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PRESENTATION

Operator

Good day, and welcome to the Redfin Corporation Q2 2022 Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Meg Nunnally. Please go ahead, ma'am.

Meg Nunnally - *Redfin Corporation - Head of IR*

Thanks, Cody. Good afternoon, and welcome to Redfin's Financial Results Conference Call for the Second Quarter Ended June 30, 2022. I'm Meg Nunnally, Redfin's Head of Investor Relations. Joining me on the call today is Glenn Kelman, our CEO; and Chris Nielsen, our CFO.

Before we start, note that some of our statements on today's call are forward-looking. We believe our assumptions and expectations related to these forward-looking statements are reasonable, but our actual results may turn out to be materially different. Please read and consider the risk factors in our SEC filings together with the content of today's call. Any forward-looking statements are based on our assumptions today, and we don't undertake to update these statements in light of new information or future events.

On this call, we will present non-GAAP measures when discussing our financial results. We encourage you to review today's earnings release, which is available on our website at investors.redfin.com for more information related to our non-GAAP measures, including the most directly comparable GAAP financial measures and related reconciliations. All comparisons made in the course of this call are against the same period in the prior year, unless otherwise stated.

Lastly, we will be providing a copy of our prepared remarks on our website by the conclusion of today's call and a full transcript and audio replay will also be available soon after the call.

With that, I'll turn the call over to Glenn.

Glenn Kelman - *Redfin Corporation - President, CEO & Director*

Thanks, Meg, and hello, everyone. Redfin in the second quarter performed below the expectations we set in our last call, with revenue of \$607 million compared to a projection of \$613 million to \$650 million. The shortfall was due to the largest rate hike in 35 years, which in June curtailed the second quarter lending revenues of Bay Equity, the lender we acquired in April, by \$15 million.

Our net income was nonetheless in line with expectations after the exclusion of \$10 million in restructuring costs for 6% of our employees we laid off in June. The adjusted EBITDA loss was \$29 million.

In 5 years as a public company, Redfin has never before fallen short of our revenue projections. But this is also true that even as the housing market weakened our results, Redfin has gotten stronger. We expanded our site from 91% of the homes in America to 94%, to compete as a national rather than a regional destination. Our year-over-year brokerage share gains once again began to accelerate from 4 basis points in the first quarter to 5 basis points in the second quarter.

We hired agents too quickly during the pandemic, but now sales execution is improving across the board. Of the Redfin customers who want a home, a higher percentage stuck with us for that purchase, the first such gain since April 2020.

The percentage of Redfin homebuyers who got a Redfin mortgage increased to 11% in June and 15% in July, which is nearly double the 5-year monthly high of 8% that we reached prior to acquiring Bay Equity Home Loans.

Title Forward's second quarter attach rate also more than doubled from 12% in 2021 to 32% in 2022.

We've learned where low fees let us take share and where we can raise prices to increase profits. In the markets where we came back to advertising the 1% listing fee we charge our move-up customers, new Redfin listings in July grew 10 points faster than the market overall. In the month prior to the campaign's launch, new Redfin listings were growing more slowly than the market.

As we invest more in advertising this fee in 2023, we expect listing share to accelerate, but we'll likely stop trying to convince buyers they should save money on their own agent, since buyers aren't the ones who pay that agent directly. On July 26, we eliminated the commission refund we offered homebuyers in 22 markets with few objections from customers or agents. If this pilot continues to be successful, we'll eliminate the refund entirely as early as January 2023, improving full year gross margins in our core business by more than 500 basis points. In the 9 small markets that already eliminated the refund in 2019, we kept taking share.

Our mission to put customers first is stronger than ever, but we need to save customer's money at the points of the moving process when money matters the most, when choosing which listing agent to hire and when shopping for mortgage rates. This pricing decision is one of thousands that Redfin is making to become profitable as this market correction has forced us to simplify our business. Our goal isn't just to survive the downturn, but to come out of it stronger.

Profit discipline and sales execution have become more important to Redfin with housing demand weakening. As affordability pressure began to mount in February, more people searched Google for rental homes and real estate, favoring sites like Zillow with well-established rental search. Redfin is still competing effectively for new visitors searching online for homes for sale, but our visitors have become less likely to return, with some suspending their home search until the economy improves.

The shift in interest toward rental slowed traffic growth to redfin.com and Redfin's mobile applications from 11% year-over-year in the first quarter to 9% in the second. Over time, Redfin expects to compete better for renters, not just home buyers. Since adding rental listings to redfin.com at the end of March, visits to rental listings on redfin.com and Redfin mobile applications has grown at a monthly rate of 9%, and the number of inquiries redfin.com sent to our property management customers has grown even faster. Already, redfin.com accounts for 4% of the rental inquiries generated by all of our rental search sites.

The redfin.com contribution is just one reason that RentPath, the rentals marketplace we acquired out of bankruptcy in April 2021, recorded its first ever quarter-on-quarter revenue growth since 2017 -- I just said first ever, I meant to say its first quarter-on-quarter revenue growth since 2017, excuse me.

Total rental site visits, including rental traffic on redfin.com, are up 9% year-over-year. While we still need to improve customer retention, second quarter bookings are up 24% year-over-year. Since July 2021, the productivity of salespeople at generating new bookings has doubled.

At the June National Apartment Association Conference, RentPath relaunched as Rent, anointing rent.com as our flagship site rather than apartment guide, and simplifying the story of how our marketing services and online marketplaces work together.

As Rent recruits more property managers to promote their apartment buildings on our network of sites, we'll compete more effectively with the largest real estate portals. Our goal is to surpass realtor.com, now second only to Zillow in real estate traffic.

Already among people looking to buy or sell a home in the 20 largest U.S. markets, 30% in the second quarter named Redfin as one of the first 3 real estate sites to come to mind compared to 23% for realtor.com. At the beginning of 2021, these numbers were reversed.

Becoming one of North America's top 2 real estate search sites can have a seismic impact on demand, accelerating brokerage share gains. And we can invest more in driving demand as we improve monetization. This is where Redfin has made the most progress over the last 3 months. First, by eliminating our commission refund in the 22 market pilot; second, by increasing the rate at which the Redfin customers who buy homes stick with the Redfin agent for the purchase.

The buyer pullback from the market downturn left many of our agents idle, swinging real estate services to a second quarter adjusted EBITDA loss. But we reduced costs within the quarter, lowering expenses quickly while holding on to the people needed for long-term growth.

This June 14 layoff may be a setback for near-term gains in share and close rate, but not over time. The agents who stayed had a close rate nearly double that of the agents who left. Even if the buyers now returning to the market will take time to close, our agents' sales pipelines are now mostly full.

Another improving measure of agent performance is loyalty sales. The fraction of our brokerage sales that come from past clients, client referrals or through agents' personal networks had already increased from 24% in 2019, to 27% in 2020, to 32% in 2021. But in the second quarter of 2022, it rose even higher to 35%.

Outside of our layoff, agent attrition is also improved, falling by 5 points from the second quarter of 2021 to the second quarter of 2022. This is why we expect loyalty sales to keep outpacing sales from our site, especially as we offer more incentives or top-performing agents.

Redfin employs many of the agents we recommend on our site because we believe those agents deliver better service. But employing agents also gives us the standing to ask those agents to sell Redfin's suite of lending, title, and renovation services. It's why we could double the rate at which Redfin homebuyers get a Redfin mortgage, though we've only owned Bay Equity since April 1.

Our success in Atlanta and Salt Lake City, where 34% of homebuyers got a Bay Equity mortgage in July, tells us that Redfin's overall attach rate of 15% is just the beginning. Over time, we also expect significant margin expansion on our loans.

When we announced the acquisition, we told investors that Bay Equity and Redfin earned a similar amount of gross profit for homebuyer in 2021 as a tribute to Bay Equity's underwriting efficiency. Since then, a massive contraction in mortgage lending has led many lenders to issue mortgages at a loss, forcing Bay Equity to cut its gross profit per loan in half.

Bay equity already reduced staffing on July 28. When rates stabilize and Bay Equity can raise prices on new loans and also refinance many of our 2022 loans, we'll have the potential to generate more profit from a customer than any other broker. This acquisition can change the fundamental physics of our business.

Redfin has been a new source of sales for Bay Equity, but also a recruiting partner for building Bay Equity's traditional business of meeting homebuyers through agents and other brokerages. In market after market, from Washington, D.C. to Seattle to Chicago, Bay Equity has recruited loan officers who once got plenty of loans from Redfin agents while working with competitors, but then saw that loan volume dwindle after our acquisition. Joining Bay Equity, a loan officer gets a steady source of referrals from Redfin agents, but also brings over other customers and agent partners outside of the Redfin network.

Beyond mortgage, the business most affected by market forces is RedfinNow, which gives homeowners an immediate cash offer. Our property segment earned \$6.8 million in second quarter gross profit, up from \$5 million in the second quarter of last year. But because of a sharp decline in U.S. home buying demand, we now expect to sell the homes we agreed to buy in April and May for a loss after accounting for holding costs, selling

costs and repairs. That won't be enough to sink our battleship. Our forecast assumes home prices keep declining moderately through the rest of 2022. But we still expect our properties division to earn a significant gross profit for the full year.

We aren't worried about the homes we agreed to buy in June or July because we haven't bought as many or paid as much for these homes. In April and May, RedfinNow's offer amounts were based on the assumption that home prices would hold steady over the 4 months that it typically takes us to clear out the original owner, to get the home on the market, and to get the next owner under contract. In June and July, RedfinNow assumed home prices would decline about 6% over that time.

We're now selling homes much more quickly than we are buying them. In July, we put more than 4 homes under contract to sell for every 1 we put under contract to buy. Our inventory should peak early next week at \$436 million in homes owned and then decline quickly. We expect that virtually all of the homes we bid on in spring will be under contract to the ultimate buyer by October and off our books by year-end.

We have long believed that homeowners' interest in immediate liquidity is here to stay, but that we wouldn't know iBuying's true margins until we weathered a downturn that lasted longer than the false starts of late 2018 and mid-2020. We also believe that iBuying is only worthwhile as part of a brokerage that can serve homeowners even when market conditions make iBuying nearly cost prohibitive. That latter belief has already been vindicated. For every RedfinNow inquiry that led to an accepted offer in June, 2 more led to the homeowner hiring a Redfin agent to list the home instead.

Driving brokerage share is the rationale not just for RedfinNow, but for every one of Redfin's businesses, we invested in rentals because becoming one of the Internet's top real estate destinations is crucial to our share growth. We built a title business and bought a lender, because employing agents lets us sell a suite of services better than any other broker. Every extra dollar that these businesses earn from a customer can be reinvested in driving more brokerage demand or can be returned to investors. After all, we're too small and too mission driven to be a holding company for housing-related business. We tell ourselves that if the business doesn't drive brokerage share, it's out of there.

But though each of these businesses shares the same market share goal, we presented the profits of each separately to clarify the scope of our investment in each. Our plan to generate our first annual net income in 2024 entails generating adjusted EBITDA in 2023. Only one of our major businesses, rentals, can lose a significant amount of money next year. Our brokerage generated profits in 2021 and Bay Equity have been profitable for almost its entire 16-year history prior to this summer's rate hike, so both can return to profits when the market settles down. We expect the remainder of our businesses will be near breakeven in 2023.

Before turning the call over to Chris, let's discuss the housing market, which got significantly worse in June, but then improved in July. The breaking point for many buyers came on Friday, June 10, when mortgage rates spiked 30 basis points and climbed another 43 basis points to 6.28% the following Monday and Tuesday, for the biggest 1-week jump since 1987.

From June 2022 to June 2021, pending home sales -- I said that wrong, excuse me, from June 2021 to June 2022, pending home sales dropped 20%. Just from May 2022 to June 2022, the drop was a whopping 9% when economists expected it to be 1%. Existing home sales may dip below an annualized rate of 5 million units, a Mendoza line for housing that we haven't breached for a full year since 2014. The percentage of homes that had a price drop in June doubled from 9% in 2021 to 18% in 2022, a trend that we expect to accelerate when the dust settles on July numbers. In pandemic markets like Denver, more than half of all listings had a price reduction. In Boise, that number was 62%.

From March to mid-July, year-over-year price growth slowed from 16% to 9%, but the value of most homes probably fell further. The reported numbers reflect sale prices only for homes that sold when we know the market has become more selective. Beautiful homes on corner lots still sell readily, but the homes with funky layouts now don't sell at all. In lieu of publicly reported price drops, builders are funding lower mortgage rates, paying closing costs, doubling agent commissions, buying washers and dryers, and upgrading kitchen finishes.

One reason prices are falling fast is the fraction of inventory now being sold by iBuyers, builders and other institutions, which has increased from 27% in 2017 to nearly 35% in 2022. Redfin knows from our experience as a broker that people who have lived their whole lives in a home just aren't going to mark it down after a few weeks. But iBuyers price the listing below every current comparable, and price it even lower if it doesn't get an

offer in the opening weekend. Builders also respond to market downturns quickly. This makes market correction sharper, but maybe also shorter, too.

The good news is that buyers are already responding to drops in prices and mortgage rates. The market-wide data on sales closed in July and August will reflect how far demand fell in June, but now demand has modestly improved in the second, third and fourth weeks of July. It may improve further as mortgage rates drop this week to around 5% from a peak north of 6% in June. If the housing market and the overall economy can stabilize, many, many Americans still want to move, and we're here to help them with low fees and the best service in the brokerage industry.

Take it away, Chris.

Chris Nielsen - Redfin Corporation - CFO

Thanks, Glenn. This is a volatile quarter, and we're being responsive to the changing macro environment and taking actions to manage towards profitability, including reducing the number of homes we purchased through our property segment, laying off employees in our headquarters, real estate services and mortgage businesses, and limiting backfills for voluntary attrition.

Second quarter revenue was \$607 million, up 29% from a year ago and below the low end of our \$613 million to \$650 million guidance range. The difference was due to a quicker-than-anticipated decline in refinancing and purchase home volumes for Bay Equity.

Real estate services revenue, which includes our brokerage and partner businesses, generated \$252 million in revenue, which was flat year-over-year and in line with guidance.

Brokerage revenue or revenue from home sales closed by our own agents was up 1%, driven by home price appreciation, while transaction volume was down 2%.

Revenue from our partners was down 23% on a 13% decrease in transactions and a mix shift to lower-value houses.

Overall, real estate services revenue per transaction was up 4% year-over-year.

The property segment, which consists primarily of homes sold through RedfinNow, generated \$263 million in revenue, up 52% from a year ago and driven by a 45% increase in homes sold.

Our rentals business generated \$38 million, down 10% from a year ago, but up slightly from the first quarter of 2022. As Glenn mentioned, this marks the first quarter of sequential revenue growth for this business in many years.

Our mortgage segment generated \$53 million in revenue in the second quarter. This is below our guidance range as discussed above, but we're thrilled with how Bay Equity loan officers have been serving Redfin customers.

Our other segment, which now includes title and other services, contributed revenue of \$6 million, an increase of 72% year-over-year, driven by increased attach rates for our title and closing services.

Total gross profit was \$118 million, down 6% year-over-year, with a total gross margin of 19.4%.

Total operating expenses were \$36.2 million or 23% year-over-year. \$23.6 million of the increase was attributable to the acquisition of Bay Equity, our mortgage business, as well as restructuring expenses incurred in the quarter. As a percentage of revenue, total operating expenses represented 32%, down from 33% 1 year ago.

Technology and development expenses increased by \$10.0 million or 24% year-over-year. Included in the increase was \$0.7 million from Bay Equity. The remaining increase was primarily attributable to an \$8.7 million increase in personnel costs due to the increased headcount. Total technology and development expenses represented 8% of revenue, down from 9% 1 year ago.

Marketing expenses increased by \$1.3 million as compared to the same period in 2021. Included in the increase was \$1.8 million from Bay Equity. The remaining decrease is primarily attributable to a \$1.9 million decrease in outside services and recruiting, offset by a \$1.5 million increase in personnel costs. Total marketing expenses represented 9% of revenue, down from 12% 1 year ago.

General and administrative expenses increased by 12.2% or 20% -- or \$12.2 million or 20% as compared with the same period in 2021. Included in the increase was an \$8.4 million from Bay Equity, a \$3.2 million increase in legal expenses largely due to a settlement offer, and a \$3.1 million increase in personnel costs due to increased headcount. This was partially offset by a \$4.2 million decrease in acquisition-related expenses. Total G&A expenses represented 12% of revenue, down from 13% 1 year ago.

Restructuring expenses included in total operating expenses were \$12.7 million, and there were no such expenses in the same period in 2021. These expenses were attributable to \$2.4 million in severance and other costs associated with our mortgage restructuring and \$10.3 million in severance costs associated with our June 2022 workforce reduction.

Turning to segment level profitability. Real estate services gross margin was 29.4%, down 550 basis points year-over-year. This was driven by a 670 basis point increase in personnel costs and transaction bonuses. This increase was offset by a 210 basis point decrease in tour and field costs and a 50 basis-point decrease in listing expenses.

Total net loss for real estate services was \$18.8 million, down from a net income of \$7.8 million in the prior period. The decrease was attributable to lower revenue and margins as well as a \$12.5 million year-over-year increase in operating expenses. These expenses were added during a period of rapid growth in our real estate services business and we've already begun to pare back with the restructuring announced in June.

Properties gross margin was 2.6%, down 30 basis points year-over-year. This was driven by an 80 basis point increase in purchase, maintenance and capital improvement costs. This was then offset by a 50 basis point decrease in personnel costs as the business scaled. Total net loss for properties was \$3.2 million, down from a net loss of \$1.4 million in the prior year, with the increase in operating expenses slightly exceeding the increase in gross profits.

Rentals gross margin was 79.3%, down 290 basis points year-over-year. This was driven by a 180 basis point increase in personnel costs as we sold more marketing services that require personnel to fulfill. Total net loss for rentals was \$19.2 million, down from a net loss of \$14.1 million. Declining profitability was primarily attributable to year-over-year declines in revenue, as discussed earlier, while operating expenses remained roughly flat at \$49.8 million compared to the \$49.3 million in the prior year.

Mortgage gross margin was 12.8% for the second quarter, below our implied guidance of 31% to 36%. This was driven by lower refinancing and purchase volume from Bay Equity's historic business. Total net loss for mortgage was \$6.5 million. We acquired Bay Equity on April 1 of this year and completed the wind-down of our legacy mortgage business during the second quarter of 2022. Wind-down activities contributed approximately \$4.9 million to the segment's net loss. \$1.6 million is attributable to Bay Equity.

Other segment gross margin was negative 0.1%, an improvement from the negative 6.1% a year ago. Total net loss was \$2.1 million compared to a net loss of \$1.1 million in the prior period.

Turning back to consolidated results. Total net loss of \$78 million is below the low end of our \$72 million to \$60 million guidance range. Our guidance didn't include \$10.3 million of restructuring expenses for our June layoff.

Diluted loss per share attributable to common stock was \$0.73, compared with a diluted loss per share attributable to common stock of \$0.29 per share 1 year ago.

Now turning to our financial expectations for the third quarter of 2022. Consolidated revenue is expected to be between \$590 million and \$627 million, representing year-over-year growth between 9% and 16%. We expect our real estate services segment to account for \$200 million to \$208 million of that revenue and the property segment to be between \$305 million and \$330 million. Rentals revenue is expected to be between \$37 million and \$38 million. Mortgage revenue is expected to be between \$45 million and \$48 million.

Total net loss is expected to be between \$87 million and \$79 million compared to total net loss of \$19 million in the prior year. Adjusted EBITDA loss is expected to be between \$47 million and \$39 million.

We expect real estate services gross margin to decrease in the third quarter compared to the same period in 2021. In prior earnings calls, we discussed operational changes we were making that were intended to increase real estate services gross margins in the second half of 2022. However, deteriorating macroeconomic conditions have overshadowed these operational changes and we now expect gross margin compression.

With respect to properties, we expect gross margins to be negative in the third quarter as we work through selling inventory that we purchased earlier in the year. We expect inventory to peak in August. We want to continue to offer a choice to customers, but we're being more conservative on offer prices right now.

With respect to mortgage, we expect gross margins to be roughly flat to slightly down quarter-over-quarter.

On a consolidated basis, this guidance includes approximately \$37 million in total company marketing expense, \$19 million of stock-based compensation, \$16 million of depreciation and amortization, and \$5 million of interest expense. In addition, we expect to pay a quarterly dividend of 30,640 shares of common stock to a preferred stockholder.

This guidance assumes, among other things, that no additional business acquisitions, investments, restructurings or legal settlements are concluded, that there are no further revisions to stock-based compensation estimates.

And now let's take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Ryan McKeveny with Zelman & Associates.

Ryan McKeveny - Zelman & Associates LLC - Director of Research

Glenn and Chris, appreciate all the detail and commentary on the levers in the business. And certainly, the comment about the potential impact to the real estate gross margins next year, if removing the buyer refund, is encouraging. I wanted to ask one more on the real estate gross margin and some of the levers. So a comment you guys have in your filings in the 10-K is that the real estate gross margin is generally higher in some of the top markets and generally lower in smaller markets. So I guess I'm curious on kind of the levers that you guys can pull.

How do you think about those smaller markets that maybe are subscale or lower margin and pushing for growth in actual brokerage business versus potentially leaning more into the partner channel to potentially kind of grow through less brokerage specific growth and brokerage specific costs, and maybe more so leaning into the partner business, which I believe is kind of a higher-margin lead gen business. So again, just curious if you can talk about the balance there between kind of brokerage and partner and if there are additional levers that you guys can pull and maybe how that compares between the bigger markets and some of the smaller markets.

Glenn Kelman - Redfin Corporation - President, CEO & Director

Well, we're going to manage the business to maximize gross profit dollars per customer. So as these smaller markets grow, their prices are also increasing, which will increase both their gross profit contribution and their gross margin.

The reason that we often want to serve customers through our employees is because our employee agents have higher close rates, they have higher loyalty rates, they generate more gross profit per customer. But we are going to be financially disciplined about it. If we feel like a partner can serve the customer well and generate more gross profit, we'll do that.

We've been raising thresholds throughout the month of July just because demand has been stronger than we expected immediately following our layoff. So there will be a modest shift toward the partner business at least in the first part of the third quarter.

Ryan McKeveny - Zelman & Associates LLC - Director of Research

Got it. Okay, Glenn, that's helpful. And then, Chris, one just kind of big picture on the cash flows. I guess looking ahead and thinking about the convertible debt, I guess maybe if you can just give us a big picture sense of how you guys are thinking of ultimately managing the cash flow side of things. And obviously, the maturities are quite a ways away. But I think to some degree, people are just curious, how you think about managing the cash from now and the coming years with those maturities on the horizon? Just any big picture thoughts there would be helpful.

Chris Nielsen - Redfin Corporation - CFO

Yes. Yes, I think that the commentary on our capital matches with Glenn's commentary and our march to profits here, that the way we think about continuing to drive the business forward is increasing our profitability into 2023, into 2024, reaching net income positive in 2024. And that sets the stage then for us to feel really good about the capital position that we'll have as those notes start to become mature. So I do think of these things as naturally matched up that way and not separate topics.

Operator

And we'll take our next question from Mark Mahaney with Evercore ISI.

Jian Li

This is Jian LI for Mark Mahaney. I just wanted to -- the one thing to clarify, sorry if I misheard that. But was iBuying the gross margin that you're expecting to be negative in Q3 with mentioned some headwinds? But on a full year basis, you're still expecting it to maintain positive gross margin, did I hear that right? And if you can just like talk through the leverage in the business to support margins, especially if the current trends persist?

Glenn Kelman - Redfin Corporation - President, CEO & Director

Well, we're assuming that prices will continue to decline and the business will still generate significant gross profit for the full year. So the levers for the business are making sure that we react quickly to the market, lowering our bids on the homes that we're buying now. Obviously, we also want to convince the customers, who ask us about a RedfinNow offer and decide that the offer is too low, to instead list the home with Redfin, which is working out better than it ever has, at least in June.

So mostly, we just want to sell the homes quickly, renovate them well. Sometimes we've been backlogged in 2020 and 2021 and haven't been able to get the properties on the market because we can't just get somebody out there to fix it up. But now we've got good capacity, the homes are selling quickly, we're going to reach peak inventory next week. And then we know it's downhill from there just because we already have so many homes under contract.

So I think we've got good visibility here. It would take a fairly apocalyptic price drop for us to swing into negative territory for RedfinNow. We've already factored in significant price declines.

Jian Li

Got it. That's helpful. And if I may, one more on just the marketing spend this quarter. Saw some leverage here. So if you can -- is that like kind of a pullback in marketing spend. If you can talk through kind of the efficiencies of the brand campaign.

Glenn Kelman - Redfin Corporation - President, CEO & Director

It's more seasonal. We probably stepped back a month early from our TV campaign because just the tone of the campaign didn't match the mood of the American consumer. It was just about a frenzy housing market coming into 2022, and that market has become less frenzy. But other than that, we've been advertising fairly aggressively, actually shifting some dollars toward the 1% campaign, which is resonating well. Mostly that we just planned in the advertising campaign in the summer, we've done that every year.

Operator

(Operator Instructions) We'll take our next question from Jason Helfstein with Oppenheimer.

Unidentified Analyst

It's (inaudible) on for Jason Helfstein. So two quick questions. If we're thinking about real estate as a top of the funnel driver for the rest of the business, how do you think about long-term gross margins and EBITDA margins for real estate, assuming other segments will limit spending amount on marketing?

And the second question is, are you making any further changes to the way you compensate agents?

Glenn Kelman - Redfin Corporation - President, CEO & Director

So the brokerage has been an engine of profit for the company. It generated significant adjusted EBITDA last year, as you can see in this new segment reporting, and it should remain that way. So we had too many agents in the second quarter that swung us to an adjusted EBITDA loss of that business, but we view that as an intolerable situation long term. So we're not going to think about the brokerage as a loss leader for getting a loan or a loss leader for doing the title. We want that business to have its own high gross margins north of 30%. And then we just want to monetize that customer again and again through mortgage and title. We'll deliver more value to the customer, we'll offer them a great rate on the loan. And because we have employees, I think we're more capable of selling a complete real estate solution.

So we don't want to back off at all on brokerage gross margins just because we have these ancillary businesses. And that's evidenced by the price increase where we're eliminating the commission refund in 22 markets and possibly extending that further.

And then on the second question, I don't know, Chris, do you want to answer that first? It might be more in your wheelhouse.

Chris Nielsen - Redfin Corporation - CFO

Why don't you go ahead, Glenn?

Glenn Kelman - Redfin Corporation - President, CEO & Director

Can you just rephrase the question? I want to make sure I understand it.

Unidentified Analyst

Yes. No, totally. So given like the recent layoffs, are you like incrementing any more changes on the way you pay your agents?

Glenn Kelman - Redfin Corporation - President, CEO & Director

On agent pay. Yes, yes. Not really. We adjusted how much we pay our agents at the beginning of the year because we were lowering loads in anticipation of having better close rates. We've seen that of the customers who buy, they are sticking with us at a higher rate. So that's been encouraging. We have been waiting for 2 years to get a result from that effort. And now we have one. But other than that, we aren't making major changes to agent pay.

Operator

(Operator Instructions) All right. With no additional questions in the queue, that does conclude today's question-and-answer session. It also does conclude today's conference. We thank you all for your participation. You may now disconnect.

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