REAL ESTATE BROKER'S INSIDER

Management and sales tools for the residential real estate broker

Industry Trends

Real estate industry turns to predictive analytics to refine marketing efforts

Steve Kunkel's subscription to SmartZip Analytics' targeted marketing program gives him a ranking of the homeowners in his target neighborhood who are most likely to sell in the near future.

Since August, Kunkel has been using SmartZip's predictions to decide which homeowners to call, and as of late April, he had closed five deals as a result of his efforts.

"We're very pleased," says Kunkel, part of a husband-and-wife team at Keller Williams in Atlanta.

SmartZip sells "predictive analytics," the use of software and data to foretell a consumer's future behavior. In early examples of this new breed of consumer research, Netflix knows what movies you might like based on your past rentals, and Amazon recommends books by looking at what you and others have bought in the past. In the real estate industry, Trulia suggests homes by studying patterns of properties that buyers have clicked on in the past.

SmartZip has data on 100 million U.S. homes and their owners, and the company has learned how to predict when homes will sell based on such factors as how long the owner has been in the home, how much equity he has built up, and how the neighborhood's demographics are changing. The idea is to forecast who's most likely to sell and,

therefore, who an agent should target with his marketing efforts before the seller starts scheduling listing appointments.

"There are telltale signs," says Avi Gupta, president and chief executive officer of SmartZip, based in Pleasanton, CA.

As big data has become a hot topic in the business world, the real estate industry is eyeing predictive analytics. What if your agents knew when someone was going to buy or sell a house? Think of how much marketing money they'd save, not to mention time spent making cold calls, knocking on doors, and sending out email blasts.

Predictive analytics "suddenly seems to have come to the fore," Gupta says.

In an effort to make Big Data work for the real estate industry, the National Association of Realtors has launched a predictive analytics group. Todd Carpenter, NAR's managing director of data analytics, is looking for ways to bring together previously untapped data sources.

"A big part of my job is how can we get more of this data that's already out there to work for Realtors at one time," Carpenter says. "How can we build some tools that will help you market more effectively, market for less money?"

SmartZip is one of the companies in REach, NAR's effort to foster technology

companies. (For more on the REach companies, see page 12.)

Kunkel says his rationale for trying SmartZip was simple: As he shifted from short sales to traditional sales, he needed leads.

"We have a farm of 2,500 people, and mailing to that many people is expensive," he says.

Kunkel's experience shows that big data might prove more than just hype for the real estate industry. In one early attempt at putting predictive analytics to work, CoreLogic last year rolled out Real Agile, a product that mined public records to guess when consumers might be ready to buy or sell, but later pulled Real Agile off the market.

Still, big data looms as the hot thing on the tech horizon.

"Prediction is power," technology consultant Eric Siegel writes in his recent book *Predictive Analytics: The Power to Predict Who Will Click*, *Buy, Die, or Lie*.

Not a perfect tool

Even big data's cheerleaders acknowledge that the power of prediction goes only so far. Predictive analytics won't make you clairvoyant, and it won't tell you precisely when a homeowner will decide to put his house on the market.

"Accurate prediction is generally not possible," Siegel writes. "The weather is predicted with only about 50 percent accuracy, and it doesn't get easier predicting the behavior of humans."

Colleen Badagliacco of Legacy Real Estate in San Jose, CA, learned that lesson firsthand. She tried Real Agile but was unimpressed. The CoreLogic offering relied on public records such as default notices and deaths. Badagliacco says triangulating that information with social networking activity could yield better results. If, for instance, a consumer posts on Twitter or Facebook about a job change, a marriage, or a new baby, that could prove valuable intelligence.

"Predictive analytics will get better over time as they add more data points," Badagliacco says.

For now, predictive analytics is best-known for foretelling low-value impulse buys on Amazon or Netflix. But the decision to spend $400,000 on a home is far more complicated.

Compared to those purchases, home-buying is "quirky," Badagliacco says.

"How many times does somebody say they won't buy on a busy street, but then they buy on a busy street because they fell in love with the house or it's down the street from their kids' school?" she asks.

Kunkel says many of the people he calls from his SmartZip list say they're not interested in selling for now, but he doesn't expect predictive analytics to be perfect.

"Obviously, there's some people (on the list) who may never sell," he says.

Even if it only raises the odds of success, big data's brave new world promises to make agents' jobs easier.

"The lure is that instead of sending a mass mailing to 5,000 people in a neighborhood — 99 percent of whom don't want to buy or sell right now — you can target the 1 percent who have a probability of doing something," Badagliacco says.

The intersection of Big Data and Big Brother

Early versions of the tools have focused largely on public records and the three Ds — death, default, and divorce. While those three events can indicate a real estate transaction in the future, Badagliacco offers this: Do you really want to contact someone right after a death, default, or divorce?

Eviction notices could be more promising, Badagliacco says. They indicate that a landlord might be getting fed up

with his business, and an investor isn't as likely to be offended by a sales pitch.

Ted Loring, broker at Professional Property Management in Eureka, CA, spoke about predictive analytics at last year's NAR conference. He urged a "measured approach" to using Big Data to market to consumers and agents.

"The idea is there's more data available than I know," Loring says. "Big data says there is much, much more out there ... By layering and linking and analyzing, you create an image of the market or an image of an individual in the market that is much more robust and complex."

That's exactly what SmartZip is marketing. The company charges $400 to $1,200 a month for its analytics and marketing services, depending on the median home price in an area and how many homes an agent hopes to analyze.

SmartZip buys demographic data from vendors, and it tests its predictions by comparing various variables against actual sales. Gupta says the precise factors that foretell a home sale vary by region and even by neighborhood.

"They say real estate is local, but it's really hyperlocal," he says.

In addition to offering lists of likely-to-sell homeowners, SmartZip also markets to them on an agent's behalf. In an intersection of Big Data and Big Brother, Internet marketers now can connect consumers' physical addresses with their virtual lives, giving advertisers the e-mail addresses and Internet patterns of homeowners.

"I see it becoming more and more mainstream," Gupta says.

Old-fashioned marketing still has its role

Kunkel stresses that predictive analytics doesn't take the place of old-fashioned lead generation. He still has to pick up the phone and call the homeowners on the list generated by SmartZip.

"There's no magic pill," he says. "But if you're working a geographic area, I think it has real potential."

Jay Macklin, an agent at RE/MAX Platinum Living in Scottsdale, AZ, agrees. In the first year that he used SmartZip's analytics, he closed six deals as a result.

Macklin says he gets a response rate of about 12 percent from his marketing to SmartZip targets, compared to 2 percent to 3 percent for less-focused campaigns.

"It's a very good identifier of potential sellers," Macklin says. "I don't have to blast out to my entire database."

Like Kunkel, Macklin says predictive analytics only works when it's combined with effective marketing. He still must send engaging postcards that include a call to action.

"No offense, but most agents suck at marketing," Macklin says. "They just throw stuff out there and hope something sticks."

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Predicting who will sell or buy

Predictive analytics promises to point agents to likely sellers.

• Death, divorce, default are old-school forecasting tools.

• New models use home equity, length of ownership, changing neighborhood demographics.

• Social media activity could be pulled into future models.