You Sell, iBuy

Are Instant-Purchase Services Making a Comeback?

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Before COVID-19, there was a lot of noise about "iBuyers" in the residential real estate industry. They were often described as "innovative" and "market disruptors" and were projected to leave a major mark on the industry. But who and what are iBuyers, and did the coronavirus finish them off before they could blossom?

Who are iBuyers?

The "i" in iBuyer means different things depending on who you ask. One of those meanings is "instant," as in instant homebuyer, which is nothing new. Many Texans have likely seen billboards advertising immediate cash purchases of homes in any condition.

Major differences between the new wave of iBuyers and the typical home flipper are the reliance on sophisticated data-driven technology and large capital-backing that greatly improves their ability to operate at scale. In other words, this is the institutionalization of the instant buyer model.

The Takeaway

Texas has become increasingly popular with companies offering "instant" home-purchasing services. Data-driven and backed by plenty of capital, these iBuyers presently account for only a small fraction of all Texas home sale transactions, but their presence could increase as consumer preferences change in the wake of COVID-19.

For many iBuyers, Texas is the new frontier for business expansion. In prior years, iBuyers focused their attention on markets such as Phoenix and Atlanta.

Several well-known national iBuyers are now active in Texas, but Opendoor has the overwhelming lead in activity and the longest history. Opendoor's Texas operations began to escalate in 2018 and 2019. Other major iBuyer services, including Offerpad, RedfinNow, and Zillow Offers, followed in 2019, but only in select

markets (Figure 1). Texas' top spot for iBuyer activity is Fort Worth, where there is an abundant supply of affordable homes. What makes a market like Fort Worth attractive to iBuyers?
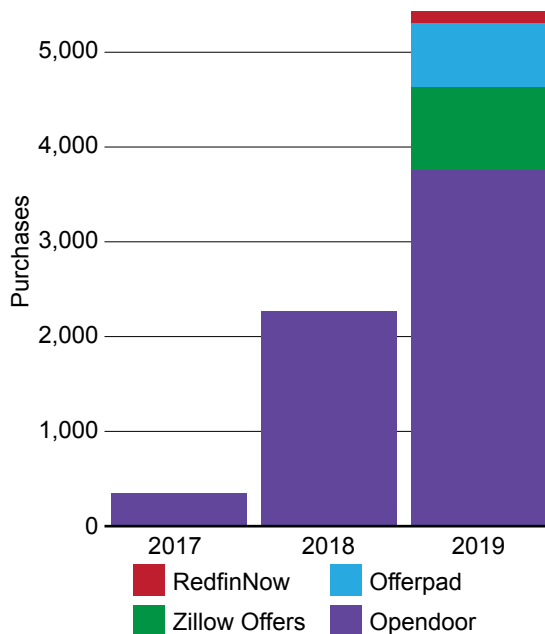
iBuyer Business Model

The basic iBuyer pitch to home sellers is, "We will buy your home now so you can move on to your next home now." If the home is eligible for instant purchase, the iBuyer will buy the home directly from the homeowner in one or two weeks. Sellers come to iBuyers either directly through the iBuyers' websites or through referring agents.

Next, the iBuyer begins any renovations needed to market the home, then typically lists the home on the Multiple Listing Service (MLS) to be sold like any other home. The magnitude of these renovations is not as great as some may think. In fact, they're typically limited to deferred maintenance. This is another key difference between iBuyers and many other home flippers.

The convenience can be an alluring proposition because it greatly reduces the stress of moving. Risks due to uncertainty that are typically absorbed by the seller are instead absorbed by comes from two tween the purchase and service fees.

ers, the sticker shock fees, ranging from 8 may be enough to convenience. With they could net more savings alone by

Figure 1. Major iBuyer Texas Purchases

Sources: CoreLogic and Real Estate Center at Texas A&M University

Table 1. iBuyer Median 2019 Home Characteristics in Texas

	Assessed Value	Bedrooms	Bathrooms	Living Area (SF)	Acres
Offerpad	$210, 972	3	2	2,130	0.15
Opendoor	$209,355	3	2	1,942	0.16
Zillow Offers	$245,027	4	2	2,286	0.17

Sources: CoreLogic and Real Estate Center at Texas A&M University

going through traditional brokerages.

Instant-purchase services aren't available to everyone. iBuyers select from a narrow range of homes so the risk involved in turning over a home pays off (Table 1). They use a variety of sophisticated prediction models to help determine which markets to pursue, a home's value before and after renovations, and how long turnover should take. Data fuel the machine, which explains why iBuyers have penetrated some markets and not others.

Data-Driven Deals

Data prediction is tough to get right. One reason is that models are limited to the quality and quantity of available data. Data and economies of scale are two big reasons why iBuyers swarm to larger metros.

The type of data used by iBuyers can go beyond what is often seen in the valuation process. Data points such as area noise levels and proximity to major roads often enrich traditional data such as comparable home values, square footage, and condition. Even with a wealth of data, the process isn't necessarily hands-off. Market experts, including real estate agents, are still used in the pricing process.

Additionally, it's not enough to have vast quantities of data. The types of homes in the market matter as well, and homes have many varying features. Those differences can make homes harder to price than assets that are more standardized, such as stocks or commodities. Affordable homes in high-volume markets are often easiest to value due to less underlying variance. That's why high-volume affordable markets, such as Fort Worth, attract iBuyers.

Is iBuying profitable? Currently, for many large-scale iBuyers, the answer is "no." At the end of 2019, Zillow's CEO announced an average $6,400 loss per home. At this stage, the iBuyer business model is still evolving and competition is growing. The future of iBuying will greatly depend on the business model's adaptability.

Cutting costs is one measure iBuyers are taking to boost profits. Improving the selection process often helps shorten the investment window and, therefore, reduces carrying costs and frees up money for the next investment. Companies like Opendoor call this "liquidity risk" and employ models to determine if potential properties will take longer than others to sell.

In Texas, Opendoor made major strides in reducing the time needed to turn over homes (Figure 2). Between 2018 and 2019, the median holding period (indicated by the horizontal line in each box) decreased in each of the top counties in which Opendoor operates. Additionally, the holding period distribution narrowed (indicated by the more compressed boxes in 2019), showing that holding periods for invested properties became more consistent between the two years. Improving turnaround during this time was quite a feat considering days on market for homes within Opendoor's target price range (between $100,000 and $500,000) increased in most of these counties during the same period, particularly within the Metroplex (Table 2).

Disrupting the Disruptors

If iBuyers were the market disruptors in 2019, the coronavirus stole the show in 2020. In March, shelter-in-place orders ramped up nationally and halted most business activity, including real estate. By April, it looked like the iBuyer frenzy in Texas could be over before it started as the big names began ceasing operations and announcing massive layoffs.

One month later, news started to emerge of major iBuyers re-entering the market, although with limited staff. By mid-summer, iBuyer activity had

begun again in Texas. Why was the re-entry into the market so quick?

Pre-coronavirus, the adoption of consumer-facing technology in real estate would have taken a few years. In spring 2020, that process accelerated to just a few months. This market shift could play well into the hands of tech-rich companies like the large iBuyers.

For example, in April, most real estate professionals scrambled to reinvent the homebuying model as a contact-less process. The instant-purchase experience cuts out much of that contact since the seller is gone before the home is even put on the market.

Additionally, the Texas markets most iBuyers found attractive a couple of years ago still have homes that match their ideal criteria to sell fairly quickly (Table 1). However, fewer of those homes are available today. Markets like Fort Worth have the same price distribution now as they did one year ago.

Figure 2.
Opendoor Holding Periods for Key County Markets
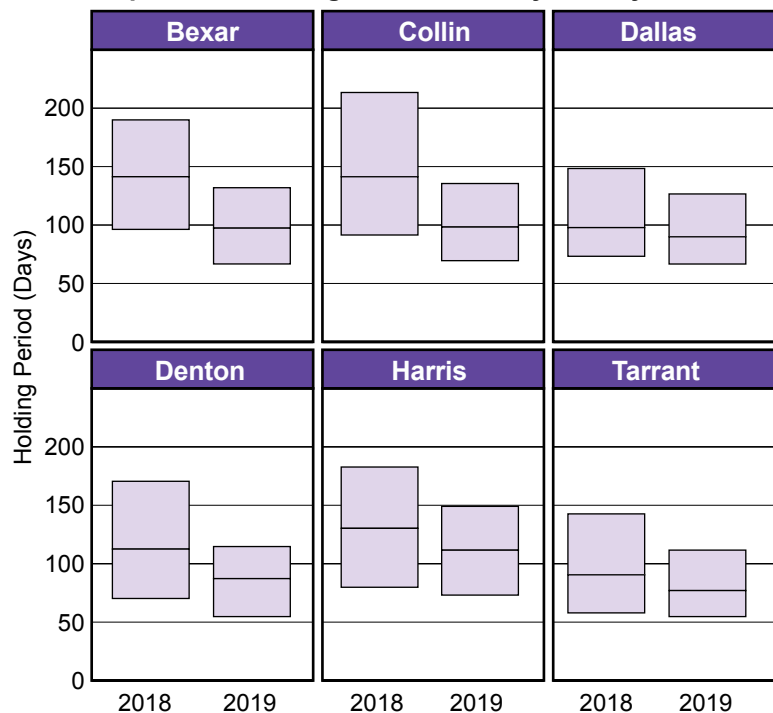
Sources: CoreLogic and Real Estate Center at Texas A&M University

Table 2. Median Days on Market for Key Opendoor Counties

	Bexar	Collin	Dallas	Denton	Harris	Tarrant	Travis	Williamson
2018	24	22	15	20	26	14	22	29
2019	27	32	22	27	28	19	21	30

Source: Real Estate Center at Texas A&M University

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Finding its Place

Instant-buyer services are still trying to find their true identity. Where do they fit in the greater real estate purchase landscape? Their evolving position has opened the door to competitors attempting to add their own twist to the iBuyer world. Some new faces, such as Knock and Texas-born Homeward, represent the new venture capital startups. Other faces are familiar, such as traditional broker giant Keller Williams.

iBuying services can spin off to other business ventures. One such outlet is lead generation. Many consumers who sought iBuying quotes don't move to the next step, either because their homes didn't make the cut or because they chose not to use the iBuyer's services. What happens to them?

According to real estate technology strategist Mike DelPrete, almost 50 percent of individuals who request an instant-purchase quote end up listing their homes for sale through a traditional brokerage service. His view is that selling these leads could become its own billion-dollar industry. Alternatively, iBuyers could use these leads in other in-house businesses, such as moving services, or feed them into their own internal listing services, blurring the line between iBuyers and traditional brokerages.

Although there is a demand for iBuyers, don't expect them to become widespread for a while. Even in the most active iBuyer markets, such as Phoenix, iBuyer purchases make up only around 4 percent of all transactions. Right now, the penetration in Texas is at most only around 2 percent (Figure 3).

Figure 3. iBuyer Market Share Percent of Deed Transfers
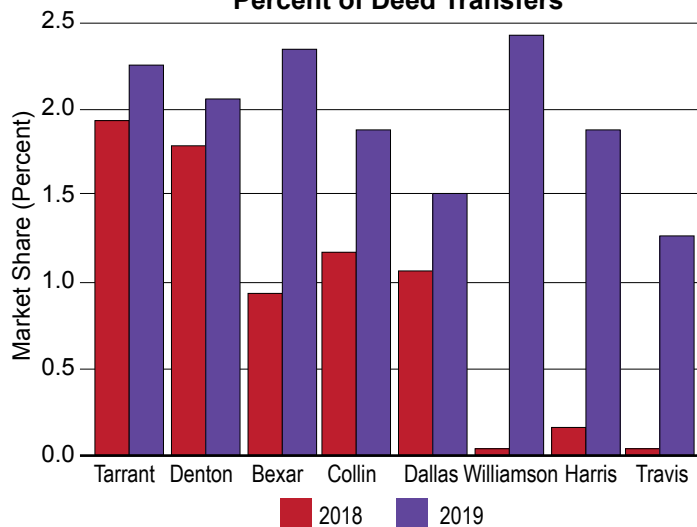
Sources: CoreLogic and Real Estate Center at Texas A&M University

One thing is for certain. Whatever form iBuying services take today, they're likely to change tomorrow. Life in the post-coronavirus world almost guarantees that. ✦

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