

Selling to an Algorithm

Agents reveal the ins and outs of working with “iBuyers.”

BY CAROLYN SCHWAAR

Erica Ockey, an agent with Signature Real Estate Group in Las Vegas, officially left her comfort zone the day her clients expressed interest in selling their home to a tech startup. Opendoor, one of a host of emerging players known as iBuyers that are shaking up traditional business models by promising to streamline transactions with quick all-cash offers to sellers within hours, is drawing the attention of real estate pros and stirring as much intrigue as handwringing within the industry. But when her clients fell in love with a home owned by Opendoor—and the only way to get it was to sell their current home to the company—Ockey forged into this unfamiliar terrain. She couldn't easily banish the thought that she was working with a company that boasts that homebuying and homeselling is faster and easier without listing agents or buyer's agents. She'd seen the ads; they were everywhere on TV and radio: Get an offer with the click of a button, skip the showings, sell on your schedule—but there had to be a catch, she thought. Among the questions Ockey had about these iBuyers: How much below market value are their offers? What are the fees and conditions, and are they transparent to sellers and buyers? What kind of customer experience did they offer? She went online to Opendoor, Offerpad, and others in the Las Vegas market and entered the details on her client's home. The instant offers varied widely, with one more than \$60,000 below the estimated market value. But when Opendoor came back with a reasonable initial offer on her clients' home, Ockey and her clients cautiously went ahead with the transaction.

How It Works

Opendoor, which launched in 2014, says it's not a house flipper. “We aim for fair market offers, making money on the fees we charge, not the profit on resale,” says Jim Sexton, head of Opendoor's broker development. The company says it sells 800 homes a month across its 11 markets, with plans to expand to 50 markets by the end of 2020. Currently, it has nearly 3 percent market share in Las Vegas.

Opendoor eyes markets with ample volume, size, and liquidity, Sexton says, adding, “We're looking for markets that don't have many barriers to entry, such as hefty transfer taxes or other local or state regulations that make a transaction difficult.”

An Opendoor competitor, Offerpad, operates in eight

markets with plans to expand, while Zillow, one of the newest entrants into the direct buying niche with its Instant Offer program, has been successful in Las Vegas and Phoenix, where it expects to buy and sell up to 1,000 homes by year's end. The new Redfin Now program is available in two California test markets, and Knock, operating in Atlanta and in Charlotte and Raleigh, N.C., enables "trade-in" clients to buy a new home before their existing home is listed.

These companies all claim to speed up and simplify the real estate transaction while removing uncertainty and inconvenience for sellers and buyers. The appeal of the marketing spiel is easy to understand, but how applicable is this model for most consumers? And how likely is it that these companies will become significant players in many markets?

"The market is really driving this model," says real estate consultant Victor Lund, founder of WAV Group. "The convenience factor, along with an alignment of circumstances are contributing to the growth of iBuyers. Consumers have built up a lot of equity in their homes since the recession, interest rates are low, days on market are low, prices are up, and there's lots of competition, which puts cash buyers in a better position to buy." These circumstances create the optimal environment for iBuyers to thrive. Lund believes that once prices slip and homes generally take longer to sell, consumer interest in iBuyers will fade.

Among agents who have interacted with these models, what are they finding? Despite iBuyers' claims to revolutionize the real estate transaction, some agents are finding their transactions are neither quick nor seamless. For example, after Ockey's clients accepted the Opendoor offer, the next step was the inspection. A team of five Opendoor contractors—one for electrical, one for plumbing, one for foundations, and so on—went through the house with a magnifying glass, says Ockey. "They asked us to fix everything you could think of. They wanted bathtubs and toilets replaced if there was even the slightest blemish. They wanted showers retiled and regouted. It wasn't little projects; they wanted to remodel the home, and they wanted the seller to pay for it."

The requested repairs came to about \$16,000 on a \$300,000 home. Ockey spent weeks negotiating that figure down, which added time and worry to the transaction. "Having representation saved my clients thousands of dollars, but in the end, they made about \$10,000 less than they would have

selling to a traditional buyer. It's not horrible, but it's a lot of money when you only have \$20,000 or \$30,000 in equity."

In the Atlanta market, Knock says its "local license experts" are modernizing how consumers buy and sell houses by helping them efficiently trade in their old home for a new one. Jodi Hough, an agent with Berkshire Hathaway HomeServices Georgia Properties, recently helped clients sell their home to Knock. "The most challenging part of the sale was all the different people involved," says Hough. "One agent did the showing, another agent negotiated the offer, and another did the final walkthrough. As we moved along the transaction, there were a lot of missed loops and extra follow-up needed to make sure everything was going smoothly for our sellers."

Despite the lack of consistency on the back end, Knock made the highest and cleanest offer on the property, says Hough. "The attractiveness to our seller was that there was no financing contingency, and Knock even waived the appraisal."

The automated aspects of working with Offerpad didn't faze Kellie Parten, an agent with HomeSmart Realty in Phoenix, who helped her clients buy a home from the company in May. "It was robotic, but in a positive way," says Parten. "You can tell that they're a little bit of a machine, but I didn't mind because they were very responsive and organized. I never had to ask for something twice."

Although Parten wouldn't hesitate to bring a buyer to an iBuyer home, selling to one is a different story. "Offerpad and Opendoor offers on a couple of properties I've listed seemed exciting at first, but after you factor in the concessions they request and the additional credits in lieu of repairs after inspections, the net is usually too low and the deals never came together," she says. One iBuyer recently offered \$750,000 on a home that Parten later sold to a traditional buyer for \$900,000.

For these reasons, Parten is no longer worried about iBuyer competition for listings in her area. "At first, I was nervous about the convenience they advertise, but there's still a demand for the traditional sale. Even though [traditional] listing is less convenient, stressful, and everything else that the iBuyers sell against in their advertising, when a sale puts that much more money in your pocket, I find most sellers think it's worth it."

In fact, Parten encourages her sellers to check out iBuyer offers to underscore how much less they'll net in the transaction, she says. "When sellers look at the commissions and fees on the so-called 'easier alternative,' they realize that there's great value in what we do."