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RDFN.OQ - Q4 2021 Redfin Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 17, 2022 / 9:30PM GMT

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## PRESENTATION

### Operator

Good day, and welcome to the Redfin Corporation Q4 2021 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Meg Nunnally, Head of Investor Relations. Please go ahead, ma'am.

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

Thanks, Cody. Good afternoon, and welcome to Redfin's Financial Results Conference Call for the Fourth Quarter ended December 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 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 any non-GAAP measures today, we'll post the comparable GAAP measures 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.

We'll also be sharing some of Bay Equity's preliminary financial results for 2021. Bay Equity and its auditor have not yet completed their process for auditing the company's 2021 financial statements, so actual results may vary from the estimated preliminary results that we present today.

Lastly, we'll 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 overall fourth quarter revenue of \$643 million exceeded our expectations on the strength of our iBuying sales, but the \$225 million in revenue from our core business of brokering home sales through our own agents and our partners is at the low end of our range, growing only 14% from an exceptionally strong fourth quarter of 2020. Our market share was 1.15%, up 11 basis points from the fourth quarter of last year, similar in magnitude to the third quarter's 12-point year-over-year gain. Our fourth quarter net income, a loss of \$27 million, was better than we projected in our last earnings call.

In 2021, we invested in a restored advertising budget and the software developers to support new initiatives like rentals on redfin.com and high-growth businesses like iBuying. Outside of the expenses from running acquired businesses that weren't part of Redfin at this time last year, we expect 2022 operating expense growth to slow significantly with Redfin's gross profits improving across our brokerage and referral, mortgage, title and iBuying businesses.

We don't need to buy other companies or launch new products. Our focus is on executing the strategy we've laid out over the past year: building a complete real estate destination for finding a home to buy or rent, improving customer success rates and customer loyalty to accelerate brokerage share and scaling our mortgage, title and iBuying businesses into an integrated, nationwide offering.

At this time last year, the brokerage was the only business generating significant gross profits, but now our properties business turned its first annual gross profit since launching in 2017 with a 1.2% gross margin for all of 2021, even better than we expected as recently as last quarter. The anticipated acquisition of Bay Equity Home Loans will generate far more lending revenue, overall and from our brokerage customers, at much higher gross margins than Redfin's original mortgage business.

As part of that planned acquisition, we also stopped investing in our own loan origination system, which will save more than \$13 million in 2022. And after a year of rebuilding, our title business began growing revenues again in the fourth quarter of 2021, entering 2022 on pace to double sales with meaningful 2022 gross profit.

The business accounting for most of our losses is RentPath, which we bought out of bankruptcy in April. Its new leader started in August. And already, he has hired new execs and reorganized the sales force. We will invest in initiatives to drive RentPath sales but will also take steps over the coming months to run RentPath more efficiently. As each of these businesses performs better, Redfin, overall, will generate more value for each customer and improve operating margins.

We'll also keep broadening the range of customers we reach. One of the main engines of Redfin's 2022 growth in its brokerage, iBuying and rentals businesses is still our listing search site. Even as mortgage rates have been rising, traffic has been accelerating. The year-over-year gain in visitors to redfin.com and Redfin's mobile applications was 1% in the fourth quarter after being flat in the third quarter with traffic growth improving every month from October through January. When comparing the second half of 2021 to the sizzling second half of 2020, any growth would have been welcome, especially as Comscore indicates we're growing faster than any of our major rivals.

To sustain these search share gains, we've recently added to our site climate-driven risk factors for homeowners and data about groceries, restaurants and parks. We expect to add rental listings next month. We're also expanding the parts of the U.S. covered by our listing search site and mobile applications. By the end of 2021, Redfin listing search supported 88% of the U.S. population, up from approximately 79% the year before. At the end of this year, we expect that number to reach 95%.

The number of homebuyers on our website and in contact with our agents have been in line with expectations, but it's hard to say how many will actually buy a home. With inventory so low and home affordability changing so fast, early touring activity hasn't led to as many accepted offers as we'd expect.

We're sure that reducing the number of homebuyers an agent supports by as much as 28% in some markets will over time increase our homebuyers' likelihood of winning an offer with Redfin. With listing so scarce, homebuyers need more personal service than ever, and there's no evidence that the reduction in homebuyers' commission refund, which we used to fund the service improvement, has limited demand.

But to deliver this higher level of service, we've had to hire more agents than usual, 23% of our lead agents have joined Redfin since October 1, which is nearly as much as the whopping 25% in 2021. As these agents guide customers through their month-long home search, the gains we expect from better customer service and market share and gross profit will come in the second half of 2022.

Now that we staffed for this level of service, our agent hiring for future home-buying seasons will mostly be in line with our growth, especially as the annualized attrition rate for lead agents has declined from a peak of 36% in the second quarter of 2021 to 30% in the fourth quarter. Despite the agent-retention challenges often discussed in these calls, Redfin outperformed all of our rivals in agent retention last year.

One benefit -- excuse me, one business benefiting from the shortage of homes for sale is RedfinNow, which blew out its revenue forecast because the homes we buy on our own account are selling faster than ever. In the first quarter of 2022, when comparisons to 2021 will be a stiffer challenge, RedfinNow is still expected to triple year-over-year.

We've been more successful buying homes at profitable prices because there are fewer iBuyers bidding against us. Based on anecdotes from the Redfin employees making offers, the price range of competitors' bids is narrower. When we lost a bid last summer, we sometimes lost by \$50,000. But now when we lose, it's more likely to be like \$5,000.

We're still more active in coastal markets than other iBuyers, buying older homes in more expensive neighborhoods. We have so far earned higher gross profits from these homes, albeit at a lower margin. Starting in December, we significantly raised our offer prices in anticipation of low inventory for the opening 3 months of the home-buying season, a decision that seems likely to pay off.

RedfinNow's contributions to gross profits is a major milestone for a company that had been taking money from the brokerage cash register to fund our ancillary businesses. But the acquisition of Bay Equity Home Loans will have an even larger impact on our profits. On its own, Bay Equity earned more than \$50 million in 2021 net income from more than \$350 million in revenue, about 53% of it from purchase mortgages rather than refinancings.

Refinancings are likely to dwindle as rates rise, but Redfin can offset that by connecting our agents with Bay Equity loan officers. With 396 loan officers compared to Redfin Mortgage's 28, Bay Equity has the scale to serve Redfin's 2,450 lead agents. And because Bay Equity supports loans that Redfin Mortgage previously had not, including veterans affairs and federal housing administration loans, and far more competitive pricing for jumbo loans, Bay Equity can serve nearly every brokerage homebuyer.

What we like best about Bay Equity is its culture, putting the customer first. We evaluated dozens of lenders before deciding to acquire Bay equity. Many were eager to meet our customers but most assumed we wanted to give those customers the worst deal possible, not the best. Bay Equity was different. Among the lenders with more than \$5 billion in originations, Bay Equity was in the top 25 on Redfin's Open Book review site for on-time closings and customer satisfaction.

What was equally striking to us was Bay Equity's commitment to its own people. Many of the lenders we met had binge-hired during the boom, but Bay Equity had grown revenues without adding many employees, instead investing in its culture. Mortgage experts told us to expect at least 20% of Bay Equity's loan officers to leave soon after a deal was announced. But 1 month after the announcement, Bay Equity's loan officers seem to value meeting Redfin's brokerage customers and to trust Bay Equity's leaders. Only 7 of the 396 have resigned so far. Since Bay Equity has hired 7 loan officers in that time, there's been no net change in the number of loan officers. Once the deal closes, Bay Equity loan officers and Redfin agents seem excited to meet. We expect the deal to close in April.

The company we acquired the year prior, RentPath, started from the opposite position of Bay Equity, emerging from bankruptcy rather than notching record profits, with customers uncertain about its future. Year-over-year declines in revenues and customers have narrowed, but this business is still at the beginning, not the end, of a turn-around.

Better sales execution and an increase in the number of rental inquiries for each of our customers will help us drive 2022 sales. From the fourth quarter of 2020 to the fourth quarter of 2021, RentPath's spending on search engine ads fell 63%. But if you set aside traffic from advertising, RentPath's visits over that time increased 13%. Even with such a drastic reduction in advertising, the inquiries RentPath generated for each property that a customer paid to promote on our sites increased over that time by 9%.

One reason we can recruit more customers is that we're now giving those customers more value. That value will get another boost when we promote RentPath properties on Redfin.com this March. And RentPath customers won't be the only beneficiary. This will also boost Redfin's authority as a real estate destination. Nearly all the major real estate sites Redfin.com competes against have rental listings.

Even as RentPath sales recovers, we also have to reduce spending in many areas, which RentPath couldn't do while in bankruptcy because of an earlier, failed acquisition attempt. By the time Jon started in August, change was long overdue. He has already developed a new management team. In the coming months, we expect that team to align the company's resources behind Jon's initiatives to grow revenue.

Now before turning the call over to Chris, let's discuss the housing market. Since the start of the year, mortgage interest rates have risen from 3.1% to 3.9% with more increases likely. From January 2021 to January 2022, the mortgage payment for a median-priced U.S. home increased by 25%. December pending home sales were down 7% year-over-year and down 15% in the West, home to 6 of Redfin's top ten markets.

But Redfin expects to grow significantly in 2022, powered by traffic growth, rental listings on Redfin.com, better customer service and profits from iBuying and mortgage. We'll get more than our fair share of customers and deliver more value to each one. With inventory so low, customers need a broker who can get them into homes at a moment's notice and make their offers more competitive with financing that won't fall through.

New listings started to slow in January with the average number of new listings per day dropping 13%, mostly due to East Coast snow and ice. This was exactly when even more homebuyers were rushing into the market to beat rising mortgage rates. Of the listings that debuted in the middle of January, 58% went off the market in under 2 weeks, an all-time high. We thought the market was wild in mid-January last year when that number was 51%.

The problem is with individual homeowners, not builders. Despite builders' supply chain problems, more than 1/3 of the single-family homes for sale in December were new, a record. The year prior, it was 25%, also a then-record. In the bubble years before the Great Financial Crisis, new construction never accounted for more than 20% of U.S. home sales.

And it's not just the sellers who are increasingly institutions. It's also the buyers. Investors accounted for 18% of fourth quarter U.S. home purchases, yet another record. Prior to the housing market's decade-long bull run, investors rarely accounted for more than 10% of home purchases. With inventory scarce and sellers eager for the certainty of cash offers, retail homebuyers have been struggling to compete with investors.

We expect inventory to ease in the spring. The housing market has become more seasonal almost every year over the past decade with a lower proportion of the year's listings in the winter and a higher proportion in the summer. Because mortgage reform has made it hard to have 2 mortgages, the families moving have had to buy one home and sell another in increasingly narrow windows.

But another group of homeowners who can afford to front the cash for their next home are increasingly deciding against ever selling the last one. One of the great unintended consequences of loaning money at rates fixed below 3% over 30 years is a landlord nation. Many of our home-buying customers are people who would once never have considered renting out their old place but now plan to hang onto that home and its mortgage for the rest of their lives.

For all these reasons, we believe that the inventory crunch will ease in the summer as rates rise but may not go away in 2022. We're well aware of the economic pressures on homebuyers, but so many people are still so desperate to move that sales for now are still mostly constrained by inventory, not prices or even mortgage rates.

Of course, there are also economic pressures on property-technology companies, like ours. Even on the day we launched our public offering, Redfin reminded the world that we were born in the dark of the Great Financial Crisis. Since those early days, our website has become one of the top 50 online destinations in the U.S. Our brokerage expanded nationwide. We built a profitable iBuying business, and our rentals, title and mortgage businesses are now poised to deliver strong long-term growth. If hard times come, we believe we'll take share faster than ever, drawing on a culture strong in will to strive, to seek, to find and not to yield.

Take it away, Chris.

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**Chris Nielsen** - Redfin Corporation - CFO

Thanks, Glenn. We closed out 2021 on a solid note. Revenue and net income both came in better than the high end of our guidance. Top of funnel demand remains strong, although customer conversion has been impacted by low inventory, and we are carefully monitoring the macroeconomic outlook heading into 2022.

Fourth-quarter revenue was \$643 million, up 163% from a year ago. We acquired RentPath, our rentals segment business in April 2021. Rentals generated \$39 million of revenue and contributed approximately 16 percentage points to total revenue growth.

Real estate services revenue, which includes our brokerage and partner businesses, generated \$225 million in revenue, up 14% year-over-year. Brokerage revenue, or revenue from home sales closed by our own agents, was up 16% on a 15% increase in brokerage transactions. Revenue from our partners was down 16% on a 7% decrease in transactions and mix shift to lower-value homes. The decline in partner transactions was expected as we are now sending a more normalized ratio of transactions to our fully staffed brokerage business. Real estate services revenue per transaction was up 4% year-over-year.

The properties segment, which consists primarily of homes sold through RedfinNow, generated \$377 million in revenue, which was up from \$39 million in revenue in the prior period. As a reminder, during 2020 we paused our RedfinNow home buying activities and then restarted the business from a standstill, so that's part of what's driving strong year-over-year transaction growth of 857%.

In anticipation of scaling our mortgage business with the pending acquisition of Bay Equity, we are now reporting this business as a separate segment. Our mortgage segment generated \$4 million in revenue in the fourth quarter, a decrease of 22% year-over-year.

Finally, our other segment, which now includes title, and other services, contributed revenue of \$3 million, an increase of 9% year-over-year.

Total gross profit was \$108 million, up 35% year-over-year.

Real estate services gross margin was 33.5%, down 740 basis points year-over-year. This was driven by a 620 basis point increase in personnel costs and transaction bonuses and a 100 basis point increase in tour and field costs. This compression was expected as the business was running at unsustainable levels in the fourth quarter of 2020.

Furthermore, as discussed on our last earnings call, we started hiring lead agents earlier than normal with our first significant cohort starting in late November instead of January, and this weighed on our fourth quarter margins. Even with these operational changes, compared to the fourth quarter of 2019 before the pandemic hit, gross margin is up 130 basis points. Properties gross margin was up 580 basis points year-over-year in the fourth quarter, and this marked our first full year of positive gross profits for the segment. The improvement was primarily attributable to a 610 basis point decrease in personnel costs and transaction costs as the business scaled and a 160 basis-point decrease in home selling expense. This improvement was offset by a 280 basis point increase in purchase, maintenance and capital improvement costs.

RentPath gross margin was 82.6% for Q4 2021. Mortgage gross margin was negative 67.4% for the fourth quarter, down from a positive 10.8% 1 year ago. Other segment gross margin was negative 17.7%, down from a positive 19.7% a year ago.

Operating expenses were up \$79 million year-over-year and represented 21% of revenue, down from 22% of revenue 1 year ago. Approximately \$47.6 million of the increase was attributable to the acquisition of RentPath.

Technology and development expenses increased by \$20 million as compared with the same period in 2020. The increase was primarily attributable to a \$12.8 million increase from RentPath. The remaining increase was primarily attributable to a \$5.4 million increase in personnel costs due to increased headcount. Total technology and development expenses represented 7% of revenue, down from 10% 1 year ago.

Marketing expenses increased by \$15 million, as compared with the same period in 2020. The increase was primarily attributable to a \$9.4 million increase from RentPath. The remainder was primarily attributable to a \$5.3 million increase in marketing expense. Total marketing expenses represented 3% of revenue, which is roughly flat compared to 1 year ago.

General and administrative expenses increased by \$43 million as compared with the same period in 2020. The increase was primarily attributable to a \$25.3 million increase from RentPath. The remaining increase was primarily attributable to an \$8.2 million increase in personnel costs due to increased headcount. In addition, we had approximately \$2.9 million in expenses related to a legal settlement, \$1.1 million in acquisition advisory expenses related to the Bay Equity deal and \$2.6 million related to our annual company event which we unfortunately had to cancel in December due to rapidly rising COVID counts. Total G&A expenses represented 10% of revenue, which is roughly flat compared to 1 year ago.

Net loss of \$27 million beat the better end of our \$31 to \$36 million guidance range. Diluted loss per share attributable to common stock was minus \$0.27 compared with diluted income per share attributable to common stock of \$0.11 per share 1 year ago.

Now turning to our financial expectations for the first quarter of 2022. Consolidated revenue is expected to be between \$535 million and \$560 million, representing year-over-year growth between 99% and 109%. We expect our real estate services segment to account for \$165 million to \$171 million of that revenue and the properties segment to be between \$330 million and \$350 million. RentPath revenue is expected to be between \$37 million and \$38 million, and RentPath's contribution to net loss is expected to be approximately \$19 million. Mortgage revenue is expected to be approximately \$3 million. This outlook does not include any contribution from Bay Equity as we expect that transaction to close in the second quarter of 2022. Our consolidated net loss is expected to be between \$122 million and \$115 million compared to a total net loss of \$36 million in the first quarter of 2021.

We expect real estate services gross margins to decrease in the first quarter compared with the same period in 2021 as well as the same period in 2020. This compression is primarily due to the changes we're making to lower agent loads and adjust compensation as described in our last earnings call. It's also worth noting that the first quarter is historically our lowest volume quarter, typically accounting for 16% or 17% of full year revenue, so we are leveraging a higher cost base against small volumes.

On a consolidated basis, this guidance includes approximately \$45 million in total company marketing expense, \$19 million of stock-based compensation, \$15 million of depreciation and amortization and \$5 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. As a result of the Bay Equity acquisition, we'll also incur \$5 million of restructuring expenses in the first quarter, most of which is for severance.

The 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.

And now, let's take your questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)And we'll take our first question from Naved Khan with Truist Securities.

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### Naved Ahmad Khan - *Truist Securities, Inc., Research Division - Analyst*

Yes. I've got a couple of questions, maybe one on RentPath, another on brokerage. On the RentPath side, Glenn, you said we are at the start of the -- sort of the improvement, not at the end of it. So if I kind of look out into '22 and '23, how should we think about the path to growth, along with EBITDA profitability? I know that you're going to start the integration in Q1. That's going to deliver some synergies. How should we think about it from the outside looking in?

And then maybe quickly on the brokerage side, revenue per transaction was down sequentially. I'm just wondering what were the sort of puts and takes there.

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

Great. I'll let Chris answer the second question. But about RentPath, the first order of business is to get sales going in the right direction. Traffic usually leads. And in this case, organic traffic is up by double digits, but customers are still leaving the platform. Some of that is because occupancy rates are really high. But we should be gaining customers' trust back. Especially as we add redfin.com traffic, we will be delivering significantly more inquiries to RentPath's property management customers.

So the name of the game in '22 is to get sales going, but we also need to improve EBITDA, and that will happen over the course of '22 and into '23. We understand that this is a company coming out of bankruptcy, that there is still some restructuring to do. But before we do that, we just wanted to make sure that Jon Ziglar, the CEO of RentPath, whom we hired to turn this business around, has had time to figure out what he wants to prioritize and what he wants to deprioritize. So in the coming months, you will see more from us on how we are going to get operating leverage over the next 2 years. Chris?

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### Chris Nielsen - *Redfin Corporation - CFO*

Sure. And then in terms of revenue per transaction, revenue per brokerage transaction and revenue per partner transaction, we're actually relatively close between the third quarter and the fourth quarter. There's a little bit of a mix shift towards a bit more partner transactions in the fourth quarter, and so that may have influenced the total figure. But otherwise, things are mostly stabilized there and running pretty naturally.

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### Operator

And now we'll take our next question from Tom White with D.A. Davidson.

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### Tevis Robinson

This is Tevis on for Tom. Two, if I may. First one on RentPath. Just wanted to know how we should think about the long-term margin targets once it's like more fully integrated within your business.

And then next on iBuying. I just wanted updated thoughts on your iBuying appetite like to get meaningfully bigger, especially after the pullout of one of your biggest players in that space.

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**Chris Nielsen** - Redfin Corporation - CFO

Sure. I can comment on the first one with regard to RentPath. We haven't laid out long-term targets or share those externally. We do think of the path there importantly as being launching that inventory on redfin.com that provides just a very important way for apartment buildings to meet customers who are already on Redfin that provides a catalyst to make some -- make longer-term changes in that business, including thinking about customer acquisition costs because there'll just be that much more traffic to be able to leverage from the website itself.

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

And just to address the second question, we are committed to iBuying at an existential level. We know that it's part of every homeowner's consideration set when deciding how to sell the property, and we want to be in the living room at the beginning of that process, which usually involves just asking, "Well, what could I get from a cash offer?"

But like all of our businesses, we are going to continue to develop a partner program so that we can be selective about the properties we buy. The only way to grow that business is to buy every house and condo at every price point, winter, summer, spring and fall. We know that we can't run that business at the margin and risk profile that we want, so we're going to run it on our terms, which means that when we have the capacity to renovate those homes and get them back on the market and when we know this is a property that we have the expertise to trade at a good margin, we'll buy it.

But other times, we're going to get demand where someone else could handle that better than we do. And today, we sometimes refer that, but often we turn it away. Over time, we may just look at other partners we could involve. That's just been the long-term direction for the brokerage, which has a partner program. It's something we're developing for mortgage, even though we've made this massive investment in Bay Equity. It's something we're developing for title. This is a boom and bust business, and we want to deliver a very consistent customer experience.

So the only way to do that is to sometimes call on partners. Otherwise, you end up hiring people who become idle, and that isn't the way we want to go.

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**Operator**

We'll take our next question from Jason Helfstein with Oppenheimer.

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

So I'm glad to see you acquiring Bay Equity. So just given that between that, as well as kind of the improvements around title, you can now offer a more complete offering. Just help us think about how we should maybe think about this over the medium term, like the next 2 years. Obviously, the real estate kind of guidance for the first quarter is less than kind of we were looking for. You're not giving full year guide. But should we think about, perhaps, I don't know, the medium term being more about investing to get the whole portfolio of services where you want it to be? Just how are you thinking about how all of these things play together from a maybe margin standpoint in like the medium term in the next like 12 to 18 months?

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

We do not see this as an investment phase but as an execution phase. We need to invest in RentPath. That is the one business that is not on track to be generating significant gross profit gains year-on-year, the way the other businesses are. But we expect the brokerage to take share every single quarter. I've been doing this for something like 64 quarters. There was only one quarter where we didn't gain share, and that was in the third quarter of 2020 because we were flat-footed on agent hiring, and we have an employee model. But the website is generating significantly more demand. It is going to pull through at some point. The guidance is based on just the closings that we can see now, but there is no structural reason

that our competitive advantage won't play very well this year. People need to get into homes at a moment's notice. They are going to use a broker that gives them better value.

So we expect the brokerage to keep taking share and growing the business quarter after quarter. We expect that lower loads is going to lead to more gross profit from the same number of customers because it's going to increase close rates. In our pilot, it increased it by about 15% over 2 years. That's a very well-founded result.

And then on mortgage, we actually just see this as much better leverage on 2 fronts. First of all, we're not building our own loan origination system, which was costing us more than \$10 million every year. So that's immediately going to fall to the bottom line. And then the second advantage is the Bay Equity is just a much more efficient underwriter of loans. So the amount of gross profit that Bay Equity generated from a homebuyer in 2020 -- excuse me, 2021 was similar to the amount of gross profit that we generate from a homebuyer. Now their pricing may change this year, especially because Redfin customers want value, and we want to make sure that we deliver that. But there's a significant opportunity to generate significantly more gross profit, especially as we drive a much higher attach rate because we've got a full product suite and because we've got full geographic coverage. We just didn't have enough loan officers to even begin to cover the territory with Redfin. So we see the Bay Equity deal as very accretive, not as a source of investment, but as a source of leverage.

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**Operator**

We'll take our next question from Ryan McKeveny with Zelman & Associates.

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

Glenn, I wanted to follow up on your last comment about the market share gains and the consistency you've had over time. So if I look back on an annual basis, let's call it something in the 10 to 15 basis points per year has been the trajectory. So I guess my question is where you guys sit today in terms of market share and that trajectory in the past, is that where you would have envisioned the business to be today, if we were to say go back 5 years and talk about the future? And going forward, are there specific factors we should be thinking about to potentially accelerate that growth, whether it's web traffic conversion, number of agents? I think it would be helpful for you to talk through kind of the potential drivers that could actually post stronger incremental share gains going forward?

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

Sure. Well, first of all, we never promised you a rose garden on market share. We promised you solid sequential growth. I've been asked so many times on these calls by you and by the media about whether we can do better than 10 to 15 basis points of share gain. And I've always said maybe. But right now, what we see is 10 to 15 basis points a share. The prospect of accelerating that is tantalizing to us, and it's what we're investing in by lowering customer loads on our agents.

Adam Wiener, who now runs the brokerage, who's our Chief Growth Officer. He is an analytical beast and also an inspirational figure. We are excited to have him in that role because he has a growth mindset. We are impatient with 10 to 15 basis points of share. I'm not promising that we can deliver that in the first or the second quarter of this year. But as we get the benefit from lowering the number of customers each agent supports, we should be able to take more share by driving improved customer success rates.

The problem Redfin has had has never been that we can't get people to try our service. Folks love clicking the button to see a home in a moment's notice. We just have to pull through on the sales execution. And the second lever here where the brokerage can become not just a fulfillment service but a true engine of growth is this idea that we can build our loyalty business. Our principal agents, the senior most agents at Redfin are, in some ways, these hybrid agents where they are still handling demand from the website, but about half of their business comes from loyal customers they serve in years' past.

So in past prints, we have talked about the increasing contribution from loyal customers. And so if you're getting the same amount of demand from the website but closing it at a higher rate, and you're having an increase in proportion of sales come from loyal customers, that is going to take its toll. And when you add to that increasingly effective media campaigns at higher dollar amounts in 2020, we paused the campaign, 2021 was the first year and 2 years that we've really been running significant media, all of that should lead to higher gains. We don't see that in the first or the second quarters. We know it's going to be a wild ride. But long term, we want to take more share than just 10 to 15 basis points a year, and that's something I wasn't talking about 2 or 3 years ago.

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

That's very helpful. One follow-up question would be on the productivity side of things. So I think we all kind of look at the productivity stats and make a connection to gross margin. And with the business moving forward, you made a comment that agent hiring for the future home buying seasons will be mostly in line with our growth. I guess is there any implication of that comment about productivity? Or is that separate from the productivity discussion in terms of kind of growing via adding agents versus growing the expanded productivity?

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

While being acquisitive about market share comes at a potential gross margin cost, we have mostly offset that by reducing the homebuyer refunds. We are very clear on one point that sellers are price-sensitive, that when we have raised prices on sellers, there has been a marginal trade-off in volume. But homebuyers have not been price-sensitive because, of course, they're not the ones paying their buyer's agent. They're not the ones setting that price. And so we do think that agent of productivity will decline slightly.

What we value more than an agent's time is a customer's trust. And so we are trading agent productivity for more gross profit, more market share, higher growth in the second half of the year because we will drive close rate. We're going to improve the quality of customer service and pay for the decline in agent productivity, which will be marginal by raising prices. And so you will see slightly higher revenue per transaction because the commission refund, I think, gets declining by a few hundred bucks. Chris, do you have anything to add on that? He's shaking his head, and I'm muting his -- sorry to talk over you, my friend.

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**Operator**

We'll go ahead and take our next question from Ygal Arounian with Wedbush.

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

I want to stay focused on the real estate services guidance. At the low end, it's down year-over-year slightly. At the high end, it's up slightly. But, Glenn, your -- to me, your macro commentary, certainly a lot of moving pieces tied to inventory but feels like there's still a lot of demand, still bidding wars, prices still staying relatively strong, potentially increasing. I know the inventory coming into the market maybe a little bit later in the year, but it feels like the overall health of the market -- I know we have some tough comps, but on the macro side feels -- still feels strong in 1Q. So just wanted to maybe start on the puts and takes in the guidance and how -- maybe tie your macro views with the guidance in real estate services.

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

Well, I'll start here and see if Chris has anything to add. And the first point is the one that you already made for us, which is that 2021 was a sizzling year. If you were to say that we just pulled forward some demand and look at the compound annual growth rate over a couple of years, it's in the mid-20s, which is exactly where we want to be. One headwind for us might be that the West is not doing quite as well as the rest of the country. People are moving from the West to the Midwest and to the East. And so if you look at California cities, in particular, we are concentrated there. We're also concentrated in Seattle, and those are the markets that are really suffering the most from inventory declines and price shocks.

So that's why we're fairly cautious. We do think that we'll take share. Pending home sales are down year-on-year. And we just have a ton of demand, Ygal. The question is how much of it's going to pull through and whether some of the people who are trying to make bids right now are actually going to end up saying, "Screw it. Rates went from 3.1% to 3.9%." So it's hard to bet then there's a pot of gold at the end of every rainbow when the weather is changing so fast.

So that's why our guidance here has been cautious. Obviously, we believe we're going to take share in Q1. We believe we're going to take share in every quarter in 2022. The only issue for us on share is just that there's slight concentration in the West when most of the home buying in the United States is happening in other parts of the country. Chris, do you have anything to add?

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**Chris Nielsen** - Redfin Corporation - CFO

No. It's a good summary.

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

Okay. Great. So maybe this next one then for Chris. Glenn, I'll give you a little break. Just on Bay Equity, totally understand the strategy. Is there anything you could share on integration plans? I know it hasn't closed yet, but time line, exactly how you think about integrating, how it impacts, how you put it in the funnel, on the website, things like that. Just anything we could think about as you aim to build that business into Redfin.

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**Chris Nielsen** - Redfin Corporation - CFO

Yes, sure. So this will be relatively integration light, and the reason is that Bay Equity's loan officers are already set up to do exactly what we want, and that is meet customers. And so the main way that we will kick-start the mortgage business is introducing Bay Equity's loan officers to the Redfin agents so that then our Redfin agents can make introductions to our customers.

Over time, there will be pieces on the website for people to come straight through, but we do think the main point of leverage, the main point of introduction will be from Redfin's lead agents to those loan officers. And so that does mean that there's less technical integration. There's less back-end integration, and this is really just about creating those connection points.

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**Operator**

We'll now take our next question from Ed Yruma with KeyBanc.

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**Samantha Hanley** - KeyBanc Capital Markets Inc., Research Division - Research Analyst

This is Samantha Hanley on for Ed. My first question is how has relocation demand trended versus the strength we saw earlier this year? And to go along with it, how is demand for consumer or customers looking for a second home trending?

And then separately, can you just give us an update on the concierge services option? And are there an increasing number of opt-ins for the service? And are you still focused on growing this part of the business longer term?

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

Sure. Great questions. Relocation has softened somewhat. It dropped to a lower rate in Q4 back to early 2020 levels. Second home demand is still off the hook. And I'm trying to remember -- oh, the third part was about concierge. Concierge is such a conundrum for us because our customers love it. Our agents want it. We've had some fulfillment challenges because it's just hard to get somebody to show up to redo the lawn, to paint the

walls, to get the work done. And that's our calling card is that it's on-demand service. You meet a listing agent from Redfin, and she promises to get your home on the market in 2 weeks and have it unrecognizably beautiful from where it is today. And getting it done fast drives massive returns for the customer.

We've already seen that with RedfinNow when we own the property. The same thing happens when our customers own the property, and giving them that upside is so important to everything that we do. You can only do so much marketing a home digitally or through a salesperson's individual efforts. What really drives a premium is when the homebuyer drives up, and it just looks gorgeous when the homebuyer walks in, and she's blown away. And so fulfillment has been the challenge there, especially with RedfinNow growing so fast and competing for some of the same people, the swing hammers and paint walls.

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**Operator**

And we'll move on to our next question from Curtis Nagle with Bank of America.

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

I just wanted to refocus on the real estate services gross margin. And I guess like a high level how to think about how that trends through the year, right? You guys gave, obviously, numbers for 1Q, obviously some pressures there. As we move through the year, volumes, as you mentioned, increase, right? I guess compensation still sticks in there. Where do you think we should -- where should it end up, I guess, for the rest of the year in 2Q, 3Q, 4Q or at least directionally? How should we think through that?

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**Chris Nielsen** - *Redfin Corporation - CFO*

Yes. So this is similar to what we were expecting when we talked about it a quarter ago, and that is we do think that real estate services gross margins will be down in the first half of the year on a year-over-year basis but that we'll see improvements in the second half of the year as some of the initiatives that Glenn talked about come online as we start to see some of the more significant benefits of having reduced the number of customers that each of our agents is meeting. That's what the trend that we're expecting is.

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

And just to clarify, that back-half improvement, would that be quarter-over-quarter, year-over-year? Yes, how to think about that.

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**Chris Nielsen** - *Redfin Corporation - CFO*

Sorry, yes, good clarification. That's comparing the same quarter of 2022 against the same quarter of 2021.

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

Understood. Okay. And then maybe just a quick one on iBuying. So I guess if I heard you right, it sounds like you guys are making higher bids, I think, for some of the homes that you're taking on. I guess what's the risk perhaps in a rising rate environment, declining affordability that, that could theoretically increase, I don't know, the probability or at least the chance that you may get separate house longer or may not price how you want? How are you thinking about that?

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

Well, the color we gave in the prepared remarks was that we did more in December, and the reason we talked about that is because we can already see that, that was the right bet. Inventory is very low, in part, for cyclical reasons; in part, for structural reasons that we discussed. But we are running on a knife-edge with iBuying, and we know it. And when we're not sure which way to go, we go low because we don't need that volume.

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**Operator**

We'll move on to our next question from Brad Erickson with RBC Capital Markets.

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**Bradley D. Erickson** - RBC Capital Markets, Research Division - Analyst

I guess two. So, Glenn, I think going back a little earlier on the call, you mentioned traffic, obviously, being a leading indicator for your business. I think overall traffic on the site has been flattish the past couple of quarters. Obviously, it seems like it's set up just from a comps perspective to grow again in the back half, kind of in line with some of your other commentary. Just talk about -- would love to get back to -- sorry, to get beyond some of the prior ceilings you've hit on traffic. What maybe marketing dollars need to be applied? Or do you need to spend incrementally around that?

And then one more on the gross margin, my apologies. I know this has been well addressed. But I guess just in the context of some of that linearity you just gave, Chris, how important is the partner business mix playing in that given the agent hiring you've talked about?

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

Well, why don't I answer the first question, Chris, and then you can handle the second. Is that fair? So traffic and marketing dollars are correlated but only weekly at Redfin. Most of our ads are really trying to recruit brokerage customers directly, and so it improves conversion rates or just in a direct marketing campaign, recruits customer straight into a form where that person can ask for service.

What's driving our traffic, number one, there's just a sequential improvement from October to November to December to January and beyond where we think that traffic will continue to improve. There might be some kind of macroeconomic headwind as home affordability gets pressured, but we've just been confident that traffic will continue to grow, in part, because of improved comps.

But the other factors are that we just have a broader geographic footprint. We're adding new inventory, rentals inventory, which will obviously bring renters to the website but also broaden our authority as a real estate destination and improve Google ranks. And then the final factor is that we've just been adding data about restaurants, parks, amenities, climate. There's a bunch of layers that are coming in over the next few quarters. And right now, different search engines are rewarding that, and they're doing so correctly because consumers want that information. And so that was the deficiency we had in the first half of 2021 that we were scrambling to correct. We did it ahead of schedule, and so we expect not only to take search share but also to be able to convert it better.

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**Chris Nielsen** - Redfin Corporation - CFO

And then in terms of the partner mix impact on real estate services gross margin, that will have a little bit of a depressive impact in that we do expect a few more transactions to move to the brokerage and away from partners, but it's not a significant change. It's not a meaningful change overall. And so mostly, we'll continue to have the kinds of transactions -- the percentage of transactions going to partner agents that we have in the past.

**Operator**

We'll now take our next question from Mark Mahaney with Evercore.

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**Mark Stephen F. Mahaney** - *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Internet Research*

Okay. Two questions. One, Glenn, I always appreciate your commentary, especially your views on the market. You made a comment, I think, that you expected inventory to start loosening up, I think, sometime in '22. And just you made the statement, but just put the why behind that. Why do you think that's going to be the case?

And then, Chris, if I could just ask on the Q1 guidance, just on the top line for the real estate services revenue segment. And you may have touched on this before, but please double-click. The guidance implies something like 24% sequential decline in revenue at the high end of the guidance, and that's a steeper decline than I think I can find in your model, even worse than the beginning of 2020. So why again is there such a sharp decline in revenue in the March quarter?

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

Chris, do you want to take that one first because it's such a humdinger. Do you need time to think about it?

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**Chris Nielsen** - *Redfin Corporation - CFO*

No, I'm happy to comment on it. We do see the real estate services revenue down more than we would typically expect from Q4 to Q1. We do see an awful lot of customer activity on the website and reaching out for service. But the piece of the funnel that has been most short so far is the one that Glenn mentioned on the call, and that's that in terms of booking of transactions, it's been slower than you would expect given those other 2 factors. And we believe that low inventory levels connects to the other part of your question, Mark, is at least one contributor to that. And we're working hard to get customers all the way through to close deals. But mostly, what you should expect from us in terms of providing that guidance is to give you the best view we have of the information that's come in. And including all the other factors that Glenn mentioned, that's the dynamic we're seeing from the website forward.

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

And we do think we have better visibility on what's going on with deals. Other brokerages wait for real estate agents to send in the closing paperwork, but we track it from tour to offer, to contingency, to close.

But to speak to inventory, I want to be careful because my overall comment was that inventory constraints are long term and structural, but I do think that inventory will get better over the next few months for 2 reasons. Number one, we just had a bunch of consults where people have talked about what they need to do to the house to get it ready. And anecdotally, we hear from agents that it's coming. I'm not sure how much weight to give that because real estate agents are always saying that at this time of the year, but that's definitely been a theme in my conversations with our people. Number two, I do think that as people start feeling like, hey, if I wait, it's not going to get better for me. Prices aren't just on an endless escalator, up and up and up. That creates some urgency.

And then the last point is just that the market does get more seasonal every year, and this goes back to problems with liquidity and credit. Basically, people have to be like that person you knew in college who could never break up with somebody until he or she had lined up the next one. So you've got to find a home to buy. That means that you're not listing until later in the season when you found that property. It used to be that we met more people who wanted to put their home on the market first and then start looking. Not many folks want to do that, and so it just compresses the listing season into later in the spring and early summer.

**Operator**

We'll take our next question 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 touring, Glenn? It seems like this is a very strategic stage of the transaction process. And I think you talked about it maybe last quarter with completions ticking up 2Q to 3Q. Did this continue to improve? Perhaps you could just talk about touring a little bit.

And then I wanted to ask about the properties segment in the fourth quarter, solid volume and gross margins hanging in there. How did renovation days trend? And I guess I'm just curious if you're more optimistic on the margin potential in that business than maybe you were at the outset or if it's the recent profitability is just a result of good execution. Any thoughts would be really helpful.

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

I'll talk about touring and leave iBuying to Chris this time. So our focus with touring in 2021 was really about adding capacity because we had so many people trying to get into properties. It was such a competitive market that being able to see the home first and buy it before other people even know it was for sale was so crucial, and we're still focused on that. But honestly, we've made so much progress there, and we still have so much work to do in the second part of the funnel that we're really now much more focused, not on the quantity of tours, but the quality of tours, where we meet a customer, and we really earn her trust. We understand why she's moving. We build a relationship with that customer. We drive through to closing.

Because people are freaked out, and they need advice on whether to buy this house or that house, whether to wait for the summer or to do it now before rates go up. So just the amount of attention that our customers need means that speed still really matters, but there's just more emphasis on getting our absolute best people out to the first tour and winning that customer's trust. Chris, do you want to talk about iBuying?

**Chris Nielsen** - Redfin Corporation - CFO

I do. Renovation times were better in the fourth quarter than they were in the third quarter. We just had fewer places where we got bottlenecked at all. The team did a really good job of moving inventory through the whole quarter. Some of that probably is just being more organized, having the right capacity in the right places to match up with the homes coming through and maybe a little bit of it has to do with availability of labor also. But overall, we were pleased with how that worked.

And just in terms of the profitability on that business, it has now come up to the kinds of levels we had talked about as a little bit longer-term margins. We do think that there's more operational improvement from here, but this is just probably continued to balance out a little bit from rising home prices. And so it's a combination of things that are leading to those results.

**Operator**

We'll take our final question from John Campbell with Stephens.

**James Brandon Hawley** - Stephens Inc., Research Division - Associate

This is James Hawley stepping in for John Campbell. So I just have 2 for you guys here. On the pace of lead agent hiring, we're seeing a rise in that count. Is there any insight that you can give us as far as what's driving that ramp? Is it something shifting internally like pricing? Or is it more market related and driven by that?



And then on the second question, diving in just a little bit deeper into the tours, can we get latest on the degree or the percent of virtual tours that you're seeing and how that's changed over the last several quarters?

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

Sure. So quickly, agent hiring ticked up because we lowered the number of customers each agent supports. This improvement in service quality and a pilot increased close rates compared to the control by about 15%. And so on that basis, we just decided to have more agents serve the same number of customers because we'll get more closings from the same number of customers. And we think we can make that gross margin neutral or close to it over time through price increases. Of course, Chris already talked about how that can get even better in the second half of 2022. And then what was the second question?

**James Brandon Hawley** - Stephens Inc., Research Division - Associate

The degree of virtual tours that you're seeing now and how that's changed over the last several quarters?

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

Gone up a little, yes. Like it got above 20% of our tours when the pandemic first hit, and then it came back down closer to 10%. And then with omicron, it ticked up. But also because I think people were relocating, and there's a convenience factor and all the rest. So it's in the teens.

Thanks, everybody. We had fun. We appreciate all your insightful questions. You've clearly studied the business.

**Operator**

Thank you. And that does conclude today's conference. We thank you all for your participation. You may now disconnect.

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