REFINITIV STREETEVENTS

EDITED TRANSCRIPT

RDFN.OQ - Q3 2021 Redfin Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 04, 2021 / 8:30PM GMT

CORPORATE PARTICIPANTS

Chris Nielsen *Redfin Corporation - CFO*

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

Meg Nunnally *Redfin Corporation - Head of IR*

CONFERENCE CALL PARTICIPANTS

Abigail Virginia Zvejnieks *KeyBanc Capital Markets Inc., Research Division - Associate*

Curtis Smyser Nagle *BofA Securities, Research Division - VP*

Jason Stuart Helfstein *Oppenheimer & Co. Inc., Research Division - MD & Senior Internet Analyst*

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

Ryan McKeveny *Zelman & Associates LLC - Director of Research*

Stephen Hardy Sheldon *William Blair & Company L.L.C., Research Division - Analyst*

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

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

PRESENTATION

Operator

Good day, and welcome to the Redfin Corporation Q3 2021 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Meg Nunnally, Head of Investor Relations. Please go ahead.

Meg Nunnally - *Redfin Corporation - Head of IR*

Good afternoon, and welcome to Redfin's financial results conference call for the third quarter ended September 30, 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.

Before we start, note that some of our statements on today's call are forward looking in nature. 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 this 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 new non-GAAP measures today, we'll post the most comparable GAAP measure and reconciliation on our website. All comparisons that are 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 prior to 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 it over to Glenn.

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

Thanks, Meg, and hi, everyone.

Redfin's third quarter net income was better than we projected in our last earnings call, and our revenue was at the high end of our expectations. Third quarter revenue grew year-over-year by 128% from $237 million to $540 million, with $40 million coming from our April RentPath acquisition. For the real estate services delivered by our own agents and by our partner agents, Redfin grew 23% to $258 million. Our market share was 1.16%, up 12 basis points from the third quarter of last year, similar in magnitude to pre-pandemic gains.

From the third quarter of 2020 to the third quarter of 2021, net income swung from a $34 million profit to a loss of $19 million. RentPath accounted for $17 million of the losses. Another $22 million was for additional marketing costs, mostly to try running our annual television campaign through November rather than May or June.

Gross profit was $127 million, an increase of $34 million over the third quarter of 2020, but $33 million of that came via the RentPath acquisition. Third quarter gross margins declined year-over-year from 39% to 24%, driven in part by the increasing proportion of revenues coming from our lower-margin properties business, RedfinNow. Real estate services gross margins fell from 44% to 37%. Especially in the third quarter of 2020, the housing boom led to our own agents working at unsustainable levels and more customers going to our higher-margin partner business. A more reasonable point of reference may be the third quarter of 2019 when our gross margin on real estate services was 35%. After everything we've done to take share through this pandemic, we can't wait to see what happens in the last quarter of 2021 and in 2022. Our site will broaden its audience to include the 36% of Americans looking for a home to rent. Our homebuyers will get into homes faster than ever, and our agents will deliver better service and more gross profit when we reduce the number of customers each support.

We'll save the people who want to sell a home hundreds of millions of dollars in fees or offer them the convenience and peace of mind of an immediate cash offer. Our title and mortgage business will contribute to our long-term growth. And still, after all these years, there are so many ways Redfin could be so much better. The reason we'll keep getting better is that no other real estate company has our ability to pair service and technology, our grinding financial discipline and long-term thinking, our culture of caring for one another and our overriding commitment to making real estate fundamentally better for the public.

But now let's dig into the details of our third quarter performance. From the third quarter of 2020 to the third quarter of 2021, redfin.com's average monthly visitors remained at the same high level. We would normally be alarmed at the absence of growth. But here again, it's hard to compare ourselves to the third quarter of 2020. In 2021, the market returned to a typical late summer pattern of declining traffic whereas the fall of 2020 was when housing demand was at its most frenzied.

What's more important to us are our third quarter search share gains against realtor.com. We previously expected to keep losing visitors to realtor.com through December 2021. These gains are likely in part due to traffic partnership, better machine learning predictions on when a home will sell, new data about climate-related risks, and design improvements to encourage visitors to set up their search and to share listings. As we add more information about neighborhoods and expand Redfin to more markets, we expect more traffic growth. The most significant redfin.com upgrade is the addition of rental listings to our site, still on schedule for March 2022.

Our marketing campaigns are also getting more effective. For Google searches on real estate terms that don't include the word Redfin, direct marketing has lowered the cost of meeting a customer by nearly 20% over the past year. This has been the result of technical rather than creative breakthroughs using data that only Redfin has. The improvement in ad efficiency won't immediately contribute to our growth.

For the next 6 months, we'll be busy hiring agents just to serve the customers expected to come to redfin.com on their own. But over time, if we can be better than any other broker or lender at identifying the people who will buy a home, we can take more share from our competitors. Even as we reach more customers through our listing search site and our ads, service improvements at every step of the home search should increase the likelihood of a sale from each customer. From June to September 2021, the likelihood that a customer requesting a tour from a Redfin agent would actually complete that tour increased from 54% to 57%. Some of this gain is due to improvements in tour scheduling software, and some is the result of recruiting more contractors to host tours when our lead agents are busy.

Once a customer tours a home for sale, it's the job of a Redfin lead agent to guide her to a successful purchase with Redfin. We're expanding the pilot we've been running since January 2020 to reduce the number of homebuyers an agent supports. 29% of our lead agents have been in the pilot. But by January 2022, we'll roll out new limits on customer assignments to the rest. This initiative has been thoroughly tested, and we feel sure that more of our customers will complete a purchase with Redfin as a result.

As we discussed on our last call, we evaluated agent compensation over the last few months just as we do each fall. The primary adjustment we've made is to pay more in 2022 to new lead agents who are meeting customers that still haven't closed the sale. We've been more likely to lose a lead agent right out of the gate than at any other point in her tenure. The actions we took this summer already reduced overall lead agent attrition from 37% in the second quarter to 35% in the third quarter. The 2022 pay changes should have minimal margin impact, but are important to our goal to be real estate's best employer. On their own, the changes we're making to lower agent loads and increase pay would lower gross margin. But we'll fund these service improvements with a small reduction in our commission refund to homebuyers. Our data indicates that homebuyers value service over saving, and we expect the commission refund reduction will completely offset the full year impact on 2022 real estate services gross margin. Our customers will love this change.

In our second channel for selling homes, through a cash offer rather than a brokered listing, we performed better than expected. RedfinNow's year-over-year revenue growth was above 1,000%. Though in RedfinNow's case, the comparisons to the third quarter of 2020 are favorable. Last year, we went into the third quarter with almost no homes to sell, having largely stopped making offers the quarter before. But no matter what had happened the year before, RedfinNow could have grown to almost any size if we haven't been disciplined in how much we pay for homes. In March 2021, we began lowering RedfinNow offers in anticipation of a summer deceleration in home price increases. In June, we based our RedfinNow offers on a calculation that the homes we bought would decline in value by the time we get them on the market. We continue to reduce RedfinNow offers through early September.

These were good decisions. The sales closed in the third quarter have averaged 101.1% of the forecasted price. The sales RedfinNow has booked so far in the fourth quarter have averaged 100.0% of the forecasted price. The rate of these sales have been on pace with our expectations. RedfinNow's main challenge has been renovation. The time we've needed to prepare a home for sale increased from 28 days in the second quarter to 37 days in the third quarter.

Our ability to renovate homes fast is often the difference between a home that can only rise or fall in value with the market and one that sells for a premium within days of its debut. For now, the additional holding and interest costs from renovation bottlenecks will likely lower fourth quarter property margins by about 35 basis points. But we still expect to generate a full year gross profit, just as we had discussed on our February earnings call. We're expanding our renovations capacity quickly and already pricing higher renovation costs into our offer.

Where our capacity to renovate a home is limited, we'll limit the number of homes we buy. Our first priority is, as always, to build a sustainable business. The sustainability of this business has gotten so much attention this week, you may wonder if Redfin hopes to compete as an iBuyer depend on being smarter, luckier, grittier or just more cautious.

The answer is that Redfin isn't an iBuying company at all. It's part of what we do, but it's not who we are. The way we define ourselves is as the company that offers homeowners the most complete set of options for selling one home and moving to another, where iBuying is one of those options. We could never pitch customers on the convenience of a cash offer without highlighting that a brokered sale, especially at a fee as low as 1%, puts more money in their pocket. Having this choice is as important for Redfin as for our customers. iBuyers that live or die on whether a homeowner chooses just one option, the cash offer, can thrive only when market conditions favor iBuying. Redfin can be more flexible. When home prices are uncertain or when it becomes costly to borrow the money for buying houses, Redfin can buy fewer houses and list more. That flexibility is more important than scale.

For the year, we already expect to average a gross profit on each home we sell. If we want an even higher margin, buying more homes at higher prices isn't the only way to get it. Saving $20 by mowing 3 lawns on the same street won't matter if we overpaid for one of those homes by $5,000. And if offering $5,000 less for a home limits RedfinNow's scale because our customer is then more likely to list that home instead, all the better for Redfin's brokerage and for our customers.

Redfin's investments in renovations and self-service will let us earn more money for the owner, regardless of whether the home's next occupant buys from RedfinNow or one of our brokerage customers. If RedfinNow is struggling to keep pace with its own success, Redfin Mortgage has the opposite problem. Comparing the third quarter of 2021 to the third quarter of 2020, Redfin Mortgage closed 24% more loans. But because rising rates have made the whole industry desperate for volume, this was more than offset by a decline in revenue per sold loan. Overall mortgage revenue fell 5% year-over-year. Even as price pressure grows, our experience this summer with rock-bottom rates has already taught us to raise prices at least modestly. But what's most important is to scale our sales organization and systems for the size of the opportunity. The percentage of Redfin homebuyers who choose a Redfin mortgage is still too low. Since the departure of our mortgage leader in August, we've made great progress on the search for a new leader in a role that will now report to me as the CEO.

We expect to make changes to our loan origination system in the first half of 2022 to support a wider range of loans. With a complete product suite, and as allowed by the laws in different U.S. states, we can then launch incentives for brokerage sales that also involve mortgage and title services. With the Mortgage Bankers Association forecasting that refinancings will fall 62% in 2022, plenty of mortgage advisers will want to work for a company with tens of thousands of brokerage customers in need of purchase loans. It will take time to develop the foundational improvements needed for the business to be able to double each year with rising net income, but we're attacking the problem with urgency as one of Redfin's top priorities.

The other business that needs attention is RentPath, the rentals marketplace we bought last April. RentPath revenues and net income were consistent with the guidance we gave you on our last earnings call. We knew this business would need time and money to turn around, but also that the combination of RentPath listings and redfin.com's audience could bolster both RentPath sales and Redfin traffic. Since the merger closed, we've only become more confident about the deal's rationale.

Due in part to high occupancy rates that are lowering how much property managers spend on any online marketing, the number of property management customers paying to promote their communities on RentPath sites declined, as expected. Revenue declined 5% from the second quarter and 15% from the same period last year. But setting aside visitors from online campaigns -- online ad campaigns, excuse me, visits to RentPath's websites actually increased by 3% in the third quarter. The number of leads per customer increased 16%.

The plan to promote RentPath's rental listings on redfin.com, which should increase RentPath leads meaningfully in 2022, is on schedule for a March launch. As apartment vacancies increase, we expect the number of paying RentPath properties increase quarter-over-quarter at some point in 2022. The first order of business is increasing sales. Jon Ziglar, the RentPath CEO who started on August 16, has already brought on a Chief Operating Officer to run sales and operations and introduce performance standards to RentPath salespeople.

He has discovered that RentPath's customers are eager for an alternative to the incumbent rental search site. We believe many will want to invest more in our partnership as we broaden our audience through redfin.com and as we develop more software products. We also believe that consumers may have a natural affinity for rent.com, a site in the RentPath network that we could develop into the flagship for our rentals brand. We'll have more details on this strategy and how much it will cost to pull off on our February call.

There's only one more topic to discuss before we turn the call over to Chris, the housing market is returning to sustainable levels and oh, what relief it is. Year-over-year price gains peaked in May 2021 at 24% and have narrowed every month since to 13% in September. In the hottest pandemic markets like Boise, Salt Lake City and Tacoma, more than 40% of the listings on the market have dropped their price. But earlier this year, that number was below 12%. From April to September, the percentage of Redfin offers facing competition decreased from 74% to 59%.

As we predicted in our last call, home-buying demand modestly strengthened since July, in part because buyers are trying to get a home ahead of further rate increases. The prospect of rising rates has motivated sellers, too. For most weeks of the summer, the number of homes for sale was up by double digits over the prior year. More buyers and more sellers have led to more sales. From August to September, seasonally adjusted existing home sales increased 7%.

That gain may moderate slightly in October as pending sales slipped from August and September, but only by 2 percentage points. Relocation demand is still much stronger than it was pre-pandemic, but slightly less so than in the first quarter of 2021 when it peaked. The demand for second homes, buttressed by a still soaring stock market, may be emerging as the pandemic's most enduring impact.

Another source of demand is demographic. Over the next few years, the largest group of millennials will be turning 33, the median age of a U.S. first-time homebuyer. Agents who once described the market as crazy because demand was so strong and supply was so low, now use words like hectic or chaotic because demand is more volatile, and it's hard to predict which homes will sell. Easing competition among homebuyers has made it easier to put deals together, and demographic and social changes are likely to sustain the market through early 2022. Beyond that, it's hard to tell. The housing market and our competitive landscape are in flux. Rate increases are likely at some point to shorten next year's home-buying season and to shift the industry's priorities from growth to profit. As Redfin hires agents and buys homes, we'll monitor what consumers do at every stage of their move through our website and our brokerage, responding to opportunities as quickly as to threats.

With that, let's turn the call over to Chris.

Chris Nielsen - *Redfin Corporation - CFO*

Thanks, Glenn. This is a solid quarter for us. Revenue came in at the high end. Net loss beat guidance as homebuyer demand remains strong, and we continue to benefit from a fully staffed brokerage that's well positioned to capitalize on work-from-home and technology adoption. Third quarter revenue was $540 million, up 128% from a year ago. We acquired RentPath, our rental segment business, in April 2021. Rentals generated $40 million of revenue and contributed approximately 17 percentage points to total revenue growth.

Real estate services revenue, which includes our brokerage and partner businesses, generated $258 million in revenue, up 23% year-over-year. Brokerage revenue or revenue from home sales closed by our own agents was up 25% on a 16% increase in brokerage transactions. Revenue from our partners was down 8% on an 8% decrease in partner transactions. During the third and fourth quarters of 2020, our Redfin lead agents were swamped as strong customer demand arrived quickly after an early COVID-19 decline. That meant that we were introducing a greater portion of customers to partner agents last year. Real estate services revenue per transaction was up 11% year-over-year and continues to benefit from rising home prices. The property segment, which consists primarily of homes sold through RedfinNow, generated $238 million in revenue, which was up from $19 million in revenue in the prior year. As a reminder, during 2020, we paused our RedfinNow home-buying activities and then restarted the business from a standstill, so that's what's driving strong year-over-year transaction growth of 949%.

Our other segment, which includes mortgage, title and other services, contributed revenue of $8 million, a 3% year-over-year decrease. Total gross profit was $127 million, up 37% year-over-year. Real estate services gross margin was 37.4%, down 640 basis points year-over-year. This was driven by a 380 basis point increase in personnel costs and transaction bonuses, 210 basis point increase in tour and field costs and a 50 basis point increase in listing expenses. This compression was expected as the business was running at unsustainable levels in the third quarter of 2020. Compared to the third quarter of 2019 before the pandemic hit, gross margin is up 230 basis points. Properties gross margin was up 770 basis points year-over-year. This was a breakeven quarter following 2 quarters of positive gross profit. The improvement was primarily attributable to an 840 basis point decrease in personnel and transaction costs as the business scales. This improvement was offset by a 140 basis point increase in purchase, maintenance and capital improvement costs.

As a reminder, we include in our properties cost of revenue, the home itself, the employees who prepare offers to buy the home and close the transactions, home renovations and repairs, home maintenance costs and taxes while we own the property, selling expenses for the home, the managers who oversee the field operations and any charges if we determine a home is worth less than our inventory carrying cost.

RentPath gross margin was 81.7% for Q3 2021. Other segment gross margin was negative 25.3%, down from a positive 30.8% a year ago. Operating expenses were up $91.1 million year-over-year and represented 27% of revenue, up from 24% of revenue 1 year ago. Approximately $50.3 million of the increase was attributable to the acquisition of RentPath and another $21.6 million was from marketing expenses, which were impacted by the timing shift of our annual campaign.

Technology and development expenses increased by $21.2 million as compared to the same period in 2020. The increase was primarily attributable to a $13.1 million increase from RentPath. The remaining increase was primarily attributable to a $5.7 million increase in personnel costs due to increased headcount. Total technology and development expenses represented 8% of revenue, down from 9% 1 year ago. Marketing expenses increased by $36.7 million as compared to the same period in 2020. The increase was primarily attributable to a $14.1 million increase from RentPath.

The remainder was primarily attributable to an increase in mass media marketing costs as we extended our television campaign in the third quarter of 2021.

Total marketing expenses represented 9% of revenue, up from 5% 1 year ago. General and administrative expenses increased by $33.2 million as compared to the same period in 2020. The increase was primarily attributable to a $23.1 million increase from RentPath. The remaining increase was primarily attributable to a $6.7 million increase in personnel costs due to increased headcount. Total G&A expenses represented 10% of revenue, up from 9% 1 year ago. Net loss of $18.9 million beat the better end of our $20 million to $24 million guidance range. Net income was positively impacted by a $4.2 million gain on investments within our other income related to the initial public offering of Matterport.

Diluted loss per share attributable to common stock was $0.20 compared to diluted income per share attributable to common stock of $0.30 per share 1 year ago.

Now turning to our financial expectations for the fourth quarter of 2021. Consolidated revenue is expected to be between $585 million and $606 million, representing year-over-year growth between 139% and 148%. We expect our real estate services segment to account for $225 million to $230 million of that revenue and the properties segment between -- to be between $319 million and $334 million. RentPath revenue is expected to be between $38 million and $39 million, and RentPath's contribution to net loss is expected to be approximately $15 million. Our consolidated net loss is expected to be between $36 million and $31 million compared to the total net income of $14 million in the fourth quarter of 2020. We expect real estate services gross margin to decrease in the fourth quarter as compared with the same quarter in the prior year, primarily due to prior year comparisons when our lead agents were unseasonably busy.

We're also hiring lead agents earlier, with our first significant cohort starting in late November instead of January as we reduced the number of customers our agents meet. This will give more time for training and ramp-up, which is great for operational execution but weigh on our fourth quarter margins. Even with that change, we expect real estate services gross margins in line or better than the fourth quarter of 2019. On a consolidated basis, this guidance includes approximately $24 million in total company marketing expense, $16 million of stock-based compensation, $15 million in depreciation and amortization and $4 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. This guidance assumes, among other things, that no additional business acquisitions, investments, restructurings or legal settlements are concluded and that there are no further revisions to stock-based compensation estimates.

Before we open the call to questions, I wanted to provide a little more commentary on our expectations for 2022 with respect to both marketing expenses and real estate services gross margins. With respect to marketing, our Q4 outlook implies full year 2021 marketing expense as a percentage of total revenue ex properties of 13%, which is roughly consistent with the full year 2019 at 14%. We've not provided guidance for full year 2022 marketing expenses but believe this is a helpful benchmark as analysts and investors look towards the year ahead even as we'll have RentPath for a full year.

Earlier in the call, Glenn discussed some of the changes we're making to lower agent loads and adjust compensation as well as offsetting changes to buy-side client refunds.

With these changes, we expect 2022 real estate services gross margin to be substantially flat with 2021. However, this margin will be down year-over-year in the first quarter of 2022 as we compare to the first quarter of 2021 when our agents were unusually productive with the hot housing market. Gross margin will also be down slightly year-over-year in the second quarter and then we expect year-over-year gross margin improvement in the third and fourth quarters as we reap the benefits of having reduced the number of customers our agents meet. It's important to note that these margin expectations only account for the net impact of the operational changes Glenn discussed and do not account for other changes in the business or macro environment that may arise as the year unfolds.

And with that, we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Edward Yruma with KeyBanc Capital Markets.

Abigail Virginia Zvejnieks - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is Abbie Zvejnieks on for Ed Yruma. This is for Glenn. I think you've always been a little more circumspect about the economics of the iBuying business across the cycle. So given all that's happening, what's your level of commitment and also your interest in committing capital to that business?

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

Well, we're committed to the business but as part of a complete real estate solution, not as a stand-alone business. If you have to buy houses every day of the week in every type of market condition, you are just force feeding yourself potentially toxic assets. And so being able to be selective and offering customers a choice is important because we're a fiduciary to those customers, and we have to do what's right for the customer. But that choice is also important to us because when we are in markets where it doesn't make sense to buy homes, we can just shift the people in RedfinNow to the brokerage so that we can list more of them. So that's what we're committed to, not the idea that we have to scale an iBuying business to make all of Redfin successful.

Operator

Our next question comes from Jason Helfstein with Oppenheimer.

Jason Stuart Helfstein - *Oppenheimer & Co. Inc., Research Division - MD & Senior Internet Analyst*

So Glenn, I mean, you made a point of saying like there is a favorable market environment for iBuying. So I guess, what is that favorable environment in your opinion? And were you referring to the seller or the buyer? That's question one.

Question two, can you just give us a general update on attach rates for title and mortgage, either combined or individually? Or maybe, if you don't want to give us specific attach rates, maybe directional change that you've kind of seen this year? And then lastly, just on the real estate gross margins, I mean do we still think that, that 30% is a reasonable long-term goal over time for real estate gross margin?

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

I'll answer the first 2 and defer to Chris on the third, if you're comfortable with that, Chris. So the market conditions have been favorable for the buyer in iBuying. Interest rates are very low, so you could borrow capital at a low cost. And that means that when you hold the property a long time, it just doesn't burn a hole in your pocket. But also, inventory has been low, so it's been very easy to liquidate houses. That is changing somewhat, but I still think it's mostly a seller's market. Interest rates will rise.

And at the same time, you will see less homebuyer demand, so these 2 trends work together in lockstep. And it means that we'll have a more balanced market that probably favors more brokerage sales over more iBuyer purchases. And what we want to do is just price in, to our offers, the risk. And our credibility in doing that has already been established. We started doing that in March. When other iBuyers were paying more, we were paying less. And if that meant that we didn't grow as fast as we could, so be it.

This is a business that could scale to any size you want if you're willing to overpay for houses. So I think we're just going to be very agnostic about mix shift. There are going to be markets where iBuying is going to have significant share of the home sales market, and other markets where it doesn't make much sense. And for us, we just want to be able to offer the choice to our customers.

On title and mortgage attach rates, this is an area where we just need to do better. Some of that depends on really having great leadership in title and mortgage. John Roy, who's running Title Forward for Redfin, has done a great job getting that business into shape. And I think it's going to be ready to scale in 2022, better than it has in 2021. If we don't offer a fantastic service to our customers and our real estate agents through our title business, we can't really put the hammer down on attach rates.

And with mortgage, this is another area where we've seen nice growth in terms of the number of loans. We did suffer some because there was less revenue per loan. And what we signaled in the call is that we can probably get more revenue per loan, that we were too aggressive in lowering rates. But here again, we want to do better. So we're in the hunt for new leadership. That organization is going to report directly to me. It's one of my absolute top priority. We're doing well, but we should be doing even better. And I hope to report next quarter or the quarter after that, that the line is up and to the right, even more than 24% year-on-year. Chris, do you want to talk about gross margin?

Chris Nielsen - *Redfin Corporation - CFO*

Sure. So I'm not sure I have a whole lot to add to my prior commentary. I think if you take a look at what I discussed with regard to the fourth quarter and then play that out for the full year 2021, we'll be pretty substantially above a 30% real estate services gross margin. And as I indicated on the call, we expect that next year, we'll be at a similar kind of spot. And we do think that there's room to continue up from there, but we're really proud of and excited about the service changes we're making next year. I think that that's going to set up the business even better going forward to be able to generate more gross profit, serve more customers and serve them even better. So that's how we're thinking about things as we roll into 2022.

Operator

Our next question comes from Ryan McKeveny with Zelman & Associates.

Ryan McKeveny - *Zelman & Associates LLC - Director of Research*

Glenn, Chris, I wanted to ask about the progress in some of the newer iBuyer kind of markets you've entered. So you launched this quarter in some of, what I'd call the more competitive markets, Atlanta, Charlotte, Raleigh. But you've also been somewhat pioneering into less competitive markets like Chicago, prior quarters, Seattle, D.C. So I understand you've got the flexibility to obviously not lean too heavy anywhere given the traditional listing business and just wanting to offer choice. But I'm curious if you can talk to any market-level performance or maybe learnings within the various geographies whether there are structural aspects of certain markets that are proving either more or less challenging than others when you actually are buying and selling homes through RedfinNow? And then ultimately, how those learnings -- because this is a pretty diverse set of markets you're operating in, how that plays into your confidence going forward to keep expanding that as an option for customers that want that choice in more geographies.

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

Great question, Ryan. All of these questions have been fantastic. So there is a difference. We don't want to crow about it because we're not 100% sure that we're right. But we have been one step more willing to renovate homes than other iBuyers, and we have been more active in the higher end of the market. For iBuying, that doesn't mean that you're buying a $3 million listing. There are no iBuyers really doing that at scale, but it does mean that we're closer to $1 million in some cases rather than $200,000 that you saw when iBuying first took off in Phoenix.

And what we've discovered is that when we buy the ugliest home on the block and we invest some in renovations, we're really adding value. If all you're doing is taking the same house, putting a middleman in between the seller and the ultimate buyer, I think that you're taking risk without adding that much of a premium to the house. And one of the capabilities we want to develop, as we said in the script, for both our brokerage customers and when RedfinNow owns the property, is this ability to make the property actually look better.

Because if you want to sell a house for more money, marketing will help, more open houses will help, sending out flyers and e-mails will help. But you have to have the house in top-notch condition when a buyer drives up, and we've gotten better and better at that every quarter. It's an area where we're really investing deeply, and it's given us an advantage in some of these coastal markets where we are buying houses that need some work. So we'll see how well we can scale that. It may be that we have to step back from that tactic, but it's something we're cautiously excited about.

Ryan McKeveny - *Zelman & Associates LLC - Director of Research*

That's really helpful, Glenn. And it's an interesting point because I think there is kind of 2 angles to the iBuying. One is, to some degree, maybe collecting a transaction fee as the economics. The other aspect is if you're actually adding value to the property. So my second question on that in the renovation topic is, obviously, there's constraints in the market today, but you talked to automating certain aspects. I guess, what are the areas within the renovation capabilities that you're seeking to expand the most? And is it unrealistic to think that on a long-term basis, that could be an income stream in the form of options, upgrades, kind of customization on the part of the actual consumer as you drive those renovation capabilities? I would be curious to your take there.

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

Sure. Well, we already offer that upgrade with our concierge service because we can't, in good conscience, upgrade houses when we're the owner without also offering to do it when our customer is the owner. We want the customer to get the benefit of that listing through Redfin and then fixing up the house through this concierge service. It is hard to scale, so we don't want to be cocky about this at all. There is a graveyard full of companies that have tried to automate general contractor services. We've just become very opinionated about the kinds of renovations that actually pay you back.

Paint and carpet, certain types of lawn work often have a high return on investment. More structural work is usually a fool's errand. We don't want to provide too much detail on this call because at some level, it's intellectual property for us. Maybe everybody else has already figured it out. But it was painful for us to learn these lessons, and we hope our competitors go through the same process or even take a longer route. So the long-term view that every home could be a dream home, that we would renovate properties for buyers and not just sellers, is tempting.

That could develop the revenue stream that you were talking about, Ryan. It's just that buyers are pickier when you have to live with those renovations for the next 15 years that you own the home instead of just the 3 weeks that it will be on the market. You're going to change your mind about paint colors. You're going to want more structural work done, and that can be a real hornet's net. So at some point, we want to do it. Sometimes, we do it just to keep our workforce busy. We have people swinging hammers for Redfin.

They're amazing people, and we need to keep them going in the winter and the spring. But mostly, we're going to focus on getting homes ready to sell. We think that sellers in those positions are just at a point where they're willing to pay to get it on the market very fast and have it look very good. That's where there's the biggest premium.

Operator

Our next question comes from Stephen Sheldon with William Blair.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Glenn, I think you made the comment you plan to be busy adding lead agents over the next 6 months. I'm curious how your outlook for the housing market in 2022 is maybe playing into that, if at all. Or would you pursue agent hiring kind of regardless of the housing outlook, just given the opportunity to continue taking market share here and to support the lower consumer load per agent? And anything you can share on maybe hiring metrics or kind of what you're targeting when you kind of make that comment about adding lead agents over the next 6 months?

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

Sure. I think the most useful comment here was the last one in my section in the prepared remarks, where I just talked about as we hire agents and buy houses, we are going to keep our finger on the pulse. That is a watchword at Redfin. At the end of every recruiting meeting, whenever we talk to financial analysts, whenever we talk to hiring managers, we'll end the meeting by saying finger on the pulse. Because in November and December, you probably know that you're going to need to hire agents regardless of the housing market.

But as you get into January, February and March, you have to get more and more careful because you can get over your skis not just with the number of homes that you own but also with the number of that you hire. And we have been in this business of carrying fixed costs into a highly volatile market for a long time, which is why we love having our partners carry some of that risk. We spend some of the demand from redfin.com to our partner agents. So that if demand withers, we can reroute what we have all to our own employees and keep them fed. I was just trying to manage your expectations when I made the 6-month comment that yes, we figured out a way to drive more demand through direct marketing.

But we're not going to pour gas on the fire right now because we're going to be so busy hiring. If we get into a place where we have a gap in our demand, I think direct marketing is better able to fill it than ever before because we've gotten better and better at using data to identify someone who's actually going to buy a home. And that means we can bid higher for those buyers than anybody else in the digital auction. So anyway, I didn't mean to sound too long on the market. It's a jittery time, and we just are going to keep our finger on the pulse.

You know what? We talked about whether to use the word jittery when we were in the prepared remarks. But here, I just said it in the Q&A. But I'm always jittery. It doesn't matter what's going on. If you are not scared running a seasonal, cyclical business with fixed costs, there's something wrong with you. And I often tell other managers at Redfin, you should be scared. I know that fortune favors the bold, but you have to be scared that we might have it wrong because many people are counting on us to get it right, including all of you. Chris, can they actually buy our stock? These analysts?

Chris Nielsen - *Redfin Corporation - CFO*

I think that's up to their teams.

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

Well, I appreciate it. Thank you for that whether we do well.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Thanks, Glenn. I appreciate all the color.

Operator

Our next question comes from Ygal Arounian with Wedbush Securities.

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

First, on the iBuying side. Just with everything that went on over the past couple of weeks, a lot of focus on the pricing algorithms and the approaches there. And Glenn, you mentioned that a little bit on the call and your expectations. And it sounds like you've priced them pretty accurately. Anything else you could share in how you think about that? How you approach it, as we've moved into a market with home prices slightly declining and flattening out over the past few months? And how are the conversations with the customers have gone? And your approach with convenience fees and all of that? Just how things have changed. And then on -- just expand a little bit more on the philosophy between service and price and lowering the refunds. Last time you changed the pricing, I think there was a little bit of impact on demand. Is that something you expect to happen again? Is it being fully offset by the better service and fewer customers? Just some of the ins and outs of that.

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

Sure. Well, first of all, just to be clear, we use software to help us guide our offer specialists on their bids for RedfinNow homes, but there are 2 layers of human governance on our offers. So that means that we're not as fast at generating an offer, but we're more careful. I think other iBuyers sometimes have the owner of the home use an iPhone to do a video inspection of the property where someone in the home office was trying to see through the screen what was going on. We send out a licensed inspector.

So that's the second bite at the apple to make sure that we're paying the right price, that we're getting good value for our money. So we have just erred on the side of caution because you have to, in a balance sheet business. The idea that a berserk machine learning algorithm could get us into a pickle is one that all the iBuyers have worried about.

And we've just tried to figure out the right balance between scale and caution. And Redfin is probably at the far end of caution. And there are going to be times when that bites us in the butt. I know that being cautious is not always the right move. But in this business, that's just going to be our approach because it's so capital intensive.

The second question, Ygal, about the trade-offs between service and price. You just have to distinguish buyers and sellers. So I hate raising prices. I hate it. Everyone at Redfin knows it. I'm in this business to give consumers a better deal. But the fact is that sellers are very price-sensitive. They're the ones who actually decide what the price ought to be for both the buyer's agent and their own agent, but buyers are not. And so whenever we have raised prices on home sellers, we have seen a significant impact in demand, and we have been very titrated in our approach to that.

But when we serve homebuyers, the issue is really being Johnny on the spot, calling them back very quickly when they want to see a property and getting it set up. And then having agents who really have the time and energy to guide them through that whole process. So there, consumers are not as price-sensitive. And we beat up this pilot black and blue for 16, 17 months, something like that, to make sure that it's fully cured, that we knew it would be better for our customers, that we knew it could have a good financial outcome for everyone else too.

And we are sure that this is the right thing to do. Now the best laid plans of mice and men can often go awry. Maybe something weird will happen in 2022. But based on what we saw in 2020 and 2021, we're good.

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

On the RedfinNow side, just a follow-up on that. Is there anything you could share on as you're having those conversations with homebuyers and the offers are coming in a little bit lower? Is that in line with what they've been expecting? Has there been any pushback to it?

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

That's a good follow-up, Ygal. I forgot to address that in your original question. Some of them are disappointed, and it affects our ability to win a listing because we just told them their baby was ugly, and now we want to be their listing agent. So that's a problem. And I think sometimes, you just have to develop the discipline to say, this probably isn't a home that we should own as an iBuyer, and not even give them a bid because people have sometimes been insulted by our offer. And it also argues potentially for involving different partners.

We have a partner business for our brokerage where we recommend a partner when Redfin isn't a good fit. We have that for mortgage through the mortgage marketplace. Obviously, we've done that before with Opendoor. We're going to need to do it again. There are just types of homes where we are not the best bidder. And instead of giving somebody a lower RedfinNow bid, if somebody else is willing to pay more, as a fiduciary, we should want them to take that offer from somebody else. So we're going to have to work that out. But you're right. Sometimes, when we bid low, it affects our ability to win the listing.

Operator

Our next question come from Curtis Nagle with Bank of America.

Curtis Smyser Nagle - *BofA Securities, Research Division - VP*

Great. Maybe just a follow-up on that. Do you guys have the conversion rate for the Redfin transactions that didn't go -- RedfinNow transactions that didn't go through that ultimately led to real estate services listing or a deal with you, guys? As in like how much of them would be -- go ahead, yes.

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

The actual number -- that's not a number that we disclose. But the general color that we've given is that given the customer acquisition costs in iBuying or any real estate business, customers are precious. Most of the people who ask about an instant offer or a cash offer end up saying, no. And if you don't have another way to monetize those customers, many of them will end up listing the property but not with you.

And so we've just invested significantly in our home sales advisers. I was just on a call with that crew, and I'm happy you asked because it gives me an opportunity to give them a shout-out. They are awesome. Unifying our sales force and being able to present a customer with all of our options has been amazing. We've got a long way to go. We're going to keep adding more products into our portfolio, this complete real estate solution.

But the fact that we have licensed real estate agents who are working in a sales center to guide customers through all their choices, it's an amazing competitive weapon. It's taken us a long time to build. We still have plenty to do to get it right, but it's one of our best investments.

Curtis Smyser Nagle - *BofA Securities, Research Division - VP*

Okay. Fair enough. And then just as a follow-up. So appreciating that in terms of how you bought or priced homes is better than some of your competitors, just thinking about what is the average, I guess, holding time for your homes? And I suppose, how to think about the risk if maybe you're doing a little bit more work on one of these homes in an environment like this where theoretically, HPA starts decelerating, units are a little weaker? Does that introduce some risk in terms of, I guess, the spreads you get on your iBuying business?

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

Well, first, I just want to address the premise of your question. I didn't say that we're better than anyone else in the space. I said that we're more cautious. I think there are going to be times when fortune favors the bold. And so I just want to have maximum respect for every player in the space. There are just markets that are going to favor Redfin's approach and other markets that favor other companies' approach. And yes, renovating homes takes time. And every day that we're swinging a hammer is a day that the market could fall out.

And so being able to renovate homes quickly and knowing when you've bitten off more than you can chew and that you should never bought this money pit, because you're going to spend 6 months fixing it up before you get it on the market, is a huge part of our discipline. We try to titrate our home-buying appetite with our ability to renovate. So sometimes, we see a great deal. And then we check with the team that has to renovate it, and we realize that we just have to pass on it because they do not have the capacity to put in the work. And we don't think we can sell it for a good price as is. And that's when we tell the customer, you should list it with us instead, and we'll find another way to get it fixed up.

Operator

Our next question comes from John Campbell with Stephens.

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

Glenn, I'm sure you're loving getting another iBuying question and just kind of your views on the market, but I'm not trying to beat a dead horse here.

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

I can't believe it. Are you seriously going to do it?

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

I've got to. I've got to. I'm going to frame it up a different way for you. Maybe it's a little bit of a hypothetical. But if we assume that every iBuyer kind of goes away, you guys don't run the risk of missing out on some kind of potential long-term trend. You don't have to run the risk of not offering something to your beloved Redfin customers. Would iBuying still be part of the Redfin portfolio?

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

IBuying isn't going away. I think we've argued that it's not going to be 20% of the market. I just was on Inman stage, the industry conference, saying that I think it's somewhere between 1% and 10% of the market. But I've never said it's going to be 0 either. So we think that many people, before listing their house, are going to wonder what they could get in a cash offer. I think the challenge with iBuying is just not to overreact. It isn't the end all and be all, the future of real estate. And it isn't the alpha and omega, the death, the Vishnu god of destruction, an option that some people are going to want to consider.

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

Makes sense. I appreciate that. And then last one here. I just want to make sure I get this correctly. With the elimination of the commission rebate, are you guys eliminating that completely? Or...

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

No, no, no. Wait, wait, wait. It's going down a few hundred bucks.

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

Okay. I knew that those dollars don't...

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

And every one of those dollars cost me something in my stole. But we did it because customers actually like it better. They would rather pay a little more and have their agent have more time to spend with them. But yes, go ahead.

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

No, I was going to say, are you just basically rationing it back to the point where it's just a complete offset to the agent pay raise? Is that the way to think about it?

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

No, it's more complicated than that. There are these puts and takes because we've seen that when we reduce the number of customers an agent has to support, the agent actually gets more efficient in some ways. And in terms of efficiency, this is the number of customers the agents meet compared to the number who actually end up buying a home with that agent. And so the amount of gross profit we can generate per visitor or per customer goes up. So I think it's a more complicated formula than we're just raising prices to pay for a labor shortage and an agent pay hike. We are also paying for reduced customers and that is partially offset by a higher close rate.

Operator

And our final question comes from Tom Champion with Piper Sandler.

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

Can you talk a little bit about the agent count? It looks like it declined a little bit quarter-over-quarter. Was this by design or just seasonality? And just curious how you'd characterize retention. That's been an issue earlier in the year. And are agent costs just generally going up in '22? Any thoughts around that would be helpful.

Chris Nielsen - *Redfin Corporation - CFO*

Yes. I can comment on agent count, which is typically, we do have agent counts come down a little bit from the second to the third quarter. Just as we're going into the fall season, there's less customer activity, and so there's a little bit less need for agents. And so that's what you see reflected there. Glenn, do you want to comment a little bit more on 2022?

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

What was the question about 2022?

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

I'm just curious if agent costs are generally going to trend higher next year, Glenn, just in light of -- kind of tight labor market, maybe competition and just to boost retention.

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

Yes, somewhat. I just want to be wary of the possibility that agent and lender compensation reached a high watermark in 2020 or 2021. There has been a boom. People have been raking it in. We want our own agents to rake it in. We want to address the attrition that was higher in Q2 and Q3 this year than it has been, I think, in my entire tenure at Redfin. But we also said at the time, and we're saying now, that we have to be measured in our response because we want to give the customer a good deal, we want investors to get a good return. So I hope that we struck the right balance. We want to be the best employer in real estate. We want our people to get a fair deal, but we also want to take care of our customer. And so it's just a tight rope to walk on, and I think we've done it. But we'll see in 2022 if attrition comes down.

Operator

That concludes today's question-and-answer session. Meg, at this time, I'll turn the conference back to you for any final remarks.

Meg Nunnally - *Redfin Corporation - Head of IR*

Great. We're at the top of the hour here. So thanks, everyone, for joining. And have a good day.

Operator

This concludes today's conference. Thank you for your participation. All parties may now disconnect.

REFINITIV