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iBuyer

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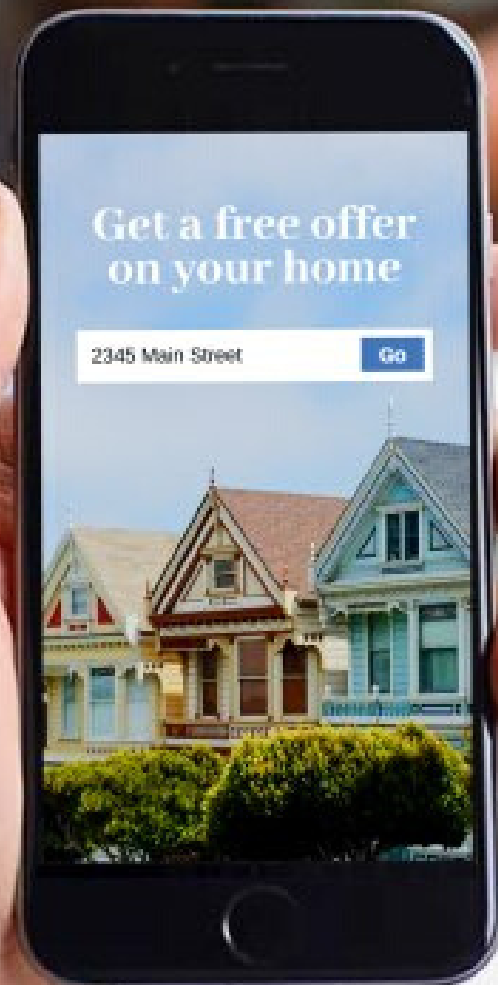
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THE ESSENTIAL GUIDE TO IBUYERS

If you've ever pulled off the freeway in a major American city, you may have noticed a sign, perhaps handwritten and tacked to a nearby telephone pole, promising to "buy houses fast!" Or maybe it advertised a service that "pays cash for houses," or purchases "your ugly home now!"



WHAT IS AN IBUYER?

If you've ever pulled off the freeway in a major American city, you may have noticed a sign, perhaps handwritten and tacked to a nearby telephone pole, promising to "buy houses fast!" Or maybe it advertised a service that "pays cash for houses," or purchases "your ugly home now!"

Obviously, there is something sketchy about roadside signs like this. But they also hint at a larger and very legitimate need: Some people want or need to sell their homes quickly and conveniently, and they might be willing to offer discounts to someone who can make that happen.



"It's a little bit of a weird thing that's been around for a long time," Victor Lund, founder of the real estate consulting firm WAV Group, told Inman. "But I think what we're seeing now is a little bit different thing, which is companies backed by financial investors."

Indeed the biggest iBuyers right now are funded by millions of dollars of venture capital (more on that below), or are part of large, publicly traded companies. It's that massive amount of funding that lets the companies do enough volume to be viable businesses.

Enter the iBuyer.

iBuyers are companies that offer homeowners cash for their houses. The companies typically do minor repairs and maintenance, then try to quickly re-list the home and sell it for a profit. Homes can reappear on the market within a matter of weeks or months, but the key is to buy and sell a lot of houses and do it quickly.

For anyone who has seen one of those roadside signs, or who knows a home flipper, this sounds like a familiar story. But there are a couple of key differences that have allowed iBuying to explode over the last few years. One of them is funding.

The funding has also made it possible for the companies to build technology platforms that streamline the buying and selling process — and this technology is the second big thing that sets iBuying apart from other, more antiquated business models.

The technology includes both apps and websites, which typically give consumers offers within 48 hours or less, as well as backend analytics that guides company decision making. Cortney Read, a spokesperson for iBuyer Offerpad, told Inman that about 10 percent of the analysis on homes is done by people. Machines handle the rest.

"Our product that delivers our offers is about 90 percent technology and data based," she explained. "Our algorithm gets us to about 90 percent."

WHAT'S THE DIFFERENCE BETWEEN IBUYING AND HOME FLIPPING?

The iBuying business model is similar to flipping homes — take a house, fix it up, sell it — but the companies actually doing it say there are substantive differences between the two approaches.

“We’re absolutely not a home flipper service,” Read, from Offerpad, told Inman. “What we’re doing is truly trying to help the consumer and truly trying to buy their house.”

iBuyers want liveable properties. Probably the biggest difference between iBuyers and traditional home flippers is that iBuyers typically don’t purchase distressed properties. Whereas a home flipper might buy the cheapest, most run down house on the block then try to upgrade it to make a profit, iBuyers want homes that are already in decent shape. The iBuyers do make improvements to the homes they purchase, but those improvements are more often cosmetic.

WHAT'S THE DIFFERENCE BETWEEN IBUYING AND HOME FLIPPING?

“We’re not coming in and knocking out walls,” Tyler Hixson, Opendoor’s Real Estate Industry Strategy Lead, told Inman. “We’re essentially coming in and doing the deferred maintenance. Minor renovations, interior paint, carpet, landscaping.”

Hixson summarized the approach as looking for “livable properties.”

“A home flipper will give somebody 70 percent of a home’s value, but iBuyers will give somebody 98 percent of the value,” DelPrete told Inman. “Those are two totally different markets.”

WHO ARE THE IBUYERS?

The biggest dedicated iBuyer on the scene right now is Opendoor, which was founded in 2013 and has repeatedly made headlines for raising hundreds of millions of dollars. The company first started buying and selling homes in Phoenix and today operates in more than 20 different cities.





Opendoor's chief rival in the space is Offerpad, which was founded in 2015 and also first launched in Phoenix. Though Offerpad is smaller than Opendoor, it too has raised millions of dollars and currently operates in nine major metro areas, with plans to expand to many more.

A handful of other startups are jockeying for space in the market as well. Atlanta-based Knock currently operates in its home state as well as in Texas and North Carolina. And Bungalow Homes, which is backed by real estate giant Amherst Holdings, is doing business in Texas and Florida.

Redfin launched RedfinNow. The move made the tech brokerage the first of the existing industry players to mount a serious challenge to upstarts like Opendoor. And in a recent earnings call Redfin CEO Glenn Kelman said the company is committed to the program even as the market shifts.

Redfin competitor Zillow plunged into the iBuying pool this year when it began buying and selling homes using its Zillow Offers program, which initially launched as Zillow Instant Offers in 2017 and allowed outside iBuyers, such as Offerpad, to make cash offers to sellers on Zillow's website. Now only Zillow itself makes cash offers on homes through Zillow Offers.

Finally, also this fall, Realty announced that it too was getting into the iBuying game via its Coldwell Banker brokerage.

Some of these companies are also working together. Case in point: a Keller Williams franchise is representing Zillow as the company deploys Instant Offers in North Carolina.

WHERE ARE THE IBUYERS DOING BUSINESS?

Ibuyers have quickly spread across the country, but in many ways Phoenix was the first epicenter of the industry. Opendoor, Offerpad, and Offerdepot all launched there, and Arizona's capital city has been a priority for other players, such as Zillow, entering the market more recently.

DelPrete said that Phoenix makes sense for iBuyers because it has an abundance of cookie cutter houses that provide the companies with "a lot of certainty" as they make calculations their various transactions.

Atlanta is also a center of iBuyer activity and is currently served by virtually every major company: Opendoor, Offerpad, Zillow Offers, Knock, and Realty.



What every Realtor should know about Owner's Title Insurance.

Make sure all of your clients are protected

You're a realtor, so you know that buying a home can be overwhelming for your clients. Homebuyers can feel confused and frustrated by the mounds of paperwork they have to sign. Plus, the fees associated with closing can sometimes be overwhelming even to an experienced buyer.

Owner's title insurance is one of those items often misunderstood by homebuyers at closing, yet its value is tremendous. As an important advisor to your clients, you are in a position to help homebuyers understand the benefit of an owner's title insurance and the dangers that can be incurred without it.

WHAT IS TITLE INSURANCE

The owner's title insurance is a policy that the homebuyer obtains to protect against possible claims on the title. This means that the owner's title insurance protects the property rights of the buyer. for more information about title insurance contact us at (813) 876 - 4373

ENDURING VALUE

The good news is that owner's title insurance protects the homebuyer's financially, as long as they own their home. for a low, one-time fee, homebuyers can rest assured, knowing they are protected against possible debts or claims to their property.

HOW IT PROTECTS

Obtaining an owner title insurance policy is the best way to be protected against unforeseen legal and financial discrepancies over the title of the property.

Some examples of unforeseen lawsuits include:

- *Pending mortgages and lawsuits or lien against the property for non-payment of taxes from the seller.*
- *Legal action pending against the property that could affect you.*
- *Undisclosed heir of a previous owner who claims ownership of the property.*
-

If a problem does arise, the insurance company will pay to have the problem resolved for the client. (Clear the title) If the problem can't be solved the insurance company will pay you the price you paid for the home. That's peace of mind.

Expansion tends to focus on metro areas that bear some similarities to these cities, with an abundance of mid-range suburban housing that isn't too old. So, places like Dallas, Orlando, and Las Vegas.

On the other hand, some markets have been more difficult for the iBuyers to crack. The Northeast, for example, is yet to see any significant iBuyer presence. Knock CEO Sean Black told Inman in August that the absence of iBuying in the region had to do with its lack of affordability and its volatility.

"That's not to say we won't end up there eventually," Black explained of areas in the Northeast, "but they aren't in the top 10 for most companies."

WHAT KIND OF CUSTOMERS ARE USING IBUYERS?

Though in theory iBuyers would probably like to have every home sale, in practice they actually tend to target middle class homes that were built no later than the mid 20th Century. Hixson, from Opendoor, said that his company usually focuses on properties that cost between \$100,000 to \$500,000. The company also looks for homes that sit on half an acre of land or less, though each market has its own unique characteristics and there are some exceptions.

Read, from Offerpad, said her company will "consider all homes" but typically wants to buy properties built after 1969 and costing between \$200,000 and \$450,000.

DelPrete's data suggests that Opendoor and OfferPad tend to stick to an even narrower range in Phoenix, typically buying houses between \$200,000 and \$250,000. He described it as a "disciplined" approach.

"Those companies don't get distracted and are focused just on the sweet spot," DelPrete added.

Given these numbers and the iBuyers' geographic distribution, individuals working with iBuyers tend to be middle class folks, often living in the Sunbelt or the South. They're also going to be people who want a quick sale, convenience, or both.

"With iBuyers, they occupy a segment of the market, people who are motivated," Lund, the consultant, explained. "They're ready to do something, and they're frustrated. And these guys have the capital to do it."



Not all of the customers working with iBuyers, however, are individuals. In fact, an analysis last month showed that Opendoor and Offerpad sold one out of every 10 of their homes to institutional rental investors.

HOW BIG A DEAL IS THIS? AND HOW BIG WILL IT GET?

Market share for iBuyers varies considerably from city to city, in large part because the companies have expanded so quickly that they have wildly different levels of maturity in different regions. However, figures compiled by ATTOM Data Solutions and provided to Inman show that from January to October of 2018, iBuyers in the Phoenix area made a combined 3,635 home purchases out of the region's total 90,312. That means the iBuyers had captured a total of 4 percent of the market in Arizona's capital city, an increase of 1.5 percent over 2017.

The iBuyers' market share in all of the sector's 10 most active metros has increased significantly compared to 2017, with Orlando, Las Vegas and Charlotte all seeing big increases this year.

Data from ATTOM shows that iBuyers had a market share of 0.3 percent across the entire U.S. during the first 10 months of 2018. However, that number reflects the fact that major iBuyers are still not operating in large major cities.

The modest percentages also may obscure the fact that the companies are doing thousands of transactions across the country. According to ATTOM's data, the four big iBuyers bought nearly 11,000 homes between January and October of this year.

Can the iBuyers get much bigger in the future?

Clearly, iBuying is a niche service, but most observers who spoke with Inman also expect it to remain limited in the near future. DelPrete, for example, pointed out that not only is iBuying in Phoenix still holding at single digit percentages of market share after several years, but expanding significantly could lead to labor shortages among the people doing home repairs. And, he said, consumers may still have misgivings about trusting one of their most significant financial decisions to relatively new companies.

Lund also pointed to Arizona, where he said the number of available homes in the iBuyers' target price and age ranges could limit their growth.





However, even with a limited share of the market, Lund expects iBuying to be a transformative development in the real estate industry.

Flint took a longer view and said that further down the road iBuying will likely evolve beyond the typical cash offer that it entails today. As that happens, he believes, iBuying could gobble up significantly more market share.

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WHY HAS IBUYING TAKEN OFF SO SUDDENLY?

The “we buy houses fast” roadside signs have been around for years, but the full iBuying package that includes venture funding, high-tech tools, significant scale, and the legitimacy all of these things bring is relatively new.

There are a few factors that have allowed iBuying to really thrive at this moment in history. For starters, there is a lot more money available from investors. Flint said the cash started to flow after the housing crash a decade ago when “opportunistic folks on Wall Street saw housing assets” and “money moved in a big way.”

Read said that the technology is a big part of what has enabled iBuying to take hold. But she also added that consumers themselves are changing. Trained on services like Uber and Lyft, people want to move quickly. They want convenience. And for many, iBuyers offer those very things.

IS IBUYING THE APOCALYPSE FOR TRADITIONAL AGENTS AND BROKERS?

It's easy to imagine a scenario in which the iBuyers have grown so much that both buyers and sellers simply turn to them directly, cutting out agents entirely. But most experts don't think it's quite that simple, or that dire for agents.

Flint noted that while iBuying can significantly streamline a real estate transaction, most consumers still need help understanding both their local market and their options. The result, he suggested, is that agents who want to survive should beef up their branding and service roles. They should, in other words, become advisors first and foremost.

Consultants can shop a property around to various iBuyers, for example, and then present multiple cash offers to a client as part of a broader selling strategy.

But Hergenrother offered a blunt assessment of agents who fail to adapt.

The underlying idea behind that comment is that right now at least iBuyers are generally content to see themselves as one among many options. Opendoor told Inman that 90 percent of buyers are already working with agents by the time they come to the company, and on both sides of the transaction the company believes iBuying represents a tool that agents can wield.

Read told Inman that the company “works with agents every single day.” Agents who connect sellers with Offerpad have two options: If they have an agreement in place to represent the sellers, Offerpad pays them a traditional 3 percent commission.

Some agents have also gotten into the iBuying game themselves. While any individual agent can study up and start working with the iBuyers in a given market, a brokerage in Phoenix decided to go one step further and launched their own company to cope with the trend.

HOW WILL A SHIFTING MARKET IMPACT IBUYERS?

Here at Inman we’ve written extensively about changes in the housing market. Though it doesn’t appear that buyers are about to take the upper hand, there is a broad consensus that growth is slowing down — which could have cascading effects across the industry.



So can iBuyers, with their thin margins and reliance on quick turn around, weather the changes?

Though counterintuitive at a glance — iBuyers would seemingly need price growth to make money — most experts and industry insiders who spoke with Inman said that iBuying might actually thrive in a softening market.

“We’re built to work in an up market, a flat market, and a down market,” Hixson, of Opendoor, said. “In a down market, there’s actually potential for us to become a higher value service. The value of certainty increases.”

“It’s quite possible that in a falling market people are willing to accept a heavily discounted rate just to get out of the market,” Flint said. “As long as the modeling and the analytics from the iBuyer are strong enough, they’ll do just fine.”

The verdict, in other words, seems to be that a downturn alone wouldn’t eliminate the sector. Ibuying, in other words, is here to stay.

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Ariana Garcia
Production Assistant
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Our consistently strong balance sheet, free cash flow and revenue and market share growth demonstrate the inherent structural advantages of our scalable platform. Positioned for continued growth as a diversified nonbank financial services company, we will leverage our strength and entrepreneurial spirit to aggressively diversify our origination flow as a natural extension of who we are: a complete consumer lender that is diversified and well-capitalized to grow market share and remain sustainable in all market conditions.

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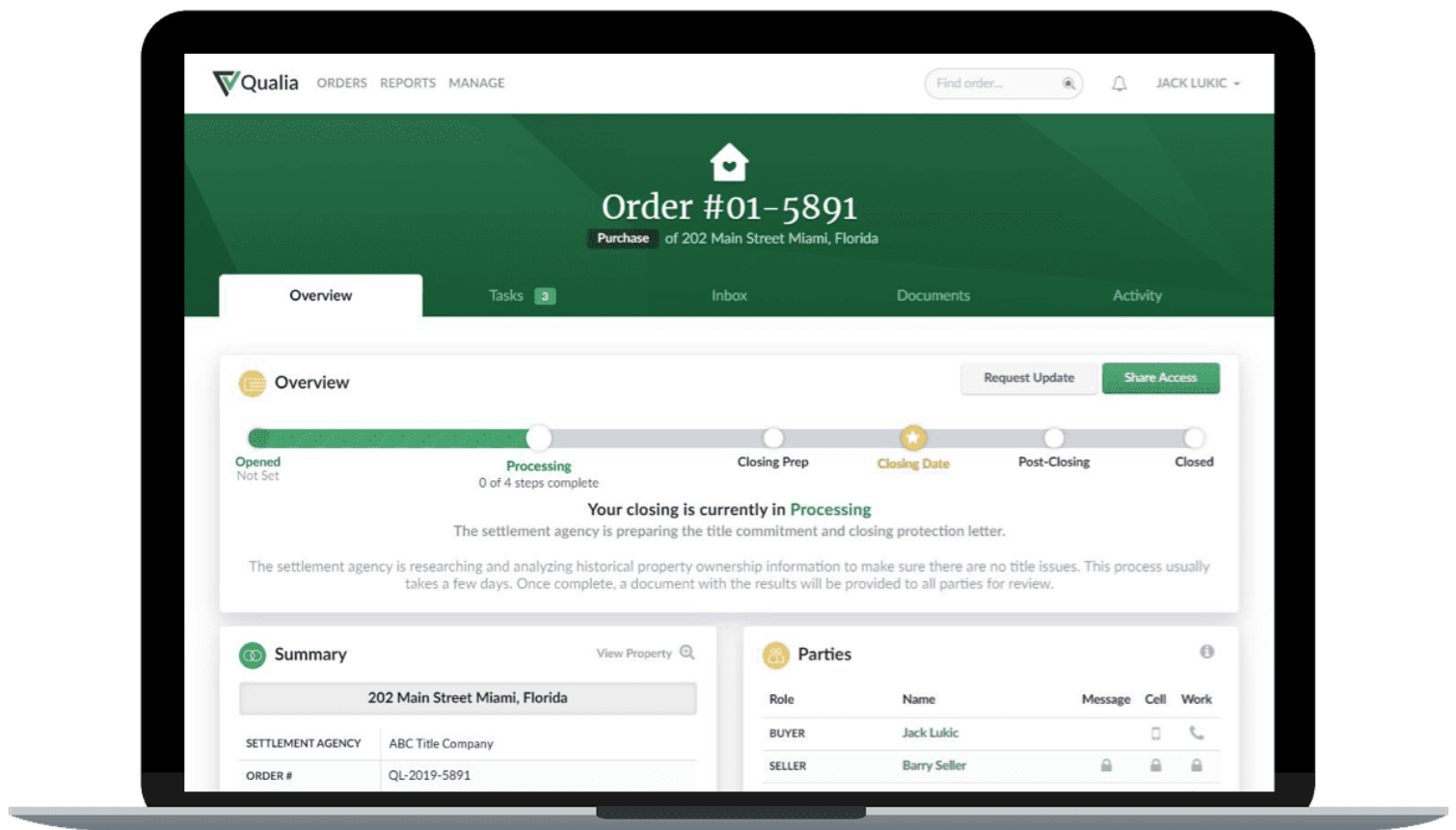
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