REDFIN

Q2 2024 Prepared Remarks

Good afternoon and welcome to Redfin's financial results conference call for the second quarter ended June 30, 2024.

I'm Meg Nunnally, Redfin's head of investor relations. Joining me on the call today is Glenn Kelman, our CEO, and Chris Nielsen, our CFO.

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

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

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

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

CEO Remarks

Thanks Meg, and hi everyone.

Redfin Beat Revenue and Profit Expectations

Redfin's second-quarter earnings were at or near the top of the range we discussed in our last call, setting us up to be roughly adjusted-EBITDA break-even for the full year. Second-quarter adjusted-EBITDA was break-even, when we had said it would be between a $4-million loss and a $2-million gain. Real estate services revenue was $188 million, compared to guidance of $180 to $188 million.

The First Year-Over-Year Share Increase in Nearly Two Years

The share of home sales brokered by our own agents and through referrals to our partner agents increased, from .75% in the second quarter of 2023 to .77% in the second quarter of 2024, our first year-over-year share gain in nearly two years. We expect these gains to continue in the third quarter, largely on the strength of Redfin Next, the plan to pay agents entirely on commissions that four California markets tested in January 2024. Entering 2025, we expect Next to be Redfin-wide.

Integrating Rent Lets Us Invest More in a Larger Marketplace

For the first time in years, we have a plausible basis for accelerations in brokerage market share, but being the best at monetizing for-sale housing demand is only one half of our strategy. The other is broadening our online audience to include people looking for a rental home. To focus our resources on growing our rentals marketplace, Redfin began integrating Rent in January 2024, so that both businesses draw on the same human resources experts, finance system and cloud software. As a result, Rent's second-quarter operating expenses fell 19% year over year, with a nearly identical marketing budget.

On Every Front, Structural Change

This restructuring of Rent caps a series of seismic changes that began just as we tipped into the downturn. In 2022, we ditched our own loan-origination system and closed our mortgage business in favor of buying one of our customers' favorite lenders, Bay Equity. In 2023, we closed our iBuying business, RedfinNow, and invested in digital businesses that immediately began contributing significant profits. And now in 2024, with the integration of Rent and the shift to a salesforce paid entirely on commissions, Redfin is more efficient, resilient and ready to scale.

U.S. Home Sales Are Down 3%, Redfin Revenues Are Up 6%

Already, profits are better. From the first half of 2023 to the first half of 2024, sales of existing U.S. homes fell 3%, but Redfin revenues increased 6%, and our profits improved by more than $40 million. As our restructuring drives more rentals traffic and better brokerage service, we expect revenue growth to accelerate, with most of that growth falling to the bottom line. When the housing market starts to recover, we'll do even better.

Traffic: Redfin Pushes the Pace on Artificial Intelligence

Now let's dive into our detailed business review, which starts, as it always does, with the network of websites that are our primary source of customers. We keep finding new applications for artificial intelligence, to determine which photo of an apartment to show first, and to let homeowners imagine how to redecorate their place. We've also developed a new self-service tool for the owner of a rental property to post her listing on Redfin.com, which will reach the entire U.S. in September.

ComScore Indicates That Redfin.com Is Growing Faster than Other Sites

Building a better mousetrap has kept bringing more people to our door. According to Comscore, second-quarter visitors to Redfin.com grew 4% year over year, faster than both Realtor.com and Zillow.com. This year, we've competed effectively for traffic even as our largest online competitors have been able to quintuple our mass-media advertising budget. When consumer interest in home buying rises from its current low, we'll hit back with larger ad campaigns of our own.

A New Brokerage Vision: The Empowered Entrepreneur

Though Redfin.com has drawn visitors from competitors, our 2024 share gains have mostly come from sales execution. In the four California markets that piloted Redfin Next, first-half share increased by six basis points year over year. For the customers that come from Redfin.com, Next agents close more sales but at roughly the same margin as our salaried agents.

Next Impact on Margins Largely Temporary

Rolling out Next across 2024 is lowering second- and now third-quarter real-estate-services margins due to one-time transition pay for Redfin agents losing their salaries. The increasing variability of our agents' income will also dampen the seasonality of our margins: Next agents earn more than before in busy summer months and less than before in the winter. Getting similar full-year margins with less seasonal volatility should make Redfin easier to run.

Redfin Next Gives Us the Capacity to Meet Every Home Buyer

The capacity that Next has given us to hire more and better agents, with less financial risk, has been why we could become more disciplined about requiring a lead agent to host the first meeting with a home buyer, in the *all-you-can-meet* program we launched broadly this spring. In years past, Redfin asked the contractors we hired for short-notice property access to handle up to 40% of our customers' first tours. Our lead agents make the Redfin case far better than these contractors.

Meeting Every Home-Buyer Lets Us Ask for the Sale From the Start

Meeting every new customer has, in turn, been a prerequisite for our *sign-and-save* program, also launched widely this spring, in which the lead agent asks the home-buyer for a commitment to that agent, in exchange for lowering our commission. Nearly half our sales now come from customers who signed a Redfin contract weeks or months before bidding on a home. Early data on customer engagement indicates that *all you can meet* and *sign and save* have lifted home-buyer close rate for the first time since 2020, but the gain would be larger if we had more agents.

Redfin Next Expanding Nationwide

We've hired more than 200 top-producers over the last six months. Over the next nine months, our lead-agent census is likely to keep increasing, but without the capital risk of salaried agents. This month, Next will be how we pay agents in markets that accounted for 74% of 2023 revenue, up from 17% in January and 30% in May.

Industry Reforms May Encourage More Agents to Compete on Price

Changes mandated by the National Association of Realtors' March 15 settlement of a class-action lawsuit, which must be complete by August 17, may help with recruiting, by encouraging more agents to consider a brokerage built to compete on price. In the handful of markets where the local Multiple Listing Service has already stopped showing the commission offered to a buyer's agent for a listing, agents are calling one another to find out what the seller's willing to pay. The answer is usually that the amount is negotiable. Few listings are offering a fixed percentage to the buyer's agent. Negotiations have been straightforward at least for now, first because many sellers who listed their homes before the rules changed already expected to pay a fixed-percentage commission. A second reason is that the market began shifting in buyers' favor as the rules changed, leaving many sellers glad to get any offer before the home-buying season ends.

A Value-Driven Home-Buyer May Favor Redfin

Our experiments with the *sign-and-save* program beginning in late 2023 have already prepared us to disclose our fees from the first tour. And we've been an outlier among industry leaders in believing that the reforms could meaningfully lower fees. Like nearly every real estate business, we'll make less on each sale if fees go down, but we may be the only large-scale broker eager to offset that with more sales at lower prices. In the event home-buyers become as value-oriented as sellers already are, Redfin will use more-aggressive sign-and-save pricing, and more direct sales of a listing to the buyer, to gain share.

Mortgage & Title Businesses Protect Profits If Brokerage Fees Fall

Our ancillary businesses are one reason we can make money from brokerage customers at a lower price. Bay Equity improved adjusted EBITDA from a $2.2 million loss in the second quarter of 2023 to a $1.1 million profit in the second quarter of 2024. Of the brokerage customers who financed their second-quarter home purchase, 28% used Bay Equity, the same as in the first quarter, but up from 24% in the second quarter of last year. To drive this number even higher, we're investing more in our systems for introducing brokerage customers to our loan officers.

Ancillary Profits Will Let Us Spend More to Meet a Customer

We rarely talk about our title business, Title Forward, which is part of our *other* segment. That segment also includes the money we earn from display ads and our mortgage marketplace for routing website visitors directly to a lender. But Title Forward's performance has been extraordinary, with second-quarter attach rates above 60%, and year-over-year revenue growth above 50%. We've said that Title Forward's long-term gross-margin goal was 20%, but in the second quarter it was greater than 30%.

A New Sales-Driven Leader at Rent

Before turning to the state of the housing market, let's discuss our rentals segment, which improved adjusted EBITDA from a $9 million loss in the second quarter of 2023 to a $1-million profit in the second quarter of 2024, on 12% revenue growth. We expect growth to remain muted through the second half of 2024, but then to increase on the strength of significant investments being made now in traffic. We've hired a new president, Damon Joshua, to run Rent; previously he worked for 12 years at MarketSource, leading a global team responsible for billions in revenue. When we get more traffic, Damon will get more sales. In the meantime, Rent will still make money. After losing $31 million in 2022 and $15 million in 2023, Rent this year will generate its first full-year adjusted-EBITDA profit as a Redfin business unit.

The Housing Market

We've been glad the rentals segment has reduced our dependence on the for-sale market, because the for-sale market had, at least until last week, been terrible. Over the four weeks ending July 28, industry-wide pending sales fell 5.3% year over year, and the decline had been widening even as rates began to ease. Inventory is rising but 30% below pre-pandemic levels. Affordability is near a 40-year low.

Shifting Toward a Buyers' Market

Yet as we already noted, the market is significantly shifting in buyers' favor. Twenty two percent of active listings have dropped their price, the highest percentage since we began tracking this number in 2012; 36% of listings accepted an offer within two weeks of their debut, down from 41% the year prior.

Prior To Last Weekend, Buyers Had Hardly Responded to Rate Drops

Interest-rate declines haven't so far increased competition for listings. From April 30 to July 24, mortgage interest rates fell from about 7.5% to about 6.9%, with almost no reaction from homebuyers. Industry-wide mortgage-purchase applications have been mostly below last year's levels. It has been the first time in years that a major interest-rate drop had no impact on home-buying demand.

Then Rates Dropped Again, And Still Only a Muted Response

Then from July 24 to yesterday, rates dropped below 6.35%, and finally the number of Redfin.com home-buyer inquiries increased last weekend over the prior two weekends. But that gain was still only modest, and, among the customers already engaged with our agents, offer-writing activity actually declined compared to the prior two weekends.

Near-Term Customer Anxiety, Long-Term Redfin Optimism

Agents we polled on Monday about the low number of offers cited broadening economic anxieties, the distraction of a presidential election, and homebuyers' growing belief that time is on their side. In a shifting market, sellers often get stuck on the asking price from last month, while buyers imagine they can get an even better deal next month. If rates keep falling, U.S. home sales should increase. We expect rates will stay low through the winter and into next spring, which should lead to a much stronger housing market in 2025. I believe the housing market is about to get better, and that Redfin is also going to take share. Take it away Chris!

CFO Remarks

Thanks, Glenn!

Second-quarter revenue was $295 million, up 7% from a year ago. This marks our second straight quarter of organic revenue growth. At the same time, gross profit of $110 million was up 9% year-over-year, and total gross margin expanded from 36% to 37%.
Total operating expenses were $139 million, down $10 million year-over-year. The decrease was primarily attributable to a $5 million decrease in amortization expense, as the intangible technology assets acquired with Rent. completed their amortization, a $5 million decrease in restructuring costs, and a $4 million decrease in personnel costs. These reductions were partially offset by an $8 million increase in marketing media and production expenses.

Our adjusted EBITDA was flat, up from a loss of $7 million in the prior year. We continue to make steady progress towards positive adjusted EBITDA. Our trailing-twelve-month adjusted EBITDA loss stands at $33 million today, compared to a loss of $123 million one year ago. As Glenn said, we expect to be roughly adjusted-EBITDA break-even for the full year.

Since our May earnings call, housing market conditions have worsened, and there is uncertainty around how quickly consumers will respond to lower mortgage interest rates and the larger macroeconomic backdrop. We'll continue to make progress on everything we can control, and keep driving for profits. We've been growing our digital businesses and rolling out Redfin Next, which makes agent compensation more variable and reduces expenses in seasonally slower months. As a result, we expect to add meaningful profits in both the third and fourth quarters.

Turning back to our second quarter results, net loss was $28 million, compared to a net loss from continuing operations of $27 million in the prior year. This was at the top end of our $28 million to $34 million loss guidance range. Net loss included a $6 million gain on extinguishment of notes that was not contemplated at the time of guidance. Our adjusted EBITDA from continuing operations was flat, which was in line with our guidance range of negative $4 million to positive $2 million.

Diluted loss per share from continuing operations attributable to common stock was $0.23, compared with $0.25 one year ago.

Now turning to our segment results, real estate services generated $188 million in revenue, up 4% year-over-year. Brokerage revenue, or revenue from home sales closed by our own agents, was up 5%, on a 3% increase in brokerage transactions and a 1% increase in brokerage revenue per transaction.

Revenue from our partners decreased 11%, on a 14% decrease in transactions offset by a 4% increase in partner revenue per transaction.

Real estate services gross margin was 28.6%, down 250 basis points year-over-year. This was primarily driven by a 330 basis point increase in personnel costs and transaction bonuses, partially offset by a 200 basis point decrease in home-touring and field expenses as we have eliminated compensation for home-touring and field expenses and replaced it with transaction bonuses for some employee agents. In addition, there was a 120 basis point increase in home improvement costs incurred on behalf of home sellers.

Total net loss for real estate services was $18 million, compared to a net loss of $9 million in the prior year, and our adjusted EBITDA loss was $4 million, down from positive $9 million in the prior year. The decrease was attributable to lower gross margin and higher marketing expenses.

Our rentals segment posted its seventh straight quarter of growth, with revenue of $51 million and growth of 12%. Rentals gross margin was 77.2% compared to 77.0% a year ago. Total net loss for rentals was $7 million, up from a net loss of $23 million in the prior year. Adjusted EBITDA for the second quarter was $1 million, marking the rentals segment's fourth straight quarter of positive adjusted EBITDA.

Our mortgage segment generated $40 million in revenue, up 5% year-over-year. This result was within our guidance range of $39 million to $42 million. Mortgage gross margin was 19.0%, up from 10.8% a year ago. Net loss for mortgage was nil, compared to a loss of $4 million in the prior year. Adjusted EBITDA was positive $1 million, up from a loss of $2 million in the prior year.

Our other segment generated revenue of $17 million, compared to $11 million in the prior year, as both our title and digital revenue businesses grew. Other segment gross margin was 54.0%, up from 44.1% a year ago. Total net income was $7 million compared to $3 million in the prior year, and adjusted EBITDA was $8 million compared to $4 million in the prior year.

Now turning to our consolidated financial expectations for the third quarter of 2024:

Total revenue is expected to be between $273 million and $285 million, representing year-over-year growth between 1% and 6% compared to the third quarter of 2023. Included within total revenue are real estate services revenue between $171 million and $179 million, rentals revenue between $50 million and $51 million, mortgage revenue between $36 million and $39 million, and other revenue between $15 million and $16 million.

Total net loss is expected to be between $30 million and $22 million, compared to net loss of $19 million in the third quarter of 2023. Adjusted EBITDA is expected to be between $4 million and $12 million.

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

Questions & Answers

Operator
Your first question comes from Jason Helfstein with Oppenheimer. Your line is open.

Jason Helfstein
Thanks for taking the questions. I guess, two. How should we think about real estate gross margins once the majority of agents are under Redfin Next? And then just more broadly, just how should we think about long-term company EBITDA margins as you leverage real estate traffic across all the segments and then kind of under the Redfin Next model? That's question one. And then just a follow-up. Chris, you may have said in the comments, but the other EBITDA, was the strength from title or from advertising there?

Glenn Kelman
Why don't I take the first one, Chris, and you can take the second one. We think that long term Next will have similar gross margins on sales sourced from redfin.com. There may be incremental sales that we wouldn't have gotten in past years as agents become more entrepreneurial and source their own business, but that should be incremental gross profit. Our focus is on the gross profit we can generate from sales sourced by redfin.com.

So we expect gross profit to grow faster, and we expect margins from redfin.com-based business to be the same or better. There might be some pressure from the NAR settlement fees being lower, agents wanting better splits across the industry, but we think we can offset that by getting more efficient with support and management. A more entrepreneurial agent doesn't need to meet her manager every week. So there's some upside in our margins.

And looking more broadly at Real Estate Services, we also think there's upside because the overall trajectory of the business is to get more digital. This is an issue that you've asked about before, Jason, and we think you've been right on the money that building our digital businesses, building our rentals marketplace, having that be a larger piece of the overall puzzle, should improve the gross margins of the company.

And then we're just running more efficiently. So with less fixed cost, our growth should drop more dollars to the bottom line. Obviously, we plan to become a significantly profitable company and the way that we're going to do that is by growing while holding fixed costs steady and having gross margins move up over time. Chris, do you want to take the second part?

Chris Nielsen

Sure. And then in terms of our other segment, this is a place we've seen strength all year, and it really is those two core components that you mentioned, Jason. So both the title business is delivering well, plus we're getting more advertising revenue all the time from—across the website, different inventory on the website and different capabilities that we've been able to put in front of advertisers. So both pieces are hitting really nicely right now.

Jason Helfstein
Appreciate the color. Thank you.

Operator
Your next question comes from Ryan McKeveny with Zelman & Associates. Your line is open.

Ryan McKeveny
Good morning, Chris. Thanks for taking the questions. Maybe for Glenn. On Redfin Next and the recruitment efforts there, I guess when we think about all the ways that we can slice and dice agents in the industry, so whether that's people new to the industry or veterans or those who like online leads versus those who don't or individual agents versus teams, there's a lot of ways we can slice and dice things. But I'm curious if you can talk about the types of agents that the Redfin Next approach is resonating most with? Is there a characteristic or type of agent out there where you're finding success on the recruiting side or who this seems to be the most appealing option to? Thank you.

Glenn Kelman
Another great question. Thank you, Ryan. Well, there are two dimensions to that, we do think the appeal is broad. So a wide range of agents have applied for the job. But what we've learned is that the agents who have experience working with online opportunities, whether through Redfin's partner program, Zillow's, Realtor, some other website, they have the systematic approach to maximize gross profit from a given online set of opportunities. So they're going to be very driven to have a high close rate.

There's just a different way you need to approach online customers because they may have gone to three different websites or introductions to three different agents. So you need to be fast and you need to be good. So that has been our experience. Getting agents, not just with the great lifetime deal count, but with good deal velocity unsurprisingly has also been important. So what have you done for me lately is a really key question.

And then I think the next dimension for us is teams. So we want the Redfin promise to be that when you come to our website as opposed to any other real estate website, you're just already more likely to work with a top producer. We want to double down on that by forming teams around our top producers, which allows us to develop new-to-the-industry type agents under a top producer and being able to work together in those teams has already been quite effective for us and some pilots.

So we think that will let us scale out hiring and draw on a well that has been very deep for us in the past, whenever we've been able to take associate agents who already know our system and moving into agent roles. They've done well, except in the luxury segment. And so now we're going after top producers, and we think we can still pair them with that junior agent, combining quality and quantity. We need more agents just to meet the new service levels that we've established in 2024.

Ryan McKeveny
That’s very helpful. Thank you so much.

Glenn Kelman
Thanks, Ryan.

Operator
Your next question comes from Ygal Arounian with Citigroup. Your line is open.

Ygal Arounian
Hey. Good afternoon, guys. I'll start on the NAR buy-side fees. Glenn, it sounds like your base case here, base case expectation is that there will be some compression on fees. Maybe if you could just elaborate on that and kind of where you think things will balance and can you also elaborate on that point of trading off the lower fees per sale for driving more volume and kind of what the strategy is around that.

Glenn Kelman
Sure. So another great question. We've had early experience with this in places like Indianapolis and Houston, which issued their rules ahead of the August 17 deadline. And what we've learned is that there may be different fee levels that our competitors have in those markets when they list a property and offer a commission to the buyer. And if one was 2.75% and another was 2.5%, it seems like 2.5% is becoming more common. Or if it were 3% and 2.75% or if it were 2.5% and 2.25%, it seems to be moving towards that lower number. If you look at the chart, you can really tell how commissions have come down since March 15. Commissions have been very stable over the past decade for buyer's agents where they think they've been more competitive for selling agents.

So our belief is that there will be some pressure on commissions. It's very early to make that call. I do think that some of the people who listed their home already had a preconceived notion of how much they would pay the buyer's agent. Next spring when people list their home, those preconceived notions may not be as ready set.

The other factor that we mentioned in the call is just that it has shifted toward a buyer's market. So if sellers are going to be careful about how much they pay the buyer's agent, that's easier to do when you have multiple offers. But right now, another reason that sellers have been fairly amenable to paying the buyer's agent is because they started to worry they're not going to get an offer.

So we may see more price pressure over time. And we've already got a mechanism to deal with that where we meet the customer at the first tour, they have the Sign & Save offer where we can lower the commission. And we've tried in the past to recruit buyers by offering them a better deal. And mostly, they've been confused by that because they haven't been the ones paying their agent. They don't understand how commissions work. And that seems to have significantly changed. And so if that happens, we think we can use price as a weapon to gain share. And over time, that may mean that the margins between our listing service and our buyer service equilibrate. So we're making the same margin on both.

Today, almost all the savings are concentrated on the seller because that is the customer who has been most price sensitive. So our goal here would be to use this to drive close rate where we close more of the customers by offering them a better deal from the moment we meet them and actually to use it to just drive more demand off the website itself because we're known for being a beacon of value.

Ygal Arounian
Great. That’s really helpful. And maybe a follow-up on the margin side. And I guess, clear, okay, we're getting to the break even here, but you talk about being significantly profitable in the years ahead. Maybe I'm not expecting you to put a number around that right now, but if you could help kind of understand the path to that or what significantly profitable looks like? What would you guys need to get there would be helpful. Thanks.

Glenn Kelman
I'll start, and Chris can finish here. We do think that we can get more scale in real estate services at similar margins and that we can generate more gross profit from the same amount of online demand. But we also expect online demand to grow. If you look at the National Association of Realtors numbers, their annualized rate as of July 23 was 3.9 million. We haven't been at that level since 1995 when the population was 25% lower.

So if real estate services can crank it out this year, it can really make more money next year. But we also expect these other digital businesses to grow. So we haven't completely monetized the website. We haven't really scaled our rentals marketplace. So we think that years of being overfocused on the brokerage and under focused on these other digital businesses are now shifting and that there's significant upside there.

So part of our bet is that we're going to take share. Part of our bet is that even as the real estate industry gets nasty, there's still moves that we can make to get more efficient. We talked about support and management costs. Part of our bet is that the housing market will get better. But the overarching thesis of the company is that it's just gotten more digital, and that process will continue, and there's a lot of money to be made there. Chris, why don't you add to that?

Chris Nielsen

I will. The one thing I just wanted to add was on the cost front, where even from the first quarter into the second quarter, we brought down tech and dev and G&A costs, and we do expect to continue to be really careful, really tight on cost, to manage business for the rest of this year. But more fundamentally, we do think we have the right cost structure in place to be able to grow the business on top of that. So it is that combination of continued revenue growth and holding down costs that allows us to drive to profits.

Ygal Arounian
Great. Thank you, guys. That's really helpful.

Glenn Kelman
Thank you.

Operator
Your next question comes from John Campbell with Stephens, Inc. Your line is open.

John Campbell
Hey, guys. Congrats on a great quarter. On the guidance for real estate revenue, I just want to maybe start there. At the midpoint, it looks like you're calling for a 7% sequential decline. If I go back and look over the last 10 years and basically take out some of the outliers, I think there's a rate spike kind of fall out in 2022 and nd then obviously you had a big jump during COVID in 2020. But that last 10-year average is up modestly sequentially. It seems like you're going to get some rate relief here, who knows how much the market will respond to that.

But Seattle, that's your top market that it looks like the July results were really strong. You had lead agent count up 4% into 2Q, thinking that probably sets the stage for some seasoning of those agents into 3Q, but I'm struggling to square up all that with your guidance. Maybe if you could start with unpacking how you expect the market to fare in 3Q. Are you expecting it to be down a fair amount, I guess, just housing activity? Or is that maybe a little bit influenced by the conservatism with some of the market changes coming on August 17?

Chris Nielsen
Sure. So the way we always set guidance is based on what we can see in terms of customer behavior, but also booked revenue. And so we're sitting here today with a view on July and somewhat on August. And I think our take is that the market has been slow in the last couple of months in general, and that has influenced what the revenue guidance looks like. We're not making a significant assumption about an improving housing market as we move forward from here, coming from the lower mortgage interest rates that we've seen more recently. That certainly could happen, and we would be thrilled if it pulled through in that way, but it's still too early to make that call.

John Campbell

Okay. And then—

Glenn Kelman
And it's been like—oh, John, just briefly. It's been Twilight Zone, man. The economist dug up some weird little period in 2016 where rates went down and mortgage purchase classifications didn't go up, but I don't remember it. I can't remember a time when rates came down this far, this fast, and the market has been so muted in its response. And we just have to believe that it will. But the immediate reaction, we have a better instrumented funnel than I think almost anyone else has just been, meh. I know you had another question.

John Campbell
Yeah. No, that's good color. And I guess kind of related to that, as far as your market view, the roughly breakeven EBITDA for this year that you've put out there. I'm just curious how much of that is—you're viewing self-help and cost containment versus the macro. I guess said another way, do you feel like you can still hit that market even if consumers don't really react to lower rates like you're mentioning?

Glenn Kelman
Yes. It isn't based on anything except self-help. Help is not a strategy.

John Campbell
Perfect. Thanks, guys.

Operator
Your next question comes from Curtis Nagle with Bank of America. Your line is open.

Curtis Nagle
Great. Thanks so much for taking the call. So maybe just segueing on that point, Glenn, a question for you. So in terms of this kind of nonresponse, right, from consumers and rates, which to your point is highly unusual. I guess how much of it do you think is just some of the color we've picked up, people just a lot more aware kind of total home costs, whether it's taxes, insurance, rates, financing, a part of that and just it may just simply take much longer for this unwind to, I guess, acclimatize, right, to higher costs? Or do you think what can help rates and perhaps prices going down that, that will be enough to unlock given so much underlying demand?

Glenn Kelman
Great question, Curt. I think some of it might just be that it came too late in the homebuying season. Some people are on vacation this week. And so the reaction has been slower. If that had happened in April, May, June when people were raring and ready to go, maybe they would have had a different reaction. Some of it is just that America has become so partisan that people are now convinced that the only thing that will save the housing market is if their candidate wins, and I'm not sure that goes one way or the other.

But be that as it may, Americans are distracted. There's some fatigue and the reaction may be slower. It's just inconceivable to me that there won't be a reaction. The actual physics of how much you pay every month have significantly changed no matter what the insurance offset might be in Florida or California.

Curtis Nagle
Yeah, okay. That makes sense. And then—so in terms of just thinking about the partnership business, any effect in terms of, I guess, revenue contribution with Next coming in, maybe revenue from one going to the other? Or yeah, how should we think about that generally kind of through the year into next?

Glenn Kelman
Well, we think that the partner business is going to continue to grow for two reasons. One is that some of the sales execution improvements we're seeing in the brokerage, we're also seeing in the partner business. We hired a new leader to run it, and she's just absolutely fantastic. And then the other reason is that we aren't going backwards on our digital shift.

We have decided that we want to focus the brokerage on the most profitable opportunities, and we do need more agents to do that because we're raising our service levels and finding out the extra agents are paying for themselves through higher close rates. That isn't giving them more opportunities. They're getting kind of the same proportion of opportunities, but just meeting more customers, serving them better, getting a higher close rate. So the business is going to continue to shift toward a more digital margin. And we're going to continue to be rational about who's the best person to serve this customer, who's going to deliver the highest close rate and the most profit.

Curtis Nagle
Got it. Thanks very much.

Operator
Our next question comes from Jay McCanless with Wedbush. Your line is open.

Jay McCanless
Hey. Good afternoon, everyone. So Glenn, just to take this a step further, what is Plan B if mortgage rates don't come down? Because to me, this sounds very much like August of 2023 where everyone said rates were going to come down and we really didn't see that move this year until we thought the employment numbers were starting to fade a little bit. So kind of walk us through what the Plan B is if rates go back to high 6s, low 7s.

Glenn Kelman
Great question. Plan B is to drink our own urine or our competitors' blood, stay in the foxhole. I don't know if you remember, but the last earnings call ended with me singing a line from a Who song, Won't

Get Fooled Again, where I had said we're not banking on low rates when other people had thought they might come down.

I don't know. I'm just very, very seasoned in ups and downs in the housing market. If it comes, it will be upside. We've built a model that's more resilient, so we don't have to hire a bunch of salaried agents in advance of that. We're ready to take share if the market grows, we're ready to take share if it doesn't, but we're not going to ease off.

Jay McCanless
Okay. That's all I had. Thank you.

Glenn Kelman
Thank you. We'll drink our urine before the blood. Actually, I wish I just hadn't said that. I'm a lover, not a fighter.

Operator
There are no further questions at this time—

Glenn Kelman
—On that stunning note—

Operator
—This concludes the Redfin Corporation Second Quarter 2024 Earnings Conference Call. Thank you for attending and have a great rest of your day.