

# SCHWARTZ *Report*

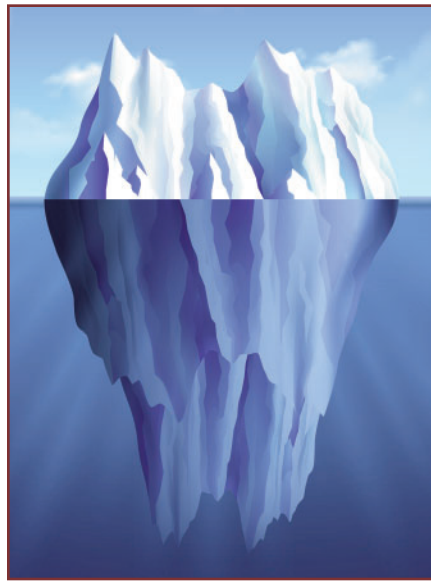
DIRECT: 302-234-5202 • OFFICE: 302-239-3000  
www.charlieschwartz.com

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## ICEBERG ECONOMICS IN BITS AND PIECES

I have chosen three seemingly unrelated subjects for this month's report. They do have one thing in common which relates to how the purveyors of technological innovation continue to struggle to integrate their creations with a real estate transaction. The innovators and their financial backers look at the process of buying or selling and say it is suffering from the effects of an outmoded business model. They see a wonderful opportunity to employ their technology and their capital. For example, in a recent Wall Street Journal editorial, two enterprising technocrats say they will use big data, machine learning and artificial intelligence to deliver transactional information to prospective buyers. They start by trashing the real estate industry as anti-competitive (ignoring the presence of Zillow, et al and the 672 multiple listing services now delivering property information in the USA) and go on to state what every real estate practitioner already knows. Voila, buyers can now do the work themselves of identifying attractive neighborhoods and homes before interacting with a real estate agent. Their approach to data would be infinitely more valuable to us if it could predict what seller, located where, is going to move and when. More power to them if they can. I return again to the old canard that the data isn't so helpful if you don't know what to do with it. That requires the human intelligence of an experienced and trusted advisor. No algorithm can help with the nuances. The bots are trying but they haven't found the handle yet.

Now I read that a company called Shelter Zoom is developing a platform they call "Mithra Contract" set to be released later this year that will provide users with a "myriad of online tools including contract templates, negotiation capabilities, online chat, document management and more." The platform will use crypto cur-



rency, called "Mithra Coins" as a measurement of value. Shelter Zoom says it hopes to reduce the time it takes to negotiate and close a real estate transaction to 72 hours by the year 2021. I guess they haven't heard the old admonition to never let the sun set on an unsigned contract. By "close" a real estate transaction they could just mean getting a signed document demonstrating a meeting of the minds of buyer and seller, and not the process of getting that transaction on to settlement. I have written before that a real estate transaction is like an iceberg floating in the ocean. Ninety percent of it is below the waterline and its processes go on mostly unseen by the buyers and sellers involved in it. Get off course or miss a

step and you could sink the transaction. If they can show us how to tie everything successfully together in 72 hours, more power to them.

Why deploy a crypto currency like Bitcoins as a measurement of value? Bitcoins are extremely volatile. Their value crashed to its lowest point at the end of 2018. One might ponder the rectitude of tying a real estate transaction, which demands a stable measure of value, to something as unstable as the market for tulip bulbs in 17th century Holland. Stay tuned!

Now here's another instance of what I would call "technological teething" from Facebook, illustrating iceberg economics at its finest. Imagine you are posted in the crow's nest of a liner hurtling across the North Atlantic. You peer into the vastness and see nothing and you are unaccustomed to navigating in these waters. Not to worry say your mates, we have a delivery algorithm guiding our ship. It determines where we go. Thus the good ship Facebook has sailed into the realm of real estate advertising. With 210 million users on board here in the USA alone, that's a big ship to manoeuvre.

Facebook uses its delivery algorithm to determine who gets the advertising. They figure the benefit must be that marketing materials can be targeted for delivery to customers by their specific identity characteristics. Except what works well for selling widgets is not so good for real estate. The Department of Housing and Urban Development (HUD) thinks so and has charged Facebook with potential violations of the 1968 Fair Housing Act. HUD General Counsel Paul Compton stated: "Just because a process to deliver advertising is opaque and complex, doesn't mean that it exempts Facebook and others from our scrutiny and the law of the land." So, it seems that fashioning appropriate rules of the road for today's technology as it impacts housing will be one of HUD's priorities. According to

HUD, Facebook has been offering customers "hundreds of thousands of exclusionary categories" which has the effect of returning to the practice of "redlining".\* In other words, HUD argues that what applies to the physical world should also apply to the digital one. HUD is charging that Facebook's platform "has allowed advertisers to single out individuals based on gender, disability, religion, and more, in housing related marketing" because the operation of its delivery algorithm steers the advertisement. Stay tuned!

*\*Redlining is the long discredited and illegal practice by unscrupulous real estate brokers, insurers, lenders and others of drawing red lines on a map around low-income or minority neighborhoods to either deny service or target them for higher rates.*



Charles E. Schwartz II, CRB  
7234 Lancaster Pike, 100A  
Hockessin, DE 19707  
302-234-5202  
Fax 302-234-5212  
cschwartz@psre.com  
www.charlieschwartz.com

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