home-buying process. I'm happy to try out new services and willing to share the data necessary to get recommendations and save money."

Source: McKinsey analysis

the group indicated willingness to share much of their personal data with ecosystem developers, and to pay for the guidance and convenience of an integrated digital search and purchasing process.

Another 23 percent of those surveyed, whose recent home purchase was their first, fall into a highly receptive "millennial home-buyers" group. Age 33 on average, this segment also relies on digital solutions and social media, and is willing

to share comprehensive data to enable an ecosystem to guide their home buying (Exhibit 4).

Two smaller groups, together making up 25 percent of the survey, were also attracted to the potential benefits of a real estate ecosystem. They showed less interest in personalized service offers and spending time online, but indicated they would share their personal data toward the goal of better prices and streamlined service (Exhibit 5).

Exhibit 5

A look at a savvy home-buyer.



Savvy home buyer: PETER

"I don't want to get disturbed by personalized offers or pay for guidance."

Age: 58

Occupation: Engineer

Lives: Phoenix

Household income: \$146,200

Marital status: married

Type of home bought:
Detached house

Price of house:
\$425,000

Peter and his wife have two grown children, who just moved out from the family home. They decided to sell their house and move into a smaller one to be able to provide financial support.

He is willing to share personal data with providers only if they are secure and offer him significant benefits (e.g., better rates or avoiding in-person meetings).

NEEDS

Complex comparison of houses

Better rates for legal and insurance solutions

Professional design: different from social media pages or apps

ATTITUDES

He avoids calling customer service at all costs

He likes to control the process, does not need recommendations

He is not interested in latest technology and entertainment options

*"This is not the first time I'm buying a house.
I want to be at the center of the process – I'm able to make all decisions alone."*

Source: McKinsey analysis

Pain points in purchasing

One aspect of the survey considered recent home purchasers' satisfaction with ten important components of typical home purchases, covering home search, financing, purchase, maintenance, and eventual sale. Responses indicated that four steps in the process are crucial in determining homebuyers' level of satisfaction: applying for a mortgage, bidding for properties, and closing the

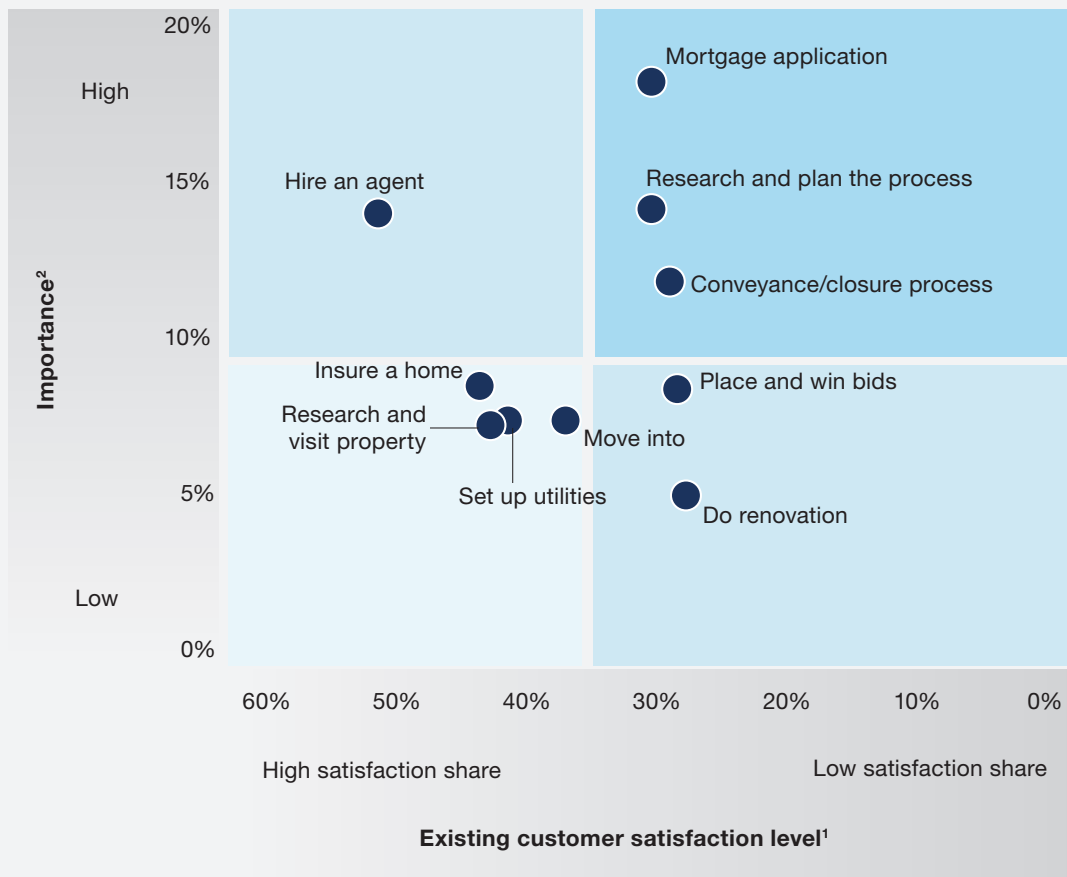
purchase, as well as the knowledge resources available to plan the home-buying journey from start to finish (Exhibit 6). Not coincidentally, these steps also inflict the most pain on homebuyers.

However, home buyers' experiences varied somewhat based on their market segment (Exhibit 7). For nearly all segments, higher

Exhibit 6

The most important and least satisfying steps in the home-buying process, according to customers.

Importance versus satisfaction



¹ T2B Satisfaction score represents the share of respondents in the survey that selected a 9 or 10 on a 10-scale in response to the following question for each journey steps: "How satisfied are you with the following: [journey step]?"

² Johnson Relative Weights approach to identify the most important drivers of satisfaction for overall journey (based on respondents who participated in all steps).

Source: McKinsey Global Ecosystem Customer Survey; McKinsey Panorama

proportions of buyers were dissatisfied with the bidding process – indicated by the red areas – and dissatisfaction is also widespread in applying for mortgages, closing transactions, and renovating homes. Within individual segments, savvy home buyers reported the highest satisfaction with the housing journey, likely the result of their greater experience. Millennial home buyers showed the least dissatisfaction with the

moving process, perhaps due to having fewer accumulated belongings. Traditionalist and offline sceptics were the least satisfied with housing across the board.

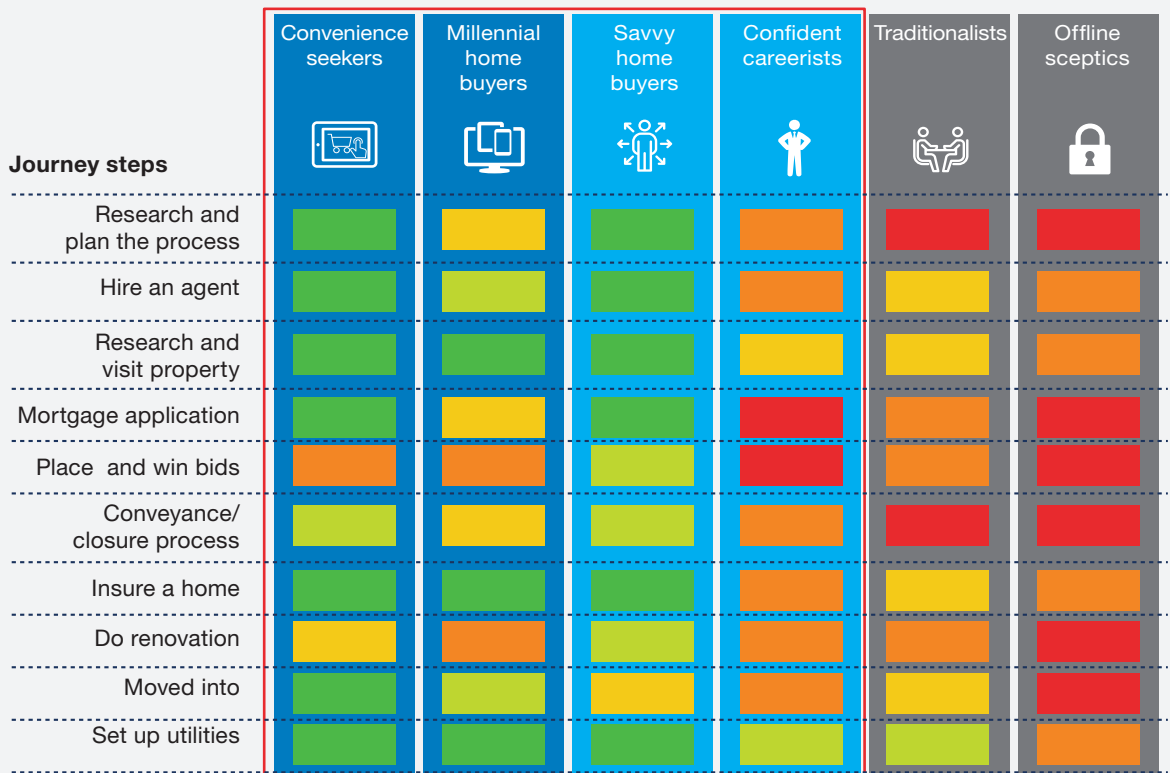
Mortgages, purchase closings, and renovations originate from a disparate set of providers: banks, real estate agents, lawyers, and contractors. This continuum of disappointment underscores the

Exhibit 7

Current satisfaction with steps in the home-buying process varies by segment.

Satisfaction share¹

Very high High Medium Low Very low



Focus segments for ecosystem providers

¹ Share of respondents in the survey that selected a 7 to 10 on a 10-point scale in response to the following question for each journey step: “How satisfied are you with the following: [journey step]?”

Source: McKinsey Global Ecosystem Customer Survey; McKinsey Panorama

need for banks to take a broad view of a housing ecosystem: a structure centrally orchestrated by one firm that will bring informed judgment and guarantee quality results, through the orchestrator's recourse and leverage with the participating providers.

Importantly, since pain points and service preferences vary across customer segments, banks that fully understand the complete set of

buyers' needs will develop high-value and enduring relationships. An ecosystem can provide a steady stream of relevant information on home technology and renovation, neighborhood price trends, and developments in local legislation and taxes, supporting homeowners not only in their day-to-day comfort and enjoyment, but also maximizing the value of what for many people is the largest single investment in their lifetime.

Personal data from consumers is essential

Detailed personal and financial information from customers will fuel successful housing ecosystems, which gives banks a head start over digital attackers from other industries. Not only are banks already qualified to assemble and manage such information, but customers trust financial institutions to safeguard their data – ranking second only to hospitals, and well ahead of potential competition for ecosystem development, such as online retailers or social media companies.

Although all ecosystems may deliver the same basic elements, developers will need to adapt their platforms to the legal, financial, and cultural mechanisms of each market, as well as to consumers' preferences. Our 2017 surveys revealed important differences between the US and UK markets: In the US, buyers relied most heavily for guidance in the purchase process from their real estate agents, while in the UK, buyers favored mortgage brokers for guidance. Moreover, US buyers were inclined to manage more of the process themselves through digital means, but UK customers preferred human interactions. Orchestrators of ecosystems will need to make frank assessments of their capabilities to meet the needs of the market segments they target, bringing their own skills to bear, but turning to local partners as well to assure quality, and timely execution, and an understanding of consumer preferences.



The global housing market is destined for a digital restructuring, and moves are already underway in Northern Europe and Asia. Yet to be determined is which firms, and which industries, will be most creative in identifying customer

needs and designing an effective end-to-end housing platform.

Large tech companies currently have little stake in the fragmented housing market, but can bring significant capital and flexible innovation to digital platforms. Thus, it is not hard to imagine a Google or Amazon-powered housing ecosystem. These companies also enjoy strong retail and digital relationships with millennials, and are making inroads into personal finance.

Banks, however, can be natural leaders in developing housing ecosystems. They already lead in significant parts of the value chain, and make attractive partners that can push high business volumes to firms in adjacent housing positions – insurers, real estate agents, lawyers, contractors, and others. Banks also have shown skill at multichannel platforms, including on-the-ground branch networks.

Banks also possess extensive and granular information on customers, and are skilled at modeling and evaluating their financial behaviors. And they occupy a superior position of trust with consumers.

What is called for, however, is thinking big beyond the familiar territory of home lending. Banks must recognize that building fully functioning ecosystems will be a complex endeavor, calling for new thinking outside the traditional realm of banking. Therefore, ecosystem development should not be consigned to the traditional mortgage business, but rather undertaken by an entirely new division, staffed with a team of business developers and entrepreneurs.

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