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RDFN.OQ - Q1 2021 Redfin Corp Earnings Call

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## PRESENTATION

### Operator

Good day, and welcome to the Redfin Corporation Q4 2020 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the call over to Meg Nunnally. Please go ahead, ma'am.

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### Meg Nunnally - Redfin Corporation - Head of IR

Thanks, Travis. Good afternoon, and welcome to Redfin's financial results conference call for the first quarter ended March 31, 2021. 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. You can find the press release on our website at [investors.redfin.com](https://investors.redfin.com).

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.

During the call, the financial metrics will be presented on a GAAP basis and include stock-based compensation as well as depreciation and amortization expenses. In the event we discuss any non-GAAP measures today, we will post the most comparable GAAP measure and a reconciliation on our website. 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, let me turn the call over to Glenn.

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

Thanks, Meg. And hi, everyone. Redfin's first quarter net income and revenues were better than we projected in our last earnings call. Net income increased from a loss of \$60 million in the first quarter of 2020 to a loss of \$36 million in the first quarter of 2021. Gross profit was \$42 million, up 229% from the first quarter of 2020.

For our core real estate services business of brokering home sales through Redfin agents and through other firm's agents working as our partners, first quarter gross margins increased year-over-year by 1,010 basis points to 24%. Because we hire so many new agents and meet so many new customers in advance of the summer home buying season, first quarter margins are usually our lowest of the year.

Total revenue increased 40% from the first quarter of 2020 to \$268 million, with real estate services revenue up 55%. After 2 quarters of declining sales, our Properties business, which buys and sells homes through RedfinNow, grew 17% to \$93 million, generating its first gross profit since its earliest months. Our Other segment, which consists primarily of mortgage and title services, grew revenue 120% to \$9 million.

A bull housing market has boosted our growth, but we're also gaining U.S. market share, with the first quarter increase of 21 basis points to 1.14%. Since we lost share in the second quarter of 2020 due to a furlough of about 32% of our lead agents, our share gains have accelerated in each of the last 3 quarters. We've gained share as we've recruited more agents. The number of lead agents Redfin employed on March 31, 2021, was up 26% from the same day a year ago, with partners up 93%. Comparing the first 2 months of 2020 to the first 2 months of 2021, the rate at which we hired lead agents increased 74%, with 12% of lead agents, who started in the first quarter, coming from digital ads on Facebook, LinkedIn and Indeed.

Hiring a candidate through online ads is still about 20x more expensive than traditional recruiting. But we believe our digital campaigns can get much more efficient. We should have enough lead agents to serve forecasted levels of demand in June 2021, just as we promised in the last two earnings calls.

Redfin's field managers and the demand generated by our site let us develop almost anyone with grit and brains into top-producing agents. We still recruit about half our new agents from other brokerages, but recently, the other half have included a window salesperson, car salespeople, a chef, an actor, political canvassers, recruiters and hospitality and restaurant workers. We're also recruiting more stay-at-home parents who decide to become breadwinners after their partners lost a job during the pandemic.

Our challenge has been retaining newly hired agents. Most of our new agents start out serving buyers, not sellers. But with competition so intense to buy almost any home on the market, it's hard for these agents to earn their first bonuses. Among agents with less than 12 months of experience, Redfin's annualized rate of attrition in the first quarter of 2021 was 53%. A year ago, this number was 26%. This is likely an industry-wide trend, but that's hardly consolation for Redfin or the people we've hired.

In April 2021, we started paying a \$1,500 retention bonus for newly hired agents, who guide customers to the point of bidding on homes regardless of whether those bids win. We expect this bonus and training programs are preparing agents to compete in this crazy market to bring attrition rates for new agents under 35%. And we're pleased to see that even in such a competitive market, we're retaining tenured agents as well as ever. Among agents with at least one year of tenure, attrition was 15%, both last year and this year.

Our recruiting success has given us the capacity to handle a demand increase from mass media ads. On April 19, we started running our new ad called Redfin World, which introduces Redfin's on-demand tours of this groovy magical portal to a better life. We plan to spend \$52 million on media for the ad, double the amount budgeted for 2020 before the pandemic cut our campaign short, and 33% more than our previous high in 2019.

Because sales have grown so much since then, our mass media investment can increase in absolute terms but decrease as a percentage of revenue. And because Redfin is the only major brokerage to use technology for giving customers better results at a lower fee, telling the world who we are is a worthwhile investment. The ad should drive more customers and more traffic to a website that's still growing fast.

Comparing the first quarters of 2021 and 2020, the average number of Redfin monthly visitors grew 30%, this is a deceleration from the fourth quarter when traffic grew 44%. Much of this deceleration is a market-wide trend. ComScore and similar webs show traffic growth slowing for nearly all the major housing sites. With the number of homes for sale at record lows, there's just less to look at online and in person.

The good news is that Redfin is making the most of every visitor. Compared to a year ago, first quarter visitors were 13% more likely to subscribe to a search, to participate in a shared search, or to download our mobile application. And visitors are still asking for service at high rates with service

requests for our agents and our partner agents up 55% over last year. But to improve our competitive standing, we need to keep taking search share by adding more data about a home, more local search criteria and more predictions about home values and demographic trends. Already in the last four months, we've added flood risk data and six new search filters, with more local data coming later in 2021.

We also need to get more listings. Because of our commitment to local listing data and local service, redfin.com has been the only major U.S. real estate site that doesn't show listings nationwide. In the first quarter, we added support for 4 new areas in Florida and for Ottawa, Canada. We also increased the number of listings on our site by 8%, adding listings from the outlying areas of markets we already serve. We now cover 85% of the U.S. population, up from 79% in the fourth quarter; and 27% of the Canadian population, up from 23% in the prior quarter. We expect to add a total of at least 30 new markets in 2021.

The other source of new listings is RentPath, the network of rentals website whose acquisition we announced on February 19th and closed on April 2. Already, we've linked the sites together, boosting our authority with search engines. In our last earnings call, we said that we'd publish RentPath listings on redfin.com in the second half of 2022. But we now expect that to happen as early as March 2022. This integration will broaden redfin.com's authority as an all-purpose real estate destination, especially among consumers under 30. It will also give RentPath property management customers access to a larger audience of potential residents for their rental listings.

But a subscription business can be slow to rebuild. Even if more customers sign up to promote their properties through RentPath this summer, it might take months to offset a year of canceled subscriptions and longer, if more customers pay only when a lease is signed, in lieu of an upfront subscription. RentPath revenues declined 19% year-over-year in the first quarter of 2021, and we expect a similar decline and continued losses, at least through the second quarter.

We knew when we bought RentPath for 3x its 2020 revenues that we would have to invest in both sides of this online marketplace to get more rental listings and more renters looking to live in those listings. RentPath websites last year kept growing traffic and uncertainty from RentPath's bankruptcy and a rivals year-long effort to buy the company, rattled our property management customers. Of the 299 salespeople RentPath employed, when it entered bankruptcy on February 12, 2020, 38% quit over the next 12 months, more than half of whom still haven't been replaced. Its CEO resigned in December 2020 with a longstanding Board member, Dhiren Fonseca, stepping in as an interim leader.

Our priorities are to hire a long-term RentPath leader and to recruit more property management customers to list their homes on RentPath's sites in the second half of 2021. We aim to be the partner that property management companies love by aligning our products and pricing to their needs and by offering better value than any other internet listing service.

Our long-term challenge is to digitize the process of renting a home for both the consumer and the property manager. Once the new RentPath leader starts, he or she will need 6 months to develop this plan. The good news is that RentPath customers and employees are already enthusiastic about the acquisition. All but one of RentPath's 680 employees signed their Redfin offer letters, and many customers seem excited to gain access to redfin.com's audience.

Our investment in the rentals marketplace and other new businesses will be paid for in large part by our brokerage, which keeps getting larger and more efficient. For lead agents with at least 6 months of tenure, first quarter productivity increased 13% year-over-year. And regardless of tenure, pay-for agents who worked in the first full quarter this year increased 22% over agents who worked the first full quarter of 2020.

We're just now getting data on the success rate for homebuyers who first met our agents in the third quarter of 2020, which shows a 15% year-over-year increase. Success rate is a measure of how many buyers close on a sale with Redfin within 6 months of meeting the Redfin agent.

These gains are bolstered by the pandemic-driven surge in housing demand. But a pilot to assign fewer customers to an agent has mostly continued to produce significant success rate gains over and above the increases driven by the housing market. Since the similar 2018 initiative to increase success rates failed, in part due to an interest rate increase, we're being careful this time around to run an experiment for a year before making any decisions.

We're also now tracking which customers close with other brokerages, so we can set aside market effects when measuring if our service improved. For 5 of the last 6 months, the results have favored lowering customer loads. But we still need to make sure the success rate gain is large enough to be profitable.

We'll decide whether to extend that pilot nationwide this summer before our big 2022 hiring campaign. Many other service improvements that we developed and tested in prior years are paying off now. The most important of these, especially in today's cut-throat markets is speed. We increased the percentage of tours we book completely automatically with no telephone calls between brokerages from 4% in February to 16% in April. Instant tour scheduling increases the likelihood that a customer will stick with Redfin's brokerage rather than calling around to see which agent answers the phone. More important in this competitive market, it helps Redfin homebuyers get into homes first.

Our investments in locally licensed desk-based agents to respond immediately to online and telephone inquiries have also started to pay off. For redfin.com visitors who contact us with a home valuation request, we increased the rate at which we schedule listing consultations. For online inquiries about a RedfinNow cash offer, the rate at which those inquiries led to a listing consultation was more than twice as high in March as it was in 2020.

These service improvements extend beyond the first customer call to the long-term relationships our agents are building with customers. As we train more of our agents to handle both sides of a sale, the percentage of brokerage customers who both buy and sell a home with Redfin increased from 11% in the first quarter of 2020 to 13% in the first quarter of 2021. Over that same time, the percentage of brokerage sales from repeat and referral customers increased from 17% to 21%, driven by new bonuses for agents with the loyal customer following.

In February, we updated Redfin Premier, our listing service for customers with homes above \$1 million, to include high-definition video tours, a luxury advertising campaign, preferential access to our top agents and a fancy new sign. We still need to promote this service on our own site and in the wider world. But already since the launch, listing consultations with these customers have grown almost 3x faster than listing consultations overall. It will take us years to build our reputation in the luxury market and years, too, to pair Redfin Premier with our concierge service for renovating and staging high-end homes. But as we deliver better results for our customers, we're going to take share.

The final change in the brokerage has been in its leadership. After 14 years of building our brokerage from a few million dollars in annual revenue to more than \$600 million, our brilliant President of Real Estate operations, Scott Nagel, is planning to retire. He has been my friend and partner through thick and thin. And once he's completely retired, chainsawing tiny helpless trees at his off the grid cabin in the badlands of Northeast Washington, I'll miss him terribly. Scott will spend the next year working on a strategy to let our business grow faster than we can hire employees.

Adam Wiener, who joined Redfin just 3 months after Scott, will own the Brokerage and Title business that Scott ran, alongside the Mortgage and RedfinNow businesses Adam started. Adam and Scott are like-minded about our humble service culture and our strategy. By uniting all the components of a complete real estate solution under Adam should, over time, make us better at helping customers with their whole move.

To give customers a one-stop shop, we've developed RedfinNow's cash offers as an alternative to a brokered sale. Our iBuying business has grown since the start of the year on almost every front; purchases, sales, gross margins, gross profits, number of markets served and range of homes served within each market. We said in the last earnings call that we expected RedfinNow's first quarter revenues to be about the same as the first quarter of last year. But in fact, we grew revenues 14% because the homes we had purchased sold so quickly.

Properties gross margin improved from -0.3% in the first quarter of 2020 to 1.7% last quarter. Some of our progress is due to rapidly rising home prices. But as with the brokerage, RedfinNow is also executing better, too. The most promising development is the success of our integrated sales force. We launched RedfinNow with a specialized sales force separate from the brokerage. Then in July of 2020, we asked the desk-based agents, who support our brokerage, to respond to RedfinNow inquiries.

We've already discussed their success of persuading people who reject RedfinNow offer to consult with the Redfin agent about listing the home instead. But the sales force has also improved RedfinNow's offer acceptance rate, in part by reducing the time it takes for customers to get an offer by more than 1/3. Their customer communications have also doubled the capacity of the investment specialist, who decide how much we can pay for a home.

We've not only gotten more efficient at buying properties, but at selling those properties, too. 83% of our first quarter sales pay the agents a commission below the commission typically offered by traditional brokerages in the market compared to 16% in the first quarter of 2020. The magnitude of the commission reduction was 43 basis points last quarter compared to 16 basis points in the same quarter last year.

Over the next year, we hope to persuade more of our listing customers to learn from RedfinNow's experience and pay a lower commission to the buyer's agent. If individual homeowners follow iBuyer's lead more broadly, lowering commissions industry-wide, it would favor a brokerage like Redfin, which is already structured to thrive on a lower fee.

We're also offering better service to the homeowners who accept RedfinNow offers. We're 12% more likely to close on a purchase, mostly because we stopped charging customers for minor repairs. And because it can take so long to find a new home to buy, we're giving the owner 90 days to live in the home after the offer is accepted instead of 60. For people who haven't been able to own 2 homes during the moving process, iBuying has been a way to get the money out of one house at just the right time to buy another.

But since there are now so few homes to buy, iBuying has also become a way to make sure you aren't stuck with nowhere to live. In such a strong market, RedfinNow's big challenge is scale. As consumers are more likely to contact iBuyers that are 10x our size, we've already expanded RedfinNow aggressively. At the end of 2020, RedfinNow served brokerage markets that accounted for 47% of our listing sales. Today, that number is 67%; by year-end, it will be 87%. Now that RedfinNow is generating gross profits, we can expand more aggressively, drawing on an already vast field organization to add markets quickly.

The other business that's rapidly expanding to serve all our brokerage customers is Redfin Mortgage. Our mortgage business had another quarter of about 200% year-over-year revenue growth. Within our other revenue segment, this was offset by nearly flat revenue from Title Forward, which a new leader is restructuring to give Redfin agents one point of contact for each closing. Title Forward won't return to strong growth until 2022, but we expect 2021 to be a breakout year for Redfin Mortgage.

What limits Redfin Mortgage's growth now and probably for years to come is our ability to hire and train great people. Similar to the brokerage, Redfin Mortgage increased its recruiting capacity. From the fourth quarter of 2020 to the first quarter of 2021, the rate at which we added staff increased by 60%. Bringing on so many new hires, especially at the time of year when sales are just ramping up, swung gross margins back into the red, but we expect Redfin Mortgage to generate full year gross profits.

We're sure our new hires will be profitable because even if rates rise, Redfin Mortgage has so much room to grow through expansion and higher attach rates to brokerage sales. In January 2021, Redfin Mortgage was available in Redfin brokerage markets that accounted for 71% of our homebuyers purchases. By the end of the first quarter, we had expanded to reach 74% of our homebuyers. By year-end, we expect to reach 94%.

We can grow even more by serving a higher proportion of customers within a market. Already, our rates are competitive. But to be Redfin agents go-to lender, we have to broaden our support beyond conventional loans. The typical homebuyer doesn't know which loan she needs until consulting a lender. So many agents are wary of recommending lenders that can't offer every loan type.

Over the past year, we've added support for jumbo loans, but it will take us at least until 2022 to support Veterans Affairs and Federal Housing Administration loans. We've spent 6 months retooling our proprietary loan origination system to support a larger lending team. By the summer, our engineers will resume work on software to improve margins and support more loans -- excuse me, support more loan types.

Everyone at Redfin is working hard to catch up to the housing market, which is breaking records, left and right. The U.S. median home price hit a record high of \$353,000 in March, up 17% from a year earlier, which is itself a record rate of growth. The number of homes for sale hit a record low, dropping 29% from last year, which is a record size drop. Mortgage applications for second homes are double their pre-pandemic levels, which is one reason inventory keeps falling.

42% of homes sold above their list price, a record high. And for the first time ever, homes sold on average were above the asking price. New homes accounted for 23% of the total homes for sale, another all-time high. Lumber prices rose 200% in 1 year, which is probably one reason why when

I venture into the mountains here in my home state of Washington, vast tracts of forest have recently been cleared. Mortgage rates increased in February and March, but fell below 3% again in April, indicating that the supply, not demand, will likely continue to be what limits U.S. sales volume.

Even as infection rates ease, workers have felt less tethered to their office. In May 2020, 42% of redfin.com visitors planned to work from home at least part of the week compared to 60% in April 2021. Prices have increased almost without impunity, in part because so many of the people moving out of California or New York are still spending less on housing. Idaho home values could double and still seem like a steal to someone from San Francisco.

For years, housing was consuming an ever larger share of family budgets. Now, according to an April survey of 600 homebuyers, about 2/3 of the people who moved got a house the same size or bigger, but about the same proportion, 2/3 spent the same or less on housing. Because the people migrating to lower cost housing are also moving to places with lower taxes, survey respondent said that disposable income was also more likely to have increased, not decreased after a home purchase.

That's not likely to lead to the kind of hangover we usually see after a price run up. Whereas in previous bull markets, bidding war victors often woke up the next day wondering what they had just done. 79% of April survey respondents, who moved, reported having no regrets; 77% reported being happier, with most saying they were significantly happier. All this data suggests that there is still a large group of homebuyers that will be unfazed by rising prices. If this pandemic has taught us anything, it's that people will, if given half a chance, rearrange their entire lives to be able to get a nicer home. Most of the purchases you make in your life won't make you happier, at least not for very long, but housing seems to be the exception to that rule.

With that, I'll turn it over to Chris.

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**Chris Nielsen** - Redfin Corporation - CFO

Thanks, Glenn. Our first quarter results exceeded our expectations as we continued to benefit from a robust housing market. First quarter revenue was \$268 million, up 40% from a year ago. Real estate services revenue, which includes our brokerage and partner businesses, increased 55% year-over-year. Brokerage revenue, or revenue from home sales closed by our own agents, was up 53% on a 33% increase in brokerage transactions. Revenue from our partners was up 94% on a 59% increase in partner transactions. Revenue per partner transaction continues to benefit from rising home prices.

The property segment, which consists primarily of homes sold through RedfinNow, generated \$93 million in revenue, up 17% from 1 year ago. Our other segment, which includes mortgage, title and other services, contributed revenue of \$9.4 million, an increase of 120% year-over-year, primarily driven by growth in our mortgage business.

Total gross profit was \$42 million, up 229% year-over-year. Real estate services gross margin was 24.0%, up 1,010 basis points year-over-year. This was driven by a 450 basis point decrease in personnel costs and transaction bonuses, a 270 basis point decrease in travel and entertainment, and a 120 basis point decrease in listing expenses.

Properties gross margin was up 200 basis points year-over-year to 1.7%. The improvement was primarily attributable to a 760 basis point decrease in home purchase costs and related capitalized improvements. This improvement was offset by a 290 basis point increase in personnel costs and transaction bonuses.

Other segment gross margin was 3.9%, up from -46.9% 1 year ago. As a reminder, our Mortgage business was negatively impacted by market volatility in the first quarter of 2020, which contributed to prior year margin weakness. The year-over-year improvement was driven by a 3,100 basis point decrease in personnel costs and transaction bonuses and a 990 basis point decrease in outside services costs.

Total operating expenses were up 9% year-over-year and represented 28.6% of revenue down from 36.8% 1 year ago. Technology and development expenses increased by 37% or \$7 million. The increase was primarily attributable to a \$6.7 million increase in personnel costs.

Marketing expenses decreased by 54% or \$14 million. The decrease was attributable to \$14.4 million decrease in mass media marketing costs as we're shifting the launch of our annual television commercial from the first quarter to the second quarter.

General and administrative expenses increased by 54% or \$13 million. Of this amount, \$3.1 million was due to increased legal expenses largely due to a rejected settlement offer for a threatened claim, and \$2.1 million was for transaction expenses from the RentPath acquisition. These increases were offset by a \$4.1 million reduction in company media and events primarily due to our annual company-wide kickoff event going virtual this year. The remaining increase was primarily attributable to an increase in personnel costs due to increased headcount and recruiting activity.

Our net loss, including stock-based compensation and depreciation, was \$36 million compared to a net loss of \$60 million in the first quarter of 2020. We also recorded a dividend on convertible preferred stock of \$2.3 million. Diluted loss per share attributable to common stock was \$0.37 compared with diluted loss of \$0.64 per share 1 year ago.

Now turning to our financial expectations for the second quarter of 2021. Consolidated revenue is expected to be between \$446 million and \$457 million, representing year-over-year growth between 109% and 114%. We expect our Properties segment to account for \$151 million to \$156 million of that revenue, representing year-over-year growth between 109% and 116%.

Our consolidated guidance also includes post-acquisition results for our recently acquired RentPath business. For the second quarter, RentPath revenue is expected to be between \$41 million and \$42 million, representing a year-over-year decline between 14% and 16%, and contribution to net loss of \$10 million to \$9 million. This guidance includes approximately \$6 million of cost of revenue, \$12 million of technology and development expenses, \$23 million in marketing expenses and \$10 million in general and administrative expenses. Included in these RentPath costs is approximately \$6 million of depreciation and amortization.

For prior year comparative purposes, RentPath's full year 2020 revenue was \$194 million. RentPath's business is not typically subject to large seasonal variations, but revenue did decline through 2020 by approximately \$2 million per quarter. We expect to file pro forma financials for the combined companies by June 18. And going forward, we'll be reporting RentPath as a separate rentals segment.

Turning back now to our consolidated guidance for the second quarter. Our net loss is expected to be between \$38 million and \$32 million compared with the \$7 million net loss in the second quarter of 2020. For the 8th straight quarter, we expect real estate service's gross margin to increase as compared with the same quarter in the prior year. We'll incur approximately \$6 million of onetime transaction fees associated with the RentPath acquisition.

As Glenn mentioned, we've kicked off our 2021 television campaign and expect \$33 million in mass media and \$2 million in campaign production expenses during the quarter. Including RentPath, this guidance includes approximately \$13 million of stock-based compensation, \$10 million of depreciation and amortization and \$3 million of interest expense associated with our convertible senior notes and other credit obligations.

In addition, we expect to pay a quarterly dividend of 30,640 shares of common stock to our preferred stockholder. We are currently evaluating the tax impact of the RentPath acquisition, and therefore, we are not including any potential tax gains associated with it. 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 with that, let's open the line for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Ygal Arounian, Wedbush Securities.



**Ygal Arounian** - *Wedbush Securities Inc., Research Division - Research Analyst*

I want to circle back to the hiring stuff and the comments there around. You know hiring has grown, you've seen now market share really expand faster than you've seen in a long time. So can you talk about how those 2 things might be connected? And then maybe just a little bit more clarity around the attrition piece. So with attrition so high, with hiring speeding up and what you're seeing with market share gains, where do you see market share going? And do you consider hiring a success? Or is attrition more of a headwind to what you were expecting?

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

We're thrilled with the progress we've made at hiring people. The recruiting team has worked so hard, and we have just brought people in hand over fist. The reason that market share is up is because we had so much demand coming through the site in the second half of 2020 that we could not serve for lack of agents. And now that we have those agents, we've been able to take share. I think there will be some headwinds on market share as we go into the latter half of the year just because inventory is so low. That is the constraint, not just on sales volume at Redfin, but sales volume in the industry.

As far as attrition among newly hired agents, this also is an industry-wide trend. You just have more agents than houses right now in the industry. And as a result, all these people who have brought into the industry are really struggling to get their footing. We have tried to mitigate that, first of all, by connecting them with customers; and then second, by giving them better training and now a new bonus.

So we expect new hire attrition to go down. It has always been higher among new hires than it has been among the broader agent population at Redfin. Some people just realize that real estate isn't for them or that the way Redfin practices it isn't for them. But we can do better. And so that's just going to be our focus. We want to outpace the industry at retaining new talent in real estate.

**Ygal Arounian** - *Wedbush Securities Inc., Research Division - Research Analyst*

And just a quick follow-up on that. So your transaction -- your own brokerage transactions were up meaningfully quarter-over-quarter, year-over-year. But the partner transaction growth is still outpacing that meaningfully as well. What could we expect to get to the point where you're able to meet enough of that demand? I know you talked about June as a point where hiring gets to where you need it to be. But is that when your own transaction growth can start outpacing partner growth again?

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

June, that's what we've been saying now for 3 quarters, the past 2 quarters and this one that we expect to be fully staffed in June. And when we are fully staffed, we would expect the partner business and the brokerage to grow at similar rates, as website traffic increases and as more people from the website contact us for service. So that's our expectation. It's just been easier to recruit partners than it has been to recruit employees, but we're finally getting caught up.

**Operator**

Our next question comes from Ed Yruma, KeyBanc Capital Markets.

**Edward James Yruma** - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

I guess first on RentPath. As you guys sit and assess the state of the business, I know that it's obviously gone through bankruptcy and had its issues. But what type of investments do you think are necessary to kind of help it regain its footing? And kind of what would the timing be do you think

in terms of an improvement? And then as a follow-up, within the offers business, just any sense as to kind of how you think about the home price appreciation, how that's factoring into the pricing that you're doing today?

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

I'll comment on RentPath and then turn it over to Chris to talk about the Properties segment. So the key investments we need to make are, first of all, just in the sales force. We want to make sure that the sales force has the data, showing that we give great value to our property management customers, and that's always a challenge because you send someone -- people who are interested in renting a place, but you need to track whether they end up signing a lease and whether you were the reason that they sign that lease. And so being able to make that case effectively and just rebuilding the sales force generally, it's going to be our first execution challenge.

Long term, we want to explore different pricing models to make sure that our interests are aligned with the property management customers who list their properties because even before revenue and profit, the first order of business is just getting more customers onto the platform. That is the key to building any kind of online marketplace, is having more high-quality inventory on the site. And so it's going to take us about 6 months to work through that, especially since we're still hiring a long-term leader. And we just need to give that woman or that man a chance to settle in, to figure out what his or her plan is and then to go out and nail it.

But the good news is that the traffic is growing very fast. And even as we pulled back some of our digital marketing, we're still getting good organic traffic growth. So the digital asset is valuable. We just need to pair that with a great sales force selling a great value proposition. And for the longest time, that sales force has just had this headwind that the company has been in bankruptcy, its future is uncertain. CoStar was thinking of buying the company. And so many times, customers wondered if they would just get RentPath leads through a CoStar deal. And now the future is brighter. We're going to integrate listings on to redfin.com and get some real sales growth in 2022.

Chris, do you want to talk about properties?

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**Chris Nielsen** - Redfin Corporation - CFO

Sure. So for RedfinNow, we always want to offer the customer a fair price for their home, and give that customer the choice between selling it to RedfinNow and then selling it on the open market. And so that's our objective, and that's how we approach the situation. And the team has done a really good job of trying to stay on top of what's been a pretty dynamic market over the last 6 months or so in that way.

I do think in the last quarter, we've benefited from probably even more home price appreciation than we originally expected as we purchased those homes. So there's probably a little bit of upside on the margin front from that additional amount of home price appreciation. But our (technical difficulty) is not as a stand-alone business, but is giving customers that choice between an open market sale, and then for those who really value the convenience selling it to Redfin.

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**Operator**

Our next question comes from John Campbell, Stephens Inc.

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**John Robert Campbell** - Stephens Inc., Research Division - MD

Just a question for you, Glenn, and this is a bigger picture kind of 2-part question. I know you love those. But can you just talk about how you envision or maybe what you expect RentPath to look like maybe 5 years or so out? And then separately, where you think the Redfin and RentPath marriage has kind of structural advantages relative to CoStar has a little?

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

Sure. Well, our long-term vision is to make the consumer proposition better because that's just the mission of Redfin, to redefine real estate in consumers favor. And so the idea that we can let somebody lease an apartment in 30 minutes flat where they can use their iPhone to get into the unit and tour it themselves or they can get a virtual tour, the idea that they can sign the lease digitally, that they can go through the whole process using some of the infrastructure that we've built for purchase transactions on a rental is really exciting to us.

And we just want to pair that with a real commitment to getting long-tail inventory because, of course, everybody is focused on the big property management companies that have these huge high rises in the center of every American City, but we also want to focus on the homes for rent, where we've got a customer who decides not to list their house after moving up, but instead rents it out. That is a natural fit for a company that already has lots of house inventory on our website. So that is our long-term vision.

We want to make renting better. We think that the value proposition to these enterprise customers, to these property management companies is not just that we're going to sell you a bunch of leads, but also that we're going to lower your sales cost because if we can automate that transaction, we can lower the cost of leasing a unit and lower the cost that you have in employing salespeople and all the rest.

So that's where we stand. We think we've got a great competitive advantage against a company that doesn't have a huge for-sale presence. I know that CoStar is building that fast. It's very well run. So they're going to give us a run for our money. But we've got only up to go. It's just the beginning of a very long path of convergence. And we think we've got great consumer talent at Redfin and in RentPath.

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**John Robert Campbell** - Stephens Inc., Research Division - MD

Okay. That's helpful. And 1 last little question on RentPath. I think you just alluded to this earlier, but I just want to make sure I'm clear. It sounds like your -- the paid marketing is not fully turned along at RentPath. Is that right?

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

No, we're just turning it down some because when RentPath was in bankruptcy, and then it was going to be acquired by CoStar, they were really in the sort of cryogenic suspension like Han Solo at the end of The Empire Strikes Back, they couldn't change anything even though they knew that some of their paid marketing wasn't very profitable. And so we had traffic going up organically. We also had these very large paid advertising campaigns even if sales were declining. And so the number of leads we were generating was through the roof. And some of these ad campaigns weren't even profitable.

So now what we're doing is really focusing on recruiting more property management companies, taking advantage of our organic traffic and just rightsizing the ad campaign. If it's been out, it's profitable, we're still going to do it. But if it's not, we don't have to anymore, so we won't.

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**Operator**

The next question comes from Tom Champion, Piper Sandler.

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**Thomas Steven Champion** - Piper Sandler & Co., Research Division - Director & Senior Research Analyst

Glenn, it sounds like you're adding a lot more data to the site and to listings. And I'm wondering if you could talk about that generally and then especially with respect to the commission data that you're putting in the listing and how that may change the business? And then, Chris, I'm wondering if you could just talk a little bit more about the Properties guidance. The revenue guidance looks quite strong. And just maybe if you could talk to some of the assumptions underlying that and maybe the number of markets, and how you're thinking about market expansion going forward?

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

Sure. So I'll address just the data that we're adding to the site. For the longest time, Redfin had this structural competitive advantage, in that we were one of the only major real estate sites that had complete MLS access. Over time, that advantage is being mitigated. And we just have to continue to invest. It's not just a presentation. You can get really precious about your design when building a consumer site, but consumers have to find information on your site that they don't see anywhere else.

And some of this is a real localization challenge because we work really well in Seattle. Our site traffic is not as strong in Tulsa, Oklahoma. And so we just need to make sure that we support the kind of search filters, the kind of neighborhood boundaries that come from having real experience in Tulsa. And of course, our agents have that experience. And so we just have to bring some of that information from our field organization on to our site, so that it really feels like a Tulsa, Oklahoma site.

But we also just have to add new layers of data about forest fire risk, about flood risk, so that Google and the consumer herself can see that we have more information about local real estate than anybody else, and it's just a constant arms race. And we're going to keep fighting it.

And one of the areas where we're really excited to publish more information is just about commissions, because, of course, the iBuyers have been paying lower commissions for a long time, Redfin is one of them. And most consumers who are listing their home don't realize that the iBuyers are paying a much lower fee. But that secret is going to come out as we publish, front and center, the commissions that are paid on every house. You can see that 25% of the inventory in a place like Atlanta is paying a lower commission to the buyer's agent, and that will give you permission when it's time to list your home to do the same.

Everyone assumes that the fee structure that iBuying is comparing itself to in the brokerage industry is static, if we are just going to stay put and be at 5% or 5.5% or whatever it is. Of course, Redfin is committed to changing that. We think that iBuying fees are going to come down, but the brokerage fees are going to come down too, and that the spread is probably going to be pretty static.

**Chris Nielsen** - Redfin Corporation - CFO

So on our Properties guidance, really, that's reflective of the actions we've been taking now for months. And really, that starts with expanding into new markets and then having teams out there purchasing more homes, putting more offers in front of customers. And you can see that reflected in our balance sheet as of the end of the first quarter, where we were, at that point, up to nearly \$100 million in inventory, nearly double where we were at the end of December.

So we do want to continue to expand to more markets going forward with RedfinNow. But mostly what's reflected in the guidance is what's already baked into the inventory that we've purchased, the homes that we're renovating and putting back on the market. So we do think the business has a lot of growth going forward. But again, our primary objective is to get that offer in front of as many customers as we can so they can make the choice between sign to RedfinNow and that open market sale.

**Operator**

(Operator Instructions) Our next question comes from John Egbert, Stifel.

**John Peter Egbert** - Stifel, Nicolaus & Company, Incorporated, Research Division - Associate

On RentPath following up there, aside from setting the business strategy, which you're obviously waiting on a new leader to help develop, can you talk about any of the low-hanging fruit in terms of cost synergies or technology-driven optimizations you think you can offer to that organization pretty quickly after the deal has closed here? Whether it's technology sharing, developer resources, migrating overhead functions to your existing teams to lighten their load, like any kind of quick low-hanging fruit type fixes that you can think of?

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

I mean I can think of plenty, but we're not taking any near-term cost synergies. The first order of business is to get RentPath listings on redfin.com because redfin.com can double the audience of renters that are available to RentPath customers. And when we do that, it should be much easier to recruit more customers. And if we don't do that, none of the cost optimizations matter. The way to make more money here, yes, is to run efficiently, but mostly, it's to grow this marketplace. And we think there's a massive opportunity to do that or we wouldn't have invested in this business.

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**John Peter Egbert** - Stifel, Nicolaus & Company, Incorporated, Research Division - Associate

Okay. Great. And so I mean, I guess, could you characterize kind of the R&D investment that you plan to build around that to help kind of push that forward?

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

Well, some of it's going to be sponsored by Redfin, so we had planned on adding rental listings before we bought RentPath to redfin.com, and we started building a team that could add that data, and we just realized how daunting it would be to go from one property management company to another and try to get 20,000 or 30,000 or 40,000 property management customers to list their properties. So my guess is that the cost is going to be split between Redfin and RentPath.

We need to invest in a mobile application or a better mobile application for RentPath. You know 2/3 of traffic is mobile at this point, at least. And RentPath has a mobile application but it is not strong enough. And then we need to build all these tools, long-term, to revolutionize the consumer experience of renting a home. Redfin is just very consumer-first. It's very transaction oriented. We are not just about putting pretty pictures of housing on a website. We want to do the whole freaking deal. And so that's going to take us a while, but it's going to unlock massive value for our customers and for the consumer.

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**Operator**

(Operator Instructions) And we have no further questions in the queue at this time. I would now like to turn the call back over to Meg Nunnally.

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**Meg Nunnally** - Redfin Corporation - Head of IR

Great. Thanks, Travis, and thanks to all of you for joining the call today. We look forward to talking to you again next quarter. Have a good day.

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**Operator**

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.

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