REDFIN

Q1 2024 Transcript

Good afternoon and welcome to Redfin's financial results conference call for the first quarter ended March 31, 2024.

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 relating to our non-GAAP measures, including the most directly comparable GAAP financial measure and related reconciliation. All comparisons made in the course of this call are against continuing operations for 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 be also available soon after the call.

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

CEO Section

Thanks Meg, and hi everyone.

Redfin Beat Revenue and Profit Expectations

Redfin's first-quarter earnings exceeded the guidance we gave investors on our last call: an adjusted-EBITDA loss of $28 million compared to guidance of $29 million to $36 million, on revenues of $225 million compared to guidance of $214 to $223 million.

From Quarter to Quarter, Market Share Increased by Five Basis Points

Each of our four business segments was at or above the top of our revenue guidance. Compared to the first quarter of 2023, gross profits grew 22%. The share of home sales brokered by our own agents and through referrals to our partner agents increased, from .72% in the fourth quarter of 2023 to .77% in the first quarter of 2024. We expect a year-over-year share gain in the second quarter of 2024.

Q1 Earnings Improved by $40 Million Year-over-Year

These results put Redfin in a good position to earn a full-year adjusted-EBITDA profit, despite the recent increase in mortgage rates. Since 2015, our largest quarterly loss has always been in the first quarter, when we invest in serving customers who close in the summer. Compared to a first-quarter adjusted EBITDA loss of $67 million in 2023, we're nearly $40 million ahead of where we were a year ago.

Poised for Growth

Beyond turning an adjusted-EBITDA profit this year, our goal isn't just to reduce costs or to break-even, but to offer shareholders the largest growth opportunity in real estate. We'll do that by pairing a thriving online marketplace with a disruptive broker and best-in-class lender.

Competing Well Across Several Fronts

After a year of unprecedented investment from a new rival, we're competing effectively for traffic, and adding customers to our rentals marketplace, which is now a source of profit. Our brokerage restructuring has generated immediate share gains. Our lending attach rate hit an all-time high. Best of all, our mission to redefine real estate in consumers' favor has prepared us to capitalize on industry change.

Redfin.com Keeping Pace with Historical Rivals

According to Comscore, first-quarter visitors to Redfin.com grew 2% year over year, the same rate as Realtor.com and slightly faster than Zillow.com. Keeping pace with other major real estate sites is remarkable given that Redfin ran television ads in the first quarter of 2023, but not in the first quarter of 2024.

Driving Traffic by Adding Inventory and Unique Content About Inventory

As Redfin has added listings over the years by expanding our brokerage and supporting rentals, we expect more online visitors from search engines. Projects to publish more commentary from our agents about listings and neighborhoods should also increase traffic.

Using Artificial Intelligence to Turn Visitors into Customers

But to engage that audience, we're increasingly turning to artificial intelligence. Artificial intelligence has long been effective at bringing visitors back to Redfin.com: listing recommendations for homebuyers, and home-value updates for homeowners. In the fourth quarter of 2023, we first began using generative artificial intelligence to imagine how the rooms in a home for sale could be redecorated. This capability is available in five markets.

Ask Redfin Now Available on iPhone Nationwide

More recently, on March 7, we piloted *Ask Redfin*, an online chat tool for our iPhone application. *Ask Redfin* uses large-language models for instant answers to visitors' questions about a listing. Since more online visitors have, as a result, scheduled meetings with our agents, our iPhone application began offering chat nationwide on April 24. We plan to offer *Ask Redfin* on our website and our Android application later this year.

Sales Initiatives Are Delivering Results

As acquisitive as Redfin has been about our online audience, we're moving even faster to improve sales execution. In our last call, we outlined three sales initiatives: *Redfin Next*, which replaces agent salaries with higher bonuses; *all-you-can-meet*, which assigns a homebuyer to an agent only if the agent can host the first tour, and *sign-and-save*, which refunds commissions for customers who sign an exclusive buyer's agency agreement.

Redfin Next: More Loyalty Sales, More Luxury Sales, More Sales Overall

Of these initiatives, the most transformational is Redfin Next. In the first quarter, the four California markets piloting Redfin Next grew market-share, luxury sales and loyalty sales significantly faster than the rest of Redfin. The aggregate gross margins across the four markets were better in the first quarter of 2024 than in the first quarter of 2023.

A Smoother-Than-Expected Transition

We'd been concerned that agents who lost their salaries would quit, hurting our culture and our market share. But attrition so far in Next markets has been only slightly higher than our national rate. We expanded Redfin Next to seven additional markets on May 5, with a much-larger third wave of markets planned for the summer.

All-You-Can-Meet: A Revolution in the Customer Experience

We're also broadening other sales initiatives. *All-you-can-meet*, which expanded nationwide except to a handful of small markets on April 1, has lifted the percentage of homebuyers who meet their Redfin agent on a first tour above 90% in April. The historical range for this metric, which accounts only for customers new to Redfin, has mostly been between 60% and 65%. The balance of customers meet contractors whom Redfin pays to provide short-notice property access.

Sign-and-Save: Commission Refunds as a Sales Weapon

Redfin still uses these contractors frequently for subsequent tours, but we need our best salespeople to treat the first tour like a listing consultation, in which we tell customers about our credentials, then ask for a sale. That's where the third initiative comes in, *sign-and-save*: homebuyers who sign a buyer's agency agreement before their second Redfin home tour have gotten a commission refund between .25% and .5% of the home's value.

A Promising Increase in Close Rate

This commission refund has been easily offset by more sales. Comparing close-rate gains in pilot markets and control markets indicates that customers in sign-and-save markets are about 20% more likely to close with Redfin on a sale. Such an increase, if it does in fact pull through across the whole year, would be Redfin's first full-year buyer-close-rate gain in a decade. We began piloting *sign-and-save* in September 2023. Since March 7, it has been available in all but the handful of markets where commission refunds are still illegal.

Redfin Is Well-Prepared for the NAR Settlement

The discipline of presenting a buyer's agency agreement to our customers will serve us well later this year, when rule changes proposed by the National Association of Realtors are scheduled to take effect.

Redfin Will Experiment with Touring Agreements in June

The first major rule change requires agents to document our fees before every first tour, though as of last week, it became unclear if the fee at issue is just for the tour, or for the entire purchase of a home. In June, Redfin will start adding these disclosures to our online forms for requesting a first tour, likely testing one version that says the tour is free, with another explaining the fee for the ultimate purchase of that home. We'll leave it to our agents to present a full buyer's agency agreement after that tour. We'll have the whole summer to learn how best to explain our fees without confusing prospective customers.

The Larger Change: No Fee Cooperation via the MLS

The second, much-larger change will prevent a listing from promising a fee to the buyer's agent via the Multiple Listing Services, or MLSs, used by agents to share listings, though brokers may still share fees via other channels. If the homebuyer has to include the fee for her buyers' agent in an offer, that could over time reduce how much that agent earns, because a lower buyer's agent fee will make an offer more competitive. Beyond the rule changes themselves, the press coverage of these changes seem likely to raise consumer awareness of brokerage fees.

The Settlement Could Address Redfin's Main Challenge: Most Buyers Don't Care About Fees

That in turn could benefit Redfin. For nearly our entire history, our low fees have been poorly understood by homebuyers who believe their own agent is free. If, later this year or next, buyers' agents are going to compete on price, we hope the world will beat a path to Redfin's door.

Redfin Is Best-Positioned for Change

We believe we can serve those customers profitably. Redfin's original service prepared offers, negotiated inspections and handled closings using software and agents based in a sales center, at less than half the fee in dollars that we charge today. Later, we built a network of contractors for on-demand property access. These competitive assets are still in place, and let Redfin thrive at a price other brokers may struggle to match.

We Can Sell Homes Directly to Buyers

If the fees do start to fall, many listing agents may seek to represent the buyer of that listing as well as the seller, lowering the total fee for selling a home, while still protecting that agent's income. This is where Redfin's online audience, the largest by far of any broker, gives us a competitive advantage, in recruiting both listing customers and listing agents, because we can connect potential buyers of the listing directly to the listing agent. Since October 2023, we've also been preparing software to let agents at other brokerages get the same routing for their own listings on Redfin.com, a for-fee service we expect to launch this summer.

Lending Is How the Brokerage Prepares for Lower Fees

Redfin's preparation for the possibility of lower fees goes beyond our efforts to make our brokerage more efficient. Our fundamental belief is that a brokerage as a stand-alone entity will be replaced over time by businesses that combine online search with agents, lenders and title services. The cost of meeting a homebuyer and earning her trust is too high to be paid for by the fees from a single sale; lenders and title companies waste too much money courting the agents who build that initial relationship with the buyer.

Attach Rates Up From 22% in Q3 2023 to 28% in Q1 2024

This is why Redfin bought Bay Equity in 2022, and why we've worked so hard to increase the rate at which our home-buying customers use Bay Equity for a mortgage. Those efforts are now paying off. Of the Redfin homebuyers who got a mortgage in the first quarter, 28% used Redfin for the loan, up from 25% in the fourth quarter, and 22% in the third. In March, this number hit 30%, which is a major reason why Bay earned adjusted EBITDA in the first quarter of 2024.

As Rates Ease, Lending Profits Can Be Much Higher

Some of the attach-rate gains are the result of integrating Redfin and Bay Equity customer communications systems. But the gain's mostly due to our having bought the right lender, with fantastic customer service and a never-say-die management team that is, two years into the acquisition, entirely intact and completely all-in. As competitive pressures ease even slightly and our gains on sales increase, Bay Equity can become a major source of Redfin profits, especially when rates fall far enough to create refinancing opportunities for the millions of homebuyers in our database.

Delivering on the Digital Shift

For many of the same reasons, we also feel enthusiastic about our title business, which is included in our *other* segment. The *other* segment also comprises digital businesses like a mortgage marketplace, display ads on Redfin.com, lead-generation for builders, and the syndication of Walk Score data to other real estate sites. Since the downturn began, Redfin has focused on generating high-margin revenues from digital channels.

Other Segment Profits Improve by Nearly $3 Million

As a result of this focus, adjusted-EBITDA from the *other* segment improved from about $400,000 in the first quarter of 2023 to $3.3 million in the first quarter of 2024. Almost all of our executive hiring has been to bring in digital-monetization talent: within real estate services, an industry veteran to run our partner business; in our *other* segment, a leader of our display ads business; in our rentals segment, a new sales-driven president of Rent, the marketplace we acquired out of bankruptcy in 2021. As these bets pay off, Redfin shareholders should reap the full value of an online real estate audience of approximately 50 million monthly visitors.

Third Straight Quarter of Rentals Profit

The most important of these digital bets is on rentals, which earned its third straight quarter of adjusted-EBITDA, of about $500,000, on 16% year-over-year revenue growth. In the first quarter of 2023, this segment's first-quarter adjusted-EBITDA was a $9.7 million loss. First-quarter net bookings were $5.2 million compared to $11.3 million a year ago, but the quality of revenue has been higher in 2024.

More High-Margin Revenue, More Longer-Term Contracts

More of our sales were high-margin marketplace sales; we also sell digital-marketing solutions, in which we use software and staff to run our customers' Google, Facebook and TikTok campaigns, but marketplace growth is more lucrative, and more important to our competitive position. Even better, more of our marketplace sales were year-long rather than month-to-month contracts, which should lead to steadier growth.

Integration Delivers Cost Savings

Despite higher industry-marketing expenses in the second quarter, we expect full-year profits from Rent, driven not only by revenue gains, but also cost savings: integrating Rent with Redfin has let us operate both businesses more efficiently, with one group, not two, running a department like human resources, finance, legal, or technology infrastructure. Already expenses in the first quarter of 2024 were $51 million, compared to $57 million in the first quarter of 2023. These efficiency gains should continue through the first quarter of 2025, giving us more money for growth or profits.

A Virtuous Cycle Begins to Turn

The benefit from integrating the two companies isn't just cost savings; we can also draw on one another's expertise at attracting and engaging online visitors to our site. Rent's largest sites, which include Rent.com and ApartmentGuide.com, ranked higher in Google searches in March than in February, their first combined month-over-month gain in years.

Getting More Rentals Traffic Will Drive More Digital Revenues

Ranks slid back in April, but we expect more gains than losses in the months ahead just because search-engine optimization and visitor engagement are such long-standing areas of Redfin expertise. As our rentals marketplace adds more listing customers and draws more online visitors, Rent can drive much bigger long-term revenue gains, changing the shape of Redfin's overall business to be more profitable and less cyclical.

Another Mid-Year Rate Increase

Before turning the call over to Chris, let's discuss the housing market, which suffered another setback when mortgage rates rose from 6.85% on March 8 to 7.50% on April 16. Since then, growth in new listings has slowed, a factor which, perhaps more than any other, may limit sales this summer.

Fewer Listings, Lower Volume of Demand

Over the last two weeks, our agents have reported less foot traffic in open houses, and fewer offers, even for desirable listings. The number of Redfin.com visitors asking to tour homes has, from the start of 2024, been below 2023 levels, but this comparison hasn't been entirely fair. Low rates in the first four months of last year encouraged many people to tour homes who didn't close.

Buyers More Determined, to a Point

Our hope has been that sales have held up better than demand so far in 2024 because some of the same buyers who deferred moving in 2023 will be more determined in 2024. Redfin has also been better-prepared for a rate increase this year. After a rate increase broke our hearts in 2023, Redfin limited hiring and spending through the first quarter of 2024, to see how many sales actually close later this year. The song I've been singing to Chris since January is "WON'T GET FOOLED AGAIN!"

Won't Get Fooled Again!

More of our agents are exclusively paid on sales. And since more of our sales are coming from returning customers, we're less dependent on first-time home-buyers. Our initiatives to meet our customers face to face have made it easier to guide them through this volatile market. We're earning more money from digital channels, and we're spending less. Our bet isn't that the market will get better. The reason Redfin will win this year is because we've gotten better. We still have a long way to go, but the direction we're going is, we think, mostly up. Take it away Chris!

CFO Section

Thanks, Glenn!

First-quarter revenue was $225 million, up 5% from a year ago. This marks our first organic revenue growth since interest rates started to rise. At the same time, gross profit of $71 million was up 22% year-over-year, and total gross margin expanded from 27% to 31%.
Total operating expenses were $140 million, down $18 million year-over-year for our continuing operations. The decrease was primarily attributable to $13 million in lower marketing expenses, $6

million from foregoing our annual company-wide event, and $5 million in lower personnel costs. This was partially offset by a $9 million increase in legal contingencies, primarily connected to the proposed settlement that we announced yesterday with an 8-K filing. The $9.25 million settlement amount was recorded in our first-quarter results, and it is excluded from our adjusted EBITDA calculation.

Our adjusted EBITDA loss of $28 million was up from a loss of $64 million in the prior year. Seasonal losses in the first quarter are to be expected, but we are making steady progress toward positive adjusted EBITDA. Our trailing-twelve-month adjusted EBITDA loss stands at $40 million today, compared to a loss of $145 million one year ago. We expect to continue narrowing that gap in the second and third quarters, and post positive adjusted EBITDA on a consolidated basis for the full year.

Net loss was $67 million, compared to a net loss from continuing operations of $57 million in the prior year, or $61 million including discontinued operations. This was in line with our $72 million to $65 million loss guidance range. Neither the $9 million in legal contingencies nor the $6 million gain on extinguishment of notes was contemplated at the time of guidance. In the prior year, we had a $42 million gain from the extinguishment of notes. Our adjusted EBITDA from continuing operations was $28 million, which was slightly better than the top end of our guidance range.

Diluted loss per share from continuing operations attributable to common stock was $0.57, compared with $0.52 one year ago.

Now turning to our segment results, real estate services generated $131 million in revenue, up 3% year-over-year. Brokerage revenue, or revenue from home sales closed by our own agents, was up 5%, on a 3% decrease in brokerage transactions offset by a 8% increase in brokerage revenue per transaction. Revenue from our partners decreased 23%, on a 16% decrease in transactions and mix shift to lower value houses.

Real estate services gross margin was 15.4%, up 300 basis points year-over-year. This was primarily driven by a 280 basis-point decrease in tour and field costs, a 220 basis-point decrease related to not holding a company-wide event in 2024, and an 80 basis-point decrease in personnel costs and transaction bonuses. These were offset by a 220 basis-point increase in seller home improvement expenses. Total net loss for real estate services was $39 million, up from a net loss of $58 million in the prior year, and our adjusted EBITDA loss was $25 million, up from $44 million in the prior year. The increase was attributable to higher gross margin and lower operating expenses, as well as revenue growth.

Our rentals segment posted its sixth straight quarter of growth, with revenue of $50 million and growth of 16%. Total net loss for rentals was $13 million, up from a net loss of $23 million in the prior year. Adjusted EBITDA for the third quarter was about $460 thousand, marking the rentals segment’s third straight quarter of positive adjusted EBITDA.

Our mortgage segment generated $34 million in revenue, down 7% year-over-year. This result was above our guidance range as strong progress on attach rates drove incremental volume. Mortgage gross margin was 23.4%, up from 19.9% a year ago. Net loss for mortgage was nil, compared to a loss of $1 million in the prior year. Adjusted EBITDA was positive $1 million, which was roughly flat compared to the prior year.

Our other segment generated revenue of $11 million, compared to $7 million in the prior year, as both our title and digital revenue businesses grew. Other segment gross margin was 41.7%, up from 26.3% a year ago. Total net income was $3 million compared to a small net loss in the prior year, and adjusted EBITDA was positive $3 million compared to roughly flat in the prior year.

Now turning to our consolidated financial expectations for the second quarter:

For the second quarter of 2024, total revenue is expected to be between $285 million and $298 million, representing a year-over-year growth between 4% and 8% compared to the second quarter of 2023. Included within total revenue are real estate services revenue between $180 million and $188 million, rentals revenue between $50 million and $51 million, mortgage revenue between $39 million and $42 million and other revenue of approximately $16 million.

Total net loss is expected to be between $34 million and $28 million, compared to net loss of $27 million in the second quarter of 2023. Adjusted EBITDA is expected to be between negative $4 million on the low end and positive $2 million on the high end which, at the midpoint, would narrow our trailing twelve month adjusted EBITDA loss to $34 million. This guidance includes approximately $41 million in total marketing expenses. We're currently planning to spend approximately $115 million in marketing for the full year, which is down 2% compared to 2023 and reflects our decision to pull back on mass media advertising in light of the rising rate environment.

One final note: we have signed a letter of intent to sell nearly all of our mortgage servicing rights. The mortgage servicing rights were valued at approximately $32 million on our balance sheet as of March 31, 2024. We have not included any potential gain or loss on the sale within our guidance, and expect to complete this transaction during the second quarter.

Now, let's open the lines for your questions!

Questions & Answers

Operator

Thank you. We will now be conducting the question-and-answer session. If you would like to ask a question please press "*" "1" on your telephone keypad; a confirmation tone will indicate that your line is in the queue. You may press "*" "2" if you'd like to remove a question from the queue. For participants using speaker equipment it may be necessary to pick up your handset before pressing the "*" keys.

One moment please while we poll for questions. And the first question comes from the line of Naved Khan with B. Riley Securities. Please proceed with your question.

Naved Khan
Yeah, hi. Thanks a lot. A couple of questions from me. Glenn, maybe just talk about you gave us some color on the housing market and how the interest rate has kind of impacted it recently.

But just give us a sense of what you think how the year would look like, especially as we enter this peak period for the second quarter and the third quarter. So, that's one.

And the other question I had is around the mortgage attach rates. It's great to see attach rate increase to around 30%. Can you maybe talk about what you're seeing, and maybe your best markets in terms of attach? And where do you think this attach rate can realistically end up in the medium term?

Chris Nielsen
Glenn, I think you may be on mute. Glenn.

Glenn Kelman
Such a dingbat. Hi Naved. I started answering the question while I was on mute. But this is only to say that we prepared some color in the remarks, and everything I could add would be consistent to that, which is that rates have come up. We are hopeful that since this happened last year and so many people put off their home-buying plans, that this year they are slightly more likely to go through with it, but there's no question that rates are going to take their toll on the market.

What's been interesting to me especially just hearing the anecdotes from this weekend is how mixed the response has been, where we are getting signals that buyers are still going to go through with it, that sellers are coming onto the market, and sales are going to keep happening. Elsewhere, there are price drops. Often even within a market, we're seeing listings sit on the market. So, I think the consumer is very confused right now.

I think they are very sensitive to macroeconomic news and obviously interest rates. It's just a jittery time in the overall economy and in the housing market and that has made the signals that we're getting just very mixed and very confusing. Top of the funnel has been light almost all through the year, but what's been surprising is how many of those customers that do come to us end up buying or selling a home.
I think the most worrisome trend is that we saw this acceleration in the number of listings coming onto the market at the beginning of the year and that is really starting to slow. Interest rates eased just over the past few days, so maybe that trend will reverse again, but mostly this market has been inventory-constrained. So, when we see more listings come onto the market, we see more sales.

No matter how much interest rates have risen and that's affected buyers, it affects sellers more because they just decide they can't move up, they can't afford their own house when the mortgage goes from a 3% rate to a 7% rate if they had to buy it again. So, that's the first part.

On mortgage attach, our best markets are closer to high 30s, low 40s. It really is a function of price and service and the relationship between the agent and the lender. And just over the past two or three years, we've been working much better together. I wish there was a silver bullet that we could point to, but most of it is actually just perseverance, building these alliances one by one. But it has certainly helped that we are doing two things.

Number one, we mentioned that we integrated our systems with Bay Equity systems, so that when somebody completes a tour, we tell them why don't you talk to your Bay Equity loan officer? When somebody writes an offer, we alert the Bay Equity loan officer that someone is making a bid. And so that kind of systematic integration has helped augment the relationships that the agent has with the lender. And then the second point is that we have introduced in some markets an incentive for real estate agents to recommend Bay Equity and the results of that have actually been mixed. The systems integration, the relationship building has worked better than the money, couldn't believe it.

Naved Khan
Thanks, Glenn. Appreciate the color.

Glenn Kelman
Thanks.

Operator
And the next question comes from the line of John Campbell with Stephens, Inc. Please proceed with your question.

John Campbell
Hey, guys. Good afternoon. Congrats on a solid quarter. Glenn, I just wanted to maybe go back to the buyer agency agreement.

I actually asked about this last earnings call but was asking whether you thought it would be a standard. It seems like that we're kind of heading down that path now. Wanted to get your take on that and you guys I think one of the challenges you face is you've had some low-intent or maybe no intent consumers that have kind of used as a hobby. So, I think that we're thinking that maybe buyer agency agreements will help kind of knock out some of that out of the mix, right, where you get higher intent consumers. So, I want to ask about that, if you think that that's going to play out. And then on the Sign & Save, it sounds like you're going to keep that in place where you'll continue to get the rebate even with the mandated buyer's agency agreement. So, I was going to see if that's, if you have the potential to take away that rebate again.

Glenn Kelman
Well, I'll answer the second question first. We don't anticipate eliminating the refund but we do feel that Sign & Save has been a seismic change in our business. We've been trying to get a close rate up for nearly a decade and to have it go up 20% is massive for us. The biggest problem Redfin has had over the years is that the website keeps generating more opportunities for our agents, but close rate keeps going down.

And I think that's really a function, not just of what Redfin is doing, but what other portals are doing. It's really created real estate as a hobby for people to go tour homes, so they feel no emotional obligation to the agent. And so, that secular change in consumer behavior was just blowing a hole in our P&L. And instead of having it go down 5%, 10% a year to have it go up 20% a year, it just really changes the economics of our business, but it also changes the morale within the sales force that we're making more out of less.

And it's certainly why we are fairly confident that we're going to do well this year despite a worsening housing market. So, we built this sales muscle to get buyers' agency agreements signed. Not all of our customers want to sign them. About half of our sales come from customers who say, you know what, I'm not going to sign it, but I just want to keep touring with you.
And then the other half comes from those who do sign it. So, we need sales from both groups and that's a good reason to keep the incentive. The fact that we rolled this out broadly only in the last couple of months means that I think the best results are yet to come.

John Campbell
Okay. That's a great answer. And then, just kind of staying at the high level, I mean, some of your from the portal landscape, some of your competitors have obviously kind of laid the seeds for listing of the sell side agent ad products. They seem to be off to a pretty good start.
I know you guys probably don't want to cannibalize obviously your core business like in your top markets, but for the markets where you're subscale, have you guys considered launching a similar kind of listing advertising product that you could run alongside?

Glenn Kelman
Yes. Well, if you go back to the prepared remarks, there's some detail there about how we're launching a similar product. So, we're doing that both for our own agents and for agents at traditional brokerages that can claim a listing and then the buyers who are interested in touring that listing or bidding on that listing instead of being routed to a Redfin agent on the buy side would instead be routed to the listing agent. So, that could be a Redfin listing agent if it's our listing or it could be a traditional agents listing, but they would have to pay to claim that listing.

So, obviously we want to be economically rational about this. We understand how much money we make off each listing when we connect those buyers to our own buyers' agents and the listing agents would instead have to pay us a higher fee than what we could make that way. But we see it as consistent with our mission, John, because we could be facilitating a direct sale that lets consumers save money and we think it's part of this larger strategy that we've discussed for the last 18 months to have a digital shift, where we're making more of our revenue digitally. We've been working on that since about October of 2023.

We do not think that a company that has bet entirely on that model is the right choice. We don't think betting entirely on the buyer's agent is the right choice. What you really want to support is the consumer being able to decide do I want to buy directly from the listing agent or do I want my own representation. You want to be able to monetize both audiences.

So, we think this is a good balance and we hope to launch it in the summer.

John Campbell
Makes a lot of sense. Thanks, Glenn.

Glenn Kelman
Thank you.

Operator
And the next question comes from the line of Jason Helfstein with Oppenheimer. Please proceed with your question.

Jason Helfstein
Thanks. So, it sounds like you're having good success with the newer commission structure. Assuming that you end up moving to this, let's say, for the bulk of transactions, how do you think that kind of changes the financial model and just like, are other kind of like fixed costs or just other changes you'd make once you get to what you'd consider kind of full-scale with that type of model? Thank you.

Glenn Kelman
Well, I'll start, but Chris, you may want to comment here. The goal has been to run a similar gross margin business, but one that has more scale. Jason, you were the one who pointed out that we lose on the upside, we lose on the downside. When the market really takes off, we don't have enough capacity.

When it goes down very quickly, we're paying agents' salaries and it's blowing a hole in our P&L, and we think we've addressed that. But the real benefit is that our incentives are aligned with the agent. We're taking share faster. We're able to recruit and retain a higher-quality agent.
The results from the initial four California markets couldn't be better from a revenue growth perspective, from a share perspective. So, the goal really has been at least in this initial pilot to grab more revenue, to get more share, to improve our service, especially to the luxury segment where we'd sometimes struggle to keep and hire the best agents. And that part has just paid off.

And what we were worried would happen is that when we did that gross margins would suffer that we'd be getting more revenue, but it would be lower-quality revenue. In fact, it seems that the quality of the revenue has held up and we're just getting higher share gains and it's across the board. So, we're doing better overall with loyalty sales, with luxury sales. So, could we go to an even more variable model? It's possible. And then, that would allow us to take out other costs.

But really what we were responding to wasn't the need so much to take out a huge amount of overhead as it was trying to grab more share. There will be fewer managers, but that trend was already happening. We're lowering support costs, that trend was already happening. I think having an all-variable workforce where they are looking at this and comparing the split at RE/MAX or Keller or some other traditional brokerage. It just forces us to work harder and harder to lower all of our field overhead costs.

So, it's been a really good alignment of incentives and the main benefit has been gaining share at the same shape business. Chris, do you have anything to add to that?

Chris Nielsen
No, that's a good overview. I think we've been, as Glenn said, really pleased with how the program has gone so far.

Jason Helfstein
OK. Appreciate the color. Thank you.

Glenn Kelman
I think you'll see some margin benefits beyond just the revenue growth and the share growth in volatile situations when things really take off or when things plummet, the incentives are aligned better and we just have fewer salaries to pay. But mostly we've been trying to give agents a good deal and still take share. All right.

Operator
And the next question comes from the line of Bernie McTernan with Needham. Please proceed with your question.

Stefanos Crist
Hey, this is Stefanos Crist calling in for Bernie. Thanks for taking our questions. Just wanted to touch on Rentals, which grew 16% year over year. Any sense of how much that was market growth versus share gains and anything you've been seeing on just competitive intensity? Thanks.

Glenn Kelman
Our sense is that the big players are getting bigger and the small players are getting smaller and we want to get on the right side of that. So, there has been a flight to size. I don't know if the overall market is

getting bigger, but Zillow and CoStar have been trying to grab more customers at the expense of some of the smaller players. And so, we thought this was a respectable result.

We're glad to keep growing. It's amazing that we went from losing $10 million in this segment a year ago in Q1 to making money for the third straight quarter now. But the next stage in the Rent acquisition is to try to grab share hand over fist and really to grow the online marketplace. I thought the most encouraging trend in the revenue report from Rent is just that revenue growth came from the online marketplace.

Sometimes we were getting revenue growth from lower-margin tool sales when really what's crucial to our competitive position and to our profits is getting it in that high-margin marketplace. So, the main activity here to make us more competitive is just to go hog wild on search engine optimization, visitor engagement, conversion rate optimization.

These are the strong suits of Redfin. And so, integrating the two website teams so that we can work together on this, we think we can generate more demand for our property management customers and really turn that flywheel. But that's the big challenge is that we've got costs under control, we've stabilized the marketplace, it's growing nicely. But we want to do way better than growing nicely.

We think there's an opportunity here, just given the historical ranks of Rent and Apartment Guide to do much better than that. So, that's what you should look for from us over the next 18 months.

Stefanos Crist
No, that's great. Thank you. And maybe just follow up on some of the consumer-facing AI applications. What do you see that doing in the next 12 months and adding to the business?

Glenn Kelman
Well, our hope is that Ask Redfin is going to have a meaningful effect. We talked about two new generative AI applications and the first was this redecorating capability where you can click a button and reimagine how a house looks. It is so cool but I don't know that it's going to have a massive commercial impact whereas Ask Redfin has really changed the volume of questions that are coming in and it's allowed us to instantly answer them. We worked really hard on that because we were so worried about being compliant with fair housing laws.

We'd actually worked with partners earlier. Last year, you may remember, and we did not feel that they were being careful about fair housing laws. So, I think we've been at the forefront of this. But I kind of thought it was baloney and then I used it and it was like freaky good and weird and special and magical. So, we just think we can be this instant response website for answering a wide range of homebuyer questions and it can increase demand.

And the reason I sound a little vague on how much it will increase demand is that right away you get a lot more people contacting you and we're still trying to sift through how many of those are actually going to buy a house. But usually, when we have a boatload of people contacting us, it has a gross margin impact because we have to answer all those questions with people. This time it's kind of a cost-free experiment where we're getting a lot more volume at the top of the funnel without incurring additional cost in terms of labor.

So, we're pretty bullish on it. We wouldn't have rolled it out more broadly if we weren't. It's not just for the earnings release or for the press. We're trying to sell more houses here and we think this is going to help us.

Stefanos Crist
Got it. Makes sense. Thank you.

Glenn Kelman
Thank you.

Operator
And the next question comes from the line of Ryan McKeveny with Zelman and Associates. Please proceed with your question.

Ryan McKeveny
Hi there. Nice job on the quarter and thanks for taking the questions. To follow up on Jason's earlier question about Redfin Next. So, Glenn, I think a comment you made a couple of quarters ago was that it should work in high priced markets, but the structure might need to have some modification to work in mid or low-priced markets.

So, I guess I'm curious about this next round of seven markets going to Redfin Next, which seems to probably include some mid-credits like maybe a Dallas. I guess, is there any differentiation in the economic model you're bringing to the various Next markets at this point in time? And just generally how you're thinking about maybe this expansion of these Next seven markets to do some more maybe testing and iteration in that process of potentially expanding further? Like what are those milestones you're looking for to feel good about additional markets down the road? Thank you.

Glenn Kelman
Sure. As I was answering Ryan's rental question, I started thinking more about Jason's question. So, I'm glad you circled back to it because you're really asking the same question. Jason was asking if there are changes to our cost structure that Redfin Next is going to drive and you're asking how it's going to work at some of these lower cost markets.

And what I should have said then and I can say now is that as we've gone to lower cost markets, it's put more pressure on our support costs because suddenly you're exposing to the agent here's why your split is what it is. You're paying this much for a transaction coordinator. You're paying this much for associate agents to help you handle the second, third, or fourth tour. And those agents have said, well, I'm not sure I want to pay that.

So, that has been really healthy for our business to align the agents' incentives with the company's incentives, so that we're all trying to sell as many houses as we can and keep as much of that commission as we can for either the agent or the company, and of course, giving the customer a good deal, too.

And so, going to Chicago, in particular, has been the market where we have been really aggressive about trying to figure out how we can get more efficient so we can offer agents these fantastic splits and still have a great gross margin for Redfin, because as you know, our model does give us much better gross margins than other brokerages. We have more leverage because we source the customer.

So, I would say that we've been pleasantly surprised at how well the rollout has gone to mid-priced markets and even lower mid-priced markets as opposed to premium markets. There is one other difference between the high-priced markets and the mid-priced markets that you should be aware of, which is that in California we were at a deficit of agents. We had more demand than supply of agents. And in some of these mid-priced markets that hasn't been as much the case.

So, we think there will be a pretty strong reaction as we bring Next to all these other markets. If it's anything like California, it'll be a miracle. But even if it's half of what it was in California, it'll be pretty good. And so I think it might not be quite as strong as it was in California because Chicago or Dallas are already well-staffed.

And what we found is that as we bring in more Next agents, we just get more sales. I know that's a pretty simple direct relationship, but we've been pleased to see that it's true. So, we might just get more aggressive about hiring in those markets too above and beyond what we'd originally expected. Agents want to come to work with us. Recruiting has been going reasonably well. And I think we need the extra agents to take extra share.

Ryan McKeveny
That's very helpful. Thank you, Glenn. And Chris, one for you, just on the balance sheet capital side of things. I think the '25 notes, obviously, you bought back a good amount over the last year or so. Any thoughts you can share as to how you're thinking about the convert maturity? I think it's next October. Just any general thoughts on how you're thinking about that going forward? Thank you.

Chris Nielsen

Sure. So, we've been making a yield-based decision here, which is when we see a good price on those notes, we've been wanting to buy them back. I expect we'll continue to follow that strategy. We've still got board authorization to repurchase notes. There's about $145 million outstanding at this point. And as we've talked about before, we have an additional $125 million available on our Apollo term loan, which does give us plenty of firepower to continue to be kind of thoughtful and aggressive here.

So, we've been pleased with how this has gone so far and I think you'll see us continue to follow a similar strategy going forward, again, based on the yield we see, and the price that those notes are offered out.

Ryan McKeveny
Thank you.

Operator
And the next question comes from the line of Ygal Arounian with Citigroup. Please proceed with your question.

Ygal Arounian
Hey, good afternoon, guys. On the evolving buyer agent landscape that we're going to see later in the year, I guess if we maybe simplify it and think through one of the arguments that there will be a lower pool of fees, especially on the buyer side as some people opt out or some people price shop a little bit more your competitive advantage has been on the lower fee side for sure.

Do you think, as that happens, some of the competitive positioning narrows or do you think it strengthens in that kind of environment where Glenn you just pointed to some of your competitors being less profitable? Do you think that could actually put them at a disadvantage?

And then, if you're seeing the overall pool get smaller, I know you're looking at some things that you've talked about some of them here on the call on the seller side to offset some of that.
Is there enough to capture all of what might get lost if maybe like a more moderate to, or medium to severe case of that?

Glenn Kelman
Sure. Well, maybe just to provide an emotional response to your question. I've heard other executives on earnings calls say that we don't expect much change at all. It will happen fairly slowly.

I think that is the consensus among most high-level executives of real estate brokerages and portals. But if you talk to the agents on the ground, I think they are much more concerned about the possibility of significant change. And so, I'm not trying to say that all heck is going to break loose that the Four Horsemen and the Apocalypse are coming in August or something like that but I do think that there could be a medium level of change.

And someone who has been trying to get consumers a better deal only to discover that homebuyers are been completely indifferent to price over the past 15 years because they've been trained to believe that a buyer's agent is free we have to welcome the possibility that those consumers will now become more aware of the fees and will shop based on value and price. That is what Redfin has been hoping for all along that when you give people a better deal, they actually beat a path to your door.

And I know your question is about whether lower revenue per deal can be offset by share gains. I think there's two offsets and only one of them is the share gain. The other is that you can operate more efficiently so that you can earn a similar gross profit from sale, just by working at a higher margin.
So, my expectation is that if you're working with somebody who's a first-time homebuyer, there are so many efficiencies that we used to pursue that we stopped pursuing because those homebuyers were indifferent almost to price. When we try to tell them we're saving them money, they'd say what are you talking about? My buyer's agent is free.

So, I think we can run at a good gross margin and we can take a lot of share. If you asked me 10 years ago, if you could change one thing about the American consumer, what would it be? I'd say make sure they know how much a buyer's agent really costs and make them care about it.
We've already seen with the sales side. The reason that we clean up in every listing consultation is that seller is paying her own real estate agent and that anytime we get in front of a listing customer, we're almost certain to get the listing and then to close the sale.

The problem is that our website is filled with homebuyers. There are people looking at pretty pictures of houses and the action they want to take is not to list a property, but to tour one. And so, I'm pretty optimistic that if there is a significant change, we'll be able to adapt to it much better than anyone else. Am I also worried about uncertainty? Of course, but you want a CEO to be worried. We have better cards than anyone else though.

Ygal Arounian
I appreciate the thoughtfulness, and I agree. I think you want to be at least worried or thoughtful rather than just brush it off as a non-event. And then just a follow-up on the adjusted EBITDA profitability path for this year. I know the macro has been kind of a moving needle here.

Is that embedded in that expectation? Is it the macro stays similar and rates stay elevated toward this newly elevated level? Is it the expectation that it gets better or does not matter as much now given kind of what you guys have put in place and you feel like you can get that if it moves up a little bit and moves down a little?

Glenn Kelman
No. We updated our whole budget, including our spending on the assumption that the housing market would be like it is right now for the rest of the year. It could get worse and then we'd have to take other

measures I guess. But the big difference is that last year there were so many people touring houses in the first quarter.

None of them seemed to close because rates went up right after we paid all this cost to meet them. And we were just in a $60 million, $70 million hole in Q1. So, being $40 million better than that coming out of this Q1 and running more efficiently across the next three quarters with sales initiatives that should improve close rate and all these digital businesses generate profit instead of incurring losses. There are no guarantees in life, but this is about as good of a position as we could be in with the housing market being in about as bad a position as it could be in. 4 million units, 4.1 million units, that's about as low as you can go.

You know, there's a placeholder in the earnings script for me to write the housing section and I don't do it until like a day or two before the earnings script. But the placeholder was called the whale turd slides off a shelf and somehow falls into a trench to the bottom of the ocean. So, that means that, yes, housing was bad in Q4, Q1, but now we expect it to be worse and we don't think it could get that much worse. The people we're talking to right now are the people who have to move. They've been divorced for a year and they've been living with someone who's driving them crazy. They had a third child and they're still living in townhouse with one extra bedroom.

Ygal Arounian
Very helpful. Thank you.

Operator
And the next question comes from the line of Tom White with D.A. Davidson. Please proceed with your question.

Wyatt Swanson
Hey, this is Wyatt on for Tom. Thanks for taking our questions. I just had one on buyers rep agreement requirements. Could you help us understand the net effect that this could have on your business? Like do you foresee that it might negatively impact on your ability to convert some of your traffic into customers? Or could it pressure the ROI on the leads you send to partner agents? Thank you.

Glenn Kelman
We don't think it'll have much of an impact, but it's hard to say. So, last week, some of the brokers, some of the portals talked about having a very nominal agreement where instead of disclosing the ultimate price that a real estate agent would charge, you'd simply say that the tour is free and all we're doing is sending you out on the tour with a contract that covers one day or one tour.

And the notice requirement could be when you sign up for the tour or could be after the tour. Also, we saw several states like the state of Maryland object to this. So, we're trying to respond to it in real time.

Obviously, we want to do what's right for the consumer. We're going to comply with all of the rules that are being put out by the National Association of Realtors and others. We're just trying to figure out the lay of the land. But it seems pretty clear right now that the industry is trying to figure out a low-friction way for websites to introduce homebuyers to real estate agents.
And so, we'll be on the same playing field as other real estate websites and we think that the friction will be fairly low. It's a separate question as to whether or not that's the way it should be. We've always been an advocate for consumers and sometimes we've wanted to create a more transparent marketplace around the fees that different agents charge, but that's easier said than done.

Wyatt Swanson
OK. That's helpful. Thank you.

Glenn Kelman
Right now, it's trending toward low friction, very low friction.

Operator
And as a reminder, if you would like to ask a question please press “*” “1” on your telephone keypad. A confirmation tone will indicate that your line is in the queue. You may press “*” “2” to remove any question from the queue.

Our next question comes from the line of David Lee with J.P. Morgan. Please proceed with your question.

David Lee
Great. Thanks for taking my question. This one is for you, Chris. Kind of feels like 1Q was an interesting quarter from a marketing and engagement perspective with you spending less against a significant marketing push from all of your rivals. So, just curious if there are any learnings you can share around what you might have learned from this dynamic in 1Q.

And then I think going forward you said marketing will be a $115 million in 2024, which does suggest you're expecting a sequential growth or a growth in 3Q, just curious of what's giving you the confidence to lean back into marketing into back half of the year?

Chris Nielsen
Yeah. Let me start with the second question first, which is we did provide guidance on marketing spend for the full year, as well as for the second quarter. And in general, what you should take away from that is that we spent dollars in Q1, we'll spend more in Q2, but then both in Q3 and Q4, sequentially, our marketing spend will be down. And that is related to what Glenn was talking about earlier, which is we're taking a look at the macro environment here and just being really careful about spending those dollars into a housing market that is not super strong right now. And so, mostly what you'll see us doing, again, is spending less as the year goes on, on marketing.

And then just in terms of Q1, what worked well, how that's gone, this is really tried and true within Redfin, which is we compete really well for website visitors. Our teams just do an excellent job of having the right information, the right data structures, the right initiatives, to allow consumers to find information, but also for search ranking sites to have a good view on the quality of the information that we provide. And so, competing for traffic in that way is the most important thing that we did in the first quarter and it's the most important thing that we do frankly all the time.
David Lee
Got it. And just as a follow-up and I'm sorry to keep going back to the representation agreement and around the commission piece, but how do you plan on positioning like who's going to pay for the fee when you roll out the representation agreement? It does feel like there are a lot of different views around like actual implementation that goes going to be paying for the buyer agents. So, just curious to hear how you're thinking about this as you plan to test the agreement in June.

Glenn Kelman
The question is somewhat moot because the buyer's agent is going to be paid out of the proceeds from the sale in most cases. So, we could say that the buyer is paying that because he's the only one bringing a checkbook to the closing table. We could say the seller is paying that because that's money that would otherwise be wired into his account. It's just being deducted from the proceeds.

And from the agent's perspective, what's important is that the buyer doesn't have to pay for this out of pocket in advance of a transaction, essentially that it can be financed.
David Lee
Got it. Understood. Thank you.

Operator
And the next question comes from the line of Jay McCanless with Wedbush Securities. Please proceed with your question.

Jay McCanless
Thanks for taking the questions. The first one I had, the pullback that you talked about, Glenn in traffic and foot traffic in April and into May, have you seen that same type of decline in Sign & Save markets? Or is it too early to tell since I think you said in the comments that you went fully live with that on March 7?

Glenn Kelman
Yes. I can only presume that the pullback has been universal across Sign & Save markets and non-Sign & Save markets. Remember, we're not talking about fewer Redfin buyers per se. We're talking about on our own listings so when we host an open house, how many people are coming through that open house? They could be neighbors, they could be buyers represented by other brokers, they could be buyers represented by Redfin, but most of them are just going to be members of the general public or customers of other brokerages.

And I think what we're really trying to say here wasn't a comment on what portion of home sales are we going to represent the homebuyer. Sign & Save is helping with that. I think we're commenting on how many people want to buy houses generally and houses that used to get eight or 10 offers are now getting two or three. Houses that got two or three offers are now sitting for an extra week. We're seeing more price drops just over the past eight or 10 days.
The data that we have that not everyone can access aside from the anecdote from our agents about what happened this weekend is number of people who were touring who didn't end up writing an offer, number of listings that after a week or two weeks didn't withdraw from the market because they'd accepted an offer, number of listings that dropped their price. So, before sales go down, what you see is activity in the market go down in ways that we can track a little bit better and we saw that go down a little bit. So, that's in line with the interest rate increase.

And the only thing I would say contra to that is just that the signals have been mixed. Like we had a crappy week last week and then we had an awesome weekend. It's just crazy right now where things look really bad and then they look really good and then they look really bad and then they look really good. So, I think the consumer will settle down a little bit. It's kind of netting out to, you know, to what we think is going to happen across the year and we're pretty comfortable with it, but lots of mixed signals.

Jay McCanless
Got it. And then, the second question, I know you all published the details around the lawsuit settlement. Could you just remind us what other potential lawsuits are out there that you might need to settle? And I guess in terms of the (inaudible) lawsuit, any impact we need to be mindful of as it relates to Redfin?

Glenn Kelman
We think the settlement was worthwhile. It's small relative to what other brokerages paid consistent with our having been a consumer advocate. There are two other cases that are out there that named Redfin, they are much earlier stages. Instead of being on behalf of sellers, they are on behalf of buyers; our defenses are really good.

Jay McCanless
OK, great. Thank you. That's all I had.

Operator
At this time, there are no further questions. And I would like to turn the floor back over to Glenn for any closing comments.

Glenn Kelman

We just appreciate you sticking with us through thick and thin. This business has gotten meaningfully better; it ain't the same old song. Even though the housing market is bad, Redfin has put our shoulder to the wheel and we think we're going to keep taking share and we think we're going to have a good year.

So, appreciate you listening to all these crazy questions and all of our crazy scripts over the past year, but we're pretty excited about 2024. Thanks, everybody.

Operator
Ladies and gentlemen, that does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.