Proptech Investment Outlook 2023: Caution, Consolidation and Climate

According to a recent report by the Center for Real Estate Technology & Innovation (CRETI), 2023 may be a slow year for the Proptech sector. Capital inflow into Proptech companies dropped 38% between 2021 and 2022, and CRETI notes that this is the "second-lowest investment year since 2018."

As we've seen elsewhere throughout 2022, the 'usual suspects' of tightening monetary policy, rising rates and the specter of recession have all played a role in making Proptech investment funding much harder to come by.

Quality and Consolidation

Another big theme of the report (which analyzed publicly available investment information, surveys and other data sources) was that there are still plenty of opportunities for Proptech outfits capable of "putting together compelling business and revenue models."

In other words, the capital is still there, but investors have become a lot more cautious about where and how it's being allocated.

There's also a growing expectation that many smaller Proptech outfits will sell to, or merge with, their larger competitors this year as companies seek to add value to their offering and provide a "one stop shop" for Proptech solutions.

As Jenny Song, principal at Navitas Capital points out in the CRETI report: "As with every downturn, we're also going to continue to see consolidation around a few winners in each segment. The fragmentation of the last few years in certain categories have been confusing and sometimes anti-productive for the industry, and buyers have real vendor fatigue."

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Climate Tech Coming out on Top

Something else to keep an eye on is the fact that certain subsectors of Proptech are more likely to stay in demand in 2023 than others. Climate tech offerings, for example, are set to continue attracting investors as the drive towards sustainable CRE grows in coming years.

CRETI's Managing Director, Ashkán Zandieh, puts it like this: "Across all sectors of the real estate industry, owner-operators, owner-developers, occupiers, and managers are exploring Climate Tech as companies address climate change, develop differentiated energy sources, and differentiate their assets."

Startups with solutions in this area, that can demonstrate their value proposition and a quality revenue stream, are therefore more likely to attract investment than those whose models can't withstand investor scrutiny.

Tentative Optimism

The overall conclusion from CRETI's report is an optimistic one. While it's likely that 2023 will be a tough year for Proptech, it's also likely to be a year of maturation and consolidation that establishes a firmer footing for the sector as a whole.

And where Proptech companies previously focused on growth, the watch word for the coming year seems to be value: both to investors and in terms of what they bring to the broader CRE sector.