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PROJECT NO.1672
ARTIFICIAL INTELLIGENCE FOR REAL ESTATE VALUATION (EXPANSION OF ACTIVITIES) (RUSSIA)

REQUIRED AMOUNT OF INVESTMENTS:
$20 664 111

ANNUAL NET PROFIT:
$6 358 000

RETURN ON INVESTMENT CAPITAL:
80%

FOUNDER'S INVESTMENT:
$4 756 370

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Our social networks

Location: Russian Federation
Field: IT and real estate services
Description: The investor is offered to invest in an artificial intelligence platform for the acquisition and resale of 1-2-room apartments with an exposure period of about 2 months with a target **ROE>80% per annum.**

Strategy:
(1) scaling up in the Moscow market, with further development in cities with a population of over a million people with a positive influx of population;
(2) deployment of the model and scaling in the commercial real estate market in Moscow.
Moscow market volume: 200 000 transactions with apartments per year, **$2.6 billion** per year for the sale of 1-2 room apartments.
Target market share: 1,000 transactions per year (0.5% conversion to arbitrage) with an average bill of **$111 261**
Average markup: 10.3%.
Target clients:
(1) sale of inherited property;
(2) urgent need for money or non-core real estate;
(3) purchasing wholesale lots;
(4) errors in pricing by sellers and realtors.

Lead generation channels:
(1) direct integration with CIAN via API (in case of loss of integration - direct parsing);
(2) scraping other sites with advertisements for the sale of apartments;
(3) own telegram bot for realtors;
(4) agent network.

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Operating Model:

The real estate valuation model is built on linear regression and trained on all real estate transactions in Moscow since 2018 with detail down to each house;

The real estate market is divided into clusters (districts, blocks and zones - for example, Khamovniki to the Garden Ring and after the Garden Ring);

When estimating arbitrage, the model compares the price of an object with the median of its closest analogues. The closest analogues are selected according to the following parameters:

(1) belonging to a cluster;

(2) type and number of floors of the building;

(3) distance from infrastructure (metro/future metro, gardens, schools, shopping centers);

(4) speed and number of transfers of ownership rights among analogues. When calculating the median price, the model assigns weight to each factor depending on the number of analogues for each parameter;

Every day, based on the analysis of 20,000 ads, the model ranks them depending on the amount of arbitrage;

The team selects a shortlist of around 30-50 trades with maximum arbitrage value per day and checks the arbitrage estimate manually;

Based on the results of the check, 4-5 best transactions per day are selected and put into operation. The legal succession of the object of sale is checked based on the history of transactions with the object and extracts from the Unified State Register of Real Estate.

After purchasing objects, the model continues to monitor the prices of similar objects, and also records changes in prices, the number of ad views and the number of transactions on similar objects in order to generate statistics and signals for the sale of purchased objects (margin and exposure period).

Advantages of the project:

Full coverage of the supply market through automated collection and analysis of advertisements;

Maximum efficiency in terms of operating costs for processing leads and conducting transactions - a realtor's time to process 1 real estate ad is 15-30 minutes, AI - 30,000 ads per day.

Absence of direct analogues and competitors in terms of business model in the Russian market;

Minimizing the human factor in arbitrage analysis and checking the quality of potential transactions.

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Financing requirement: **$20 664 111** through a closed-end mutual fund, of which **$12 717 252** is refinanced in the bank at a rate of 11% secured by shares of a closed-end mutual fund.

Net equity = **$7 948 282**, including an investment of **$2 118 308** in the development of the Founder's company.

Proposal to the investor: The investor receives a controlling share in an LLC/closed-end mutual fund, which buys apartments on its own balance sheet. The partners receive a significant non-controlling share. The profitability is divided as follows: the first **10%** of the profitability is distributed to the Investor, **the remaining part of the profitability is divided in a 50/50 ratio between the Investor and Partners.** Founder's company provides exclusive LLC/closed-end mutual fund to use its algorithm for searching undervalued 1-2-room apartments for purchase in Moscow and the Moscow region.

The investor buys 25% in the Founder's company for $2 118 308. The funds are used for development: the deployment of a franchise network in the regions, the sale of signals for rent and for objects with a smaller upside. The Investor and the Partners enter into a shareholder agreement in relation to the LLC/closed mutual fund and the Founder's company.

Economics for the Moscow market: Gross margin is $11 438 863 per year (10.3% markup, exposure period 2 months). Bank interest is $1 907 436.

Opex (payroll + rent + marketing): **$1 589 530** per year. Taxes: **$1 589 530** per year.

Net margin: $6,358,000 per year.

ROE for all shareholders: more than 80%.