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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Redfin Corporation Q4 2018 Earnings Call. Today's conference is being recorded. At this time, I would like to hand things over to Ms. Elena Perron. Please go ahead, ma'am.

Elena Perron ***Redfin Corporation - Head of IR***

Thank you, Lisa. Good afternoon, and welcome to Redfin's financial results conference call for the fourth quarter and full year ended December 31, 2018. Joining me on the call today are Glenn Kelman, our CEO; and Chris Nielsen, our CFO. You can find the press release on our website at 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, unless otherwise noted, will be presented on a GAAP basis and include stock-based compensation as well as depreciation and amortization expenses. You will find reconciliations of non-GAAP measures discussed today to the most comparable GAAP measures in our earnings release. All comparisons made in the course of this call are against the same period in the prior year unless otherwise stated.

With that, let me turn the call over to Glenn.

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

Thanks, Elena, and hi, everyone. Redfin's fourth quarter revenues were $124.1 million, up 30% from the fourth quarter of 2017. We lost $12.2 million compared to a $1.8 million loss in the fourth quarter of 2017. Our revenues and earnings were both better than the projections we gave you in our November earnings call. In our core business of brokering home sales through Redfin agents and through other firms' agents working as our partners, revenues increased 13%. This was due in large part to the weakening market we discussed in our last call, especially in the coastal cities where Redfin has had the largest presence.

Our share gains continued comparing the fourth quarter of 2018 to the same quarter in 2017, our market share gain was 10 basis points. This was less than the 14 basis point gain we saw in the third quarter, mostly due to a single month shortfall that we see as an anomaly rather than a trend. Visitors to our website increased 18% over the same quarter last year, less than the third quarter's 19% growth and the same growth as the second quarter.

For all of 2018, revenue increased 32% over 2017 to $486.9 million, with the loss of $42 million compared to a loss of $15 million in 2017. The larger loss was due to more spending on direct advertising and to fund long-term growth through investments in personal service, RedfinNow and Redfin Mortgage. We feel sure these investments are good bets, starting with the investment in personal service. The software we built for governing how many customers each agent gets and the cultural change to meet customers more often in person have now given us the latitude to let agents serve more customers in 2019, while still expecting each customer to be served well. The renovations capabilities that we're investing in for RedfinNow should over time benefit our whole home selling business. And we believe that investing in our own loan origination system integrated with our brokerage software for a seamless customer experience between buying a home and getting a mortgage, will in time lead to more customers using Redfin for both services.

That homegrown system still limits our productivity now, but it should in the coming years lead to automation gains over other lenders that depend on hard-wiring our own software for Redfin -- excuse me, our own software to Redfin's lending processes, with Redfin's system highlighting the tasks across many loans that require human attention.

In today's call, we'll talk about our fourth quarter results, but even in the best of years, not much happens in real estate through the holidays. At Redfin, we spend that time preparing for next year. And so we'd like to spend our time today discussing our 2019 plans to accelerate growth, to raise consumers awareness of Redfin and to broaden the services we offer our customers.

We'll also discuss our outlook on a 2019 housing market that has taken a modest turn for the better.

So let's start with 2019's big ad campaign. By the end of the fourth quarter, Redfin has produced video and radio and Billboard ads for our 2019 media campaign, which we launched on January 28 in 22 markets. In 10 of those markets, we'd never meaningful advertise before. We developed the ads without an agency so we could allocate most of our budget to placing the ads broadly, and so we could test many different versions of each ad.

Encouraged by 2018's results, we've brought back the all red Billboards that show only a Redfin yard sign and the promise of a 1% listing fee. We call this ad, the sledgehammer. But as the market has become more balanced between buyers and sellers, we're running a second Billboard highlighting our performance. 3 consecutive studies over 3 years show that when comparing the listing price to the sales price, Redfin sells homes for more money than traditional brokers. In tests, our target customers have responded well to the phrase sell for more than the home next door. All of our ads make a direct pitch, but the 30-second spot we developed for TV also seeks to frame Redfin as the modern way to buy or sell a home. Arguing that paying agent a high fee for the same old service is going the way of dial-up modems, jazzercise and rotary phones. In head-to-head YouTube test between this ad and its predecessors, more viewers of this ad visited redfin.com to learn about our brokerage, giving us reason to believe that it can be our most profitable yet. But as we explained in our last earnings call, our 2019 ad campaign will increase this year's losses, especially in the first quarter when we buy media for recruiting customers who won't close until the summer.

The ads should accelerate 2019 revenue growth and contribute to profits to by 2021, by creating a consumer awareness of a multibillion-dollar company. As this awareness builds, we plan for ad spending -- excuse me, to decline after 2019 as a fraction of our total budget, while we expect the ads cumulative impact to increase each year.

Our mass media campaign is important for another reason as an alternative to direct marketing where the cost of meeting a Redfin customer increased significantly mostly due to price increases on Google and Facebook, but also because consumers see most of our ads from a phone, a device better suited to impulse purchases than signing up to buy a home. To keep making money from direct marketing ads, we have to keep getting smarter about the simple actions consumers can take from a phone, but still indicate serious interest. Using data most websites don't have about who actually buys or sells a home and how.

For each potential customer, we're now working to personalize, which ads we show, the ad spending and what redfin.com asks the customer to do next, an engineering effort that we believe will over the years let us directly recruit real estate customers from Facebook and Google at an unprecedented scale. Until then, more of our money will go to awareness campaigns that seem well-suited for an infrequent and emotional purchase.

For this awareness to drive sales, we have to deliver on the ads promise of better service. For the fourth consecutive year, a third-party study commissioned by Redfin found that our customer satisfaction as measured by a Net Promoter Score is higher than traditional brokerages. In our November 2018 survey, Redfin was 49% better, but improvements in the rate at which our customers successfully buy a home have been hard to come by despite a major 2018 investment in personal service. In the fourth quarter, the likelihood that Redfin homebuyers would successfully close on a sale within 180 days of their first home tour continued its now 38-month trend of year-over-year declines. The magnitude of those declines has narrowed from 3 percentage points for the customers we met at the beginning of 2018 to 0.3 of a point for the customers we met last July. Any increase in customer success rate we'd hoped to earn through personal service was likely offset by a market funk in the second half of 2018.

We feel humbled by this result, but undeterred. It may take years, but we believe that pairing service and software improvements can make Redfin better than any other brokerage at guiding customers through the 6-month topsy-turvy search for a home. As we discussed in our last earning call, we're now increasing the number of new customers each agent gets by about 8% over the course of 2019, slightly exceeding 2017 levels. Agent productivity in 2019 should increase modestly even if customer success rates don't improve just because we expect the agents to have more opportunities for a sale. But we also think we can lift customer success rates on this higher volume.

One reason our agents can do more is because of the system we built in 2018 for governing how many customers each agent gets. Rather than overwhelming an agent with too many customers -- too many new customers in one day, this system distributes new customers throughout the month and assigns more customers to top-performing agents. This should result in more sales month-to-month and better service day-to-day. The cultural transformation we started in 2018 for agents to meet customers more often face-to-face will also be crucial for a 2019 success. But in 2019, we'll extend this program to engage customers more frequently between those meetings. Our best agents already connect with homebuyers nearly every day recommending listings, commenting on relevant sales and showing market updates via text messages and e-mail.

In 2019, we'll identify the most valuable types of follow-up and build software so that it's easier for every agent or to follow up more often with every homebuyer. Since we expect it will be harder to sell a home in 2019, we'll take the same approach with our listing agents. One of the challenges in improving homebuyer's success rate is that there are so many reasons outside of the homebuying process itself that customers decide not to buy a home, because they can't sell the old one or they can't get a loan or because the closing gets hung up. We've come to recognize all of those problems as Redfin's problems. With one new Redfin service rolling out after another for fixing up homes with Redfin Concierge Service and buying them on the spot with RedfinNow, for lending money through Redfin Mortgage and handling the closings through Title Forward, our 2019 strategy is to take responsibility for every part of a customer's move. Our customers need this from us and in delivering it, we can grow revenues faster than our customer base.

Offering a complete solution depends on a cultural change. To maximize efficiency, we've historically narrowed our agents focus to either buyers or sellers. Redfin's listing specialists have led their customers sort out which agent to use to buy their next home and how to finance it before their old home sells, and how to coordinate the closings to keep a roof over their heads. But as we broaden Redfin's mandates to encompass a customer whole move, we'll ask a Redfin agent to act more like an account manager responsible for the customers entire move. This starts with making sure that we sell a customer's old -- excuse me, this starts with making sure that when we sell a customer's old home, we help the customer buy the next one, too. Handling both sides of the move has gotten more important as our 1% listing fee becomes the point of attack for meeting new customers of all types. It's early days for a new program to get sellers to buy their next home through Redfin, but we've already seen a significant year-over-year increase in the percentage of third quarter listing consultations that led to a meeting with a Redfin buyer's agent in the fourth quarter. And by the increasing proportion of seller's agents who decided to represent their customers as buyers.

When the seller's agent has instead recommended a Redfin colleague to handle a purchase, this buyer's agent is now often invited to the listing consultation. All those efforts still have to yield more sales. But we're encouraged by the changes so far in agents and customer behavior. We've also changed our site to ask our listing customers about their homebuying plan and changed our agent software to make it easy for seller's agents to recommend the right buyer's agents in any market we serve. In 2019, we'll experiment with more incentives for agents and a pricing change to reward customers who both buy and sell a home with Redfin.

But our seller's agents aren't just recommending Redfin's homebuying service. We're also taking a larger role in getting customers homes sold. We expanded Redfin Concierge Service for fixing up a listing before putting it on the market from California and Washington, D.C. markets to Seattle. We charge a 2% listing fee for Concierge Service. So it's still less expensive than a traditional agent. But the before and after pictures of the homes we painted, landscaped or staged would knock your socks off. In the first full month since its November launch in Seattle, Concierge has accounted for 20% off Redfin Seattle listings surprised about $500,000. We now plan to expand this service to other markets later this year. We're building a new field organization for coordinating simple home renovations, which will be used not only for concierge listings, but also by RedfinNow. The synergy between RedfinNow and our brokerage goes beyond renovations. As a new business, RedfinNow ran as a separate organization with a separate sales force, but in 2019, Redfin is mainlining RedfinNow. In some RedfinNow markets we're testing whether our seller's agents and not a separate RedfinNow employee can effectively offer RedfinNow to every homeowner as an alternative to a brokerage sale. Using our existing demand channels and field organization, should let us expand RedfinNow more quickly. Already it expanded from Orange County, San Diego and Inland Empire to Los Angeles in January and to Dallas this week.

We also continue to find that our brokerage software is useful for RedfinNow. If this year goes as planned, software we're already building for the brokerage will also be used by RedfinNow for automatically booking a homeowner consultation, for capturing the information needed for an online listing, and for preparing offer paperwork. We've been pleased not only at how well RedfinNow fits into our product portfolio, but also by homeowner interest in evaluating an instant offer. Just as McDonald's customers are asked about getting fries with their burger, it now seems likely that many homeowners will want to consider a RedfinNow offer alongside our listing presentation. What's surprising is that our agents are also clamoring for RedfinNow to come to their market. Far from worrying about losing a sale to RedfinNow, both buyers' and seller's agents at Redfin want instant offer as tool in their toolbox, so we can solve a wider range of customer problems, whether those are cash crunches, estate sales, relocations or remote sales by investors.

Of course, what we can pay for a home and whether it's a good deal for both the owner and RedfinNow is still a tricky business. In the fourth quarter, for example, a worrisome end-of-the-year market limited the number of homes we bought and increased the number we sold. Revenues will shift between brokerage sales and instant offers as we price in more or less market risks, but giving customers the option of an instant offer seems here to stay.

The final component of the solution we want to offer nearly all our customers is a loan, to finance their next purchase and a title company to handle the closing. Redfin Mortgage is already the #1 lender for Redfin homebuyers in its home state of Texas, but not anywhere else. From the start, Redfin agents have wanted our mortgage advisers to work with them side-by-side in the field. But we corralled the mortgage team in Dallas until we could work out how to handle every step of loaning our buyers money.

Now in 2019, we're ready to hire local mortgage advisers with some already in place in Austin, Chicago, Houston and the Virginia and Maryland suburbs of Washington, D.C. The immediate increase in loan applications in those markets has already made us wish we'd done this earlier. And local lenders should also lead to better service, which is more important than increasing sales. We always told our agents to recommend Redfin Mortgages or title service only when that's what's best for the customer. Investing in all these businesses, Mortgage, Title, RedfinNow is like compressing a string. Let me say that again, sorry. Investing in all this businesses: Mortgage, Title, RedfinNow is like compressing a spring, straining our income statement and our people. But if and when these businesses pay off, our expectation is that the spring won't just return to its former shape, but launch the company into a new competitive position.

Before turning the call over to Chris, let's address the U.S. housing market. In August, and again in November, we argued that the market was weaker than many analysts had realized with buyers affected by rising mortgage rates. But we also said that the underlying economy was strong and that buyers in 2019 could come back to a market where there are still relatively few homes for sale wishing they had been greedy when others were fearful. Now we believe the housing market is getting stronger. Mortgage rates reached nearly 5% mid-November, but in February, declined below 4.5% to their lowest levels since April 2018.

Despite some regional setbacks due to Midwest and Seattle weather and the many federal workers in the Washington, D.C. area who spent January waiting for a paycheck, homebuyers seem more confident now than they were in the second half of 2018. This is a significant, but still modest change. Yes, demand is weaker now than it was at the beginning of last year. Comparing January 2019 to January 2018, the number of price drops increased 4%, but no one is surprised by that. What matters is that this year-over-year change was larger in the fourth quarter when price drops had increased 7%. Another encouraging sign is that we expect the supply of homes for sale to increase, giving buyers more homes to buy, but not so many that prices drop broadly.

The number of homes for sale on February 1 was 5% higher in 2019 than 2018, but still 11% below the 10-year average. More homes will likely reach the market soon as our listing consultations increased nicely over the past 2 weeks and many of our agents report that homeowners from last year who wanted to wait for a better market are now coming back.

Buyers in more affordable markets like Phoenix and Southern California's Inland Empire are still careful, but Atlanta is probably the nation's hottest large market continuing to trend favoring affordable, diverse and builder-friendly cities like Houston, Nashville and San Antonio. Seattle has recovered somewhat as fears of Amazon's departure were overblown and tax reform has encouraged some people to migrate to states like ours with no income tax. All of this gives us reason for cautious optimism. The market isn't as sick as it was in the last half of 2018, but isn't as strong as it was in the first half either.

With that, let's hear from Chris on our first quarter guidance.

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

Thanks, Glenn. We finished 2018 with fourth quarter results that exceeded the top of our guidance range. Total revenue was $124 million, an increase of 30% from last year. Real estate services revenue, which includes our brokerage and partner businesses, grew 13% year-over-year.

Brokerage revenue or revenue from home sales closed by our own agents was also up 13% on 14% growth in brokerage transactions. Brokerage revenue per transaction was down by 1% as average home value per transaction declined year-over-year.

Revenue from our partner agents grew 9% on flat growth in partner transactions. Revenue per partner transaction increased by 9% as we finished lapping the conclusion of our partner program customer refund at the end of 2017.

For the properties segment, which consists of homes sold through RedfinNow, we record the entire value of a home sale as revenue. In the fourth quarter, the properties segment generated nearly $22 million of revenue, up from $5 million in the fourth quarter of 2017.

To support the continued growth of RedfinNow, we plan to further increase our capital limit, which includes properties we own and also those that we are committed to purchase at any one time from $35 million to $50 million. We still expect that over time, more of the capital to buy homes will come from lenders using the homes we buy as collateral.

Our other segment, which includes mortgage, title and other services, contributed revenue of $2.5 million, up from $1.9 million in the fourth quarter of 2017.

I would also note that we are now beginning to break out our intercompany revenue, which represents brokerage services revenue earned by Redfin agents for representing buyers of properties sold by RedfinNow. Prior to the fourth quarter, this revenue was reported in the other segment.

For the fourth quarter of 2018, intercompany revenue amounted to $71,000.

Gross profit was $26.2 million, down 10% year-over-year with negative gross profit contributions from both properties and other segments. Real estate services gross margin was 27.8%, down 570 basis points year-over-year due to the continued deceleration in our real estate services growth, pressuring our margins. This was primarily driven by a 440 basis point increase in personnel costs, including stock-based compensation due to increased headcount as a percentage of revenue.

For our properties segment, cost of revenue includes the purchase price, capitalized improvements, selling costs and home maintenance expenses. In the fourth quarter, properties gross margin of minus 4.3% was down from 2.4% in the fourth quarter of 2017, primarily due to a 490 basis point increase in the cost of properties, a 150 basis point increase in personnel costs, including stock-based compensation due to increased headcount and an 80 basis point increase in transaction bonuses, each as a percentage of revenue.

Our other segment had a gross margin of minus 28.1%, up from minus 33.5% in the fourth quarter of 2017 as those businesses continue to scale.

Operating expenses increased 23% year-over-year and represented 31% of revenue, down from 33% one year ago. Technology and development and general and administrative expenses both grew slower than revenue, increasing by 21% and 20% year-over-year, respectively, as we continue to leverage our fixed costs. Marketing expenses grew faster than revenue.

Our marketing spend increased 33% year-over-year on increased advertising. Our stock-based compensation increased 94% year-over-year to 4.8% of revenue, up from 3.2% of revenue in the fourth quarter of 2017.

And our net loss, including stock-based compensation and depreciation, was $12.2 million compared to $1.8 million net loss in the fourth quarter of 2017. Diluted net loss per common share was $0.14 compared with the $0.02 diluted net loss per common share in the fourth quarter of 2017. Before moving to our first quarter outlook, I'd like to briefly summarize our full year 2018 performance.

Our customers booked over $25 billion in real estate transactions compared to a 5% commission we saved our brokerage customers over $154 million. We delivered full year revenue approximately $487 million, up 32% year-over-year and gross profit of over $119 million, up 7%.

Our total operating expenses grew 28% and net loss for the year increased from $15 million in 2017 to about $42 million in 2018.

Now turning to our financial expectations for the first quarter of 2019. Revenue is expected to be between $101.5 million and $105.1 million, representing year-over-year growth between 27% and 32%. We expect our properties segment to account for $15.0 million to $16.5 million of that revenue. Net loss is expected to be between $69.2 million and $67.8 million compared with the $36.4 million net loss in the first quarter of 2018.

As we discussed on the third quarter earnings call and Glenn mentioned earlier, we're spending more in 2019 on off-line advertising than we did in 2018. As we refined our plans, we now expect to be spending between $37 million and $47 million on off-line advertising this year compared to $12 million in 2018. Those advertisements will run in the first half of the year with the expenses weighted more to the first quarter than the second quarter.

Our guidance includes approximately $6.6 million of stock-based compensation and $2.1 million of depreciation and amortization. It 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 with that, we'll open up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Tom White, D.A. Davidson.

Thomas Cauthorn White ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***

Just a quick one on market share. I saw that it was up year-over-year, but down sequentially, which is according to my model hasn't happened in quite some time. So just maybe a little bit of color there. I think you mentioned something about a 1 month anomaly, I'm not sure exactly what you're referring to there. And then just on the impact of marketing spend on revenue growth this year. It sounds like you're guiding to it having sort of an accelerating effect on revenue. I think last quarter you talked about that being very modest. Is it still sort of that modest benefit or is -- has your thinking there change for some reason?

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

Sure. So why don't we talk about share first and then advertising second? On share, we -- sorry, just got distracted. So on share, we always see share in the absolute sense get compressed in the fourth quarter. I know it doesn't make any sense that share should be seasonal. The whole reason you measure market share is to factor some of that out. So we would would've liked to see share grow faster. You always want that. But I wouldn't say we're particularly alarmed by whether the share is positive or negative sequentially quarter-over-quarter just because we have always measured the year-over-year gain because there have been differences between summer and winter and in share. And then the other factor around share is just that, I think, being concentrated in the coastal cities is probably creating a little bit of a headwind, but that's not a major factor. I would expect our share gains to be stronger going forward into 2019. As far as advertising goes, we don't want to change our expectations around growth. I do think it will be higher growth in 2019 than in 2018, but we're not going to blow the doors off. And the reason is that it's a sort of a long-term investment and awareness and it isn't something that just immediately has a huge pop. So we're going to definitely feel a difference. It's going to show up in our revenues, especially in Q2 and Q3. And if it doesn't, I would say the advertising campaign hasn't been successful, but the benefit is going to extend over several years.

Thomas Cauthorn White ***D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst***

Okay, just on the anomaly comment. Any color you could give on what that was?

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

Yes. Well, you know what? Anomaly is always hard to explain. We've tried to look at November, which is the month where it occurred to see if there was something that happened there that we understand, and we haven't been able to explain it. I just think that at some degree of granularity, you're always going to see some ups and downs. Our share on a daily basis certainly goes up and down just because revenues can be lumpy, transactions can be lumpy. So if this were a long-term trend where we thought the business was going to gain share, 10 basis points per quarter, we probably have different spending discipline than we do, different growth expectations than we do. But our expectation is that we can grow share at the same rate as we generally have. I don't want to be too explicit about multiyear guidance or anything like that because we don't have a crystal ball, but I would say that, that we still view what happened in November as an anomaly.

Operator

Next up, we'll hear from Jason Helfstein, Oppenheimer.

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

Just a question about RedfinNow and then core brokerage business. Any more information you can share on RedfinNow, perhaps the types of conversion rates you're seeing, like what percent of consumers actually take the offer once they're offered the average discount? And then just on RedfinNow, your plans for market expansion in 2019. Do you think you want to talk about that? And then second question would just be, Glenn, are you thinking about further market expansion? Obviously, we saw Canada, but further market expansion for the brokerage business in 2019 or just focusing on going deeper into the existing markets?

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

Got it. So first of all, we're not showing metrics about conversion and pricing on RedfinNow. What I can tell you is that most customers who get a RedfinNow offer don't take it. The pricing approach is 10% discount once you include all the costs and fees, but there are many customers who want to see that and we believe that offering that choice increases the total number of homes that we sell. So I think all of that is probably enough detail. As far as expanding RedfinNow, we're not going to be as aggressive as the most aggressive players in the space, but we're probably not going to be as cautious as the most cautious. So you should think about 3, 4, 5 markets this year something on that order. We do have a field organization already in place. We've built some brokerage software that gives us some scale, and I think the balance against that is that everything we do, we want to do it well. We want to understand the financial risks. We want to execute with excellence. And so we just don't see this as a landgrab. We see this as building the best absolute product, leveraging the assets we already have in terms of redfin.com and 1,500 real estate agents who are in customers living rooms, as we speak. The brokerage isn't going to expand much this year beyond Canada. We bit off quite a bit there, and we have to chew it. There are different labor laws, there are different privacy laws. It's just a new country. So we're going to spend some time just making sure we get really good at selling houses in Toronto and Vancouver before we go on to Winnipeg or somewhere in The United States that we haven't already been.

Operator

Brent Thill from Jefferies is up next.

Alexander Joseph Giaimo ***Jefferies LLC, Research Division - Equity Associate***

Great. This is Alex Giaimo on for Brent. Just taking a look at your 1Q guide, it basically implies about a 13% year-over-year increase in real estate services revenue after stripping out the properties outlook. And on the last call, Glenn, you articulated a potentially optimistic scenario of reaccelerating real estate services top line growth for the full year in 2019, we had it coming at a 23% growth for the full year '18. You touched on this bit on a previous question, but do you view that goal for reacceleration as more of a possibility or is that the expectation? And if it's the expectation, it seems to rely heavily on success around the marketing campaign, so are there any early results that are providing that confidence?

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

Understood. So our expectations have remained the same. We're not stepping back from those. We've already explained that when you run a TV ad, you're unlikely to see the revenue from it in the same quarter and some of that is just a 6-month sales cycle to buy a house. Even if we had somebody in escrow today who watched the TV ad last week, it would be hard to close that sale by the end of the quarter. So I think, we're going to see a modestly improving housing market, greater awareness of Redfin, greater agent productivity. So Q2 and Q3 have been consistently where we've told people you should start to see results, and then we've also tried to be clear that we think it will lead to higher growth rates beyond 2019. We have spent 4 years experimenting with mass media across 14 or 15 markets, enough to be sure that there really is sustained lift even from an ad that doesn't run in ensuing years for just 1 year of TV. And I think the creative has tested better than past creative, and we've gotten fairly disciplined about that where we show different versions of the ad, we tested on YouTube, we do dial testing with consumers, we evaluate how much people like the ad, how likely that they are to act on it. We've tested against competitors in the brokerage space who are running ads. So life is always unpredictable, but we've tried to make it as predictable as it we can, this is our fourth or fifth year of advertising. And I think we're doing the work that we needed to do to expect revenue growth in Q2 and Q3. So we're sticking to the guidance that we gave around the full year. And I just want to be clear that we, obviously, have more precision around next quarter than we do for the full year.

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

Just one other commentary that in the first and second quarters of this year will be comparing to what was a pretty good U.S. real estate market last year as we get later in the year, it was a much more challenging market environment, and so that's one other factor that could play into what the year-over-year growth rates look like.

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

Much softer comps in Q3 and Q4.

Operator

Up next from SIG is Jack Micenko.

John Gregory Micenko ***Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research***

Glenn, in the prepared comments you'd spoke about maybe the ad spend dialing back in 2020, and I think you've -- I think incrementally here is $37 million to $47 million. Not looking for guidance, but when you go into 2020, does that all go away? Do we stay elevated above the sort of the $45 million run rate we ended last year with? How do we think about the digesting period in 2020?

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

Well, first of all, we don't think that spending will increase as a percentage of revenue. So we expect to get leverage of our advertising budget, but that doesn't mean that we take, say, $40 million of advertising spending down to 0. It just means that there's probably a relatively fixed cost to generate awareness of a new brand. It's somewhere between $30 million, $40 million and maybe $70 million or $80 million per year. So you could increase that somewhat to reach the markets that we haven't yet touched, but it's not as if at $1 billion of revenue we're going to be running double or triple the amount of mass media. So we just expect significant leverage of that spending. We're the lighting log, not burning the fuel.

John Gregory Micenko ***Susquehanna Financial Group, LLLP, Research Division - Deputy Director of Research***

Okay. And then I think you're about 1% in 30 of the give or take 90 markets. Any plans in '19 to move that number meaningfully higher? I know that some markets price points just don't work, but curious as to the outlook on '19 for the commission rates.

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

Well, we talked a little bit about this in the prepared remarks, but it may have been subtle. We have a 1% fee in some of the major U.S. markets where home prices are high. But I would say the most likely change is bundled pricing where the most savings go to people who both buy a home with us and sell a home with us. We want to make sure that the economics don't get skewed too far towards sellers because what can happen is, that people will price shop for the 2 products separately where they take the best deal on the sell side from Redfin and try to get more savings from somebody else. So my guess is that if pricing were to go in any direction, it would be toward maximizing savings for customers who both buy and sell with Redfin.

Operator

Our next question from today comes from Ryan McKeveny, Zelman & Associates.

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

On the entrance into Canada, I'm wondering if you can give some color there, both in terms of how you're rolling it out in terms of actual numbers of agents that we'll start seeing up there? Anything you can give on any likeness or differences in terms of the agent compensation? And likewise, just how that expense base plays into things as you think about 2019 kind of what's maybe embedded within the 1Q guidance and bigger picture how do you see that playing out because I think what we've historically seen back to your IPO is in newer markets tend to be kind of drag on margins initially obviously, and then ramp up. So if you can just give any color on kind of how you're viewing the opportunity and ultimately, the expense side of things as well would be helpful?

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

I think there's a tendency to see Canada as a different country, which is obviously, a fact. But financially, I would think about it as 2 new cities added to our 87. It increases our addressable market by less than 5%. There are other cities besides Toronto and Vancouver, but that's the major opportunity. And so I don't think that its revenue or gross profit impact will be significant at least not in the near term. The reason that getting there when we did was significant is because they don't have a major national portal. So that would be a basis for believing that we could ramp those 2 markets more quickly. The other interesting fact is just that the homes are more expensive there than they are in the 88th market that we get out in The United States. Vancouver and Toronto are big, juicy burgers. So we're excited to get to markets that are that lucrative and that tasty, and we think that we could ramp our website presence faster there just because we're not competing against some of the big U.S. portals there for traffic. There's not a national website there that shows the price of homes that sold, as an example, which is information almost every real estate consumer wants.

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

Got it. That's very helpful. And second question, I'm curious on the gross margin side of things on your real estate services. I guess, what's embedded in the 1Q? And is the commentary that agent productivity should be higher in 2019 than 2018 a fair indication to suggest that your outlook would be for margins to similarly move in a positive direction?

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

Sure. So we're not breaking out gross margin guidance for Q1. Just as you think about the whole year though, we do think there's an opportunity for agent productivity to improve. We talked on the call about increasing the number of customers our agents meet and as long as we can hold close rate the same or improve it through the programs we have in place, that will lead to improving agent productivity and improving gross margins. It is the case though as you look at Q1, really, of every year that that's not necessarily indicative of the way the whole year plays out for gross margins because we're hiring agents for the peak of that year, and so the excess capacity that we have or don't have doesn't really come into play until we get into the middle part of the year itself.

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

And I just wanted to add some color on -- oh -- sorry, I'll just briefly going to add some color on agent productivity because it has been such a focus for me and Chris and the rest of the company. I think you have to account for some of the weights on agent productivity in 2018. One of those was that we really needed to reduce customer loads temporarily to affect this cultural transformation and make sure that our agents were meeting customers. That was financially costly, but good for our culture and good for our customers. We now feel like we've developed the good habits that let us increase loads while still serving customers well. So that was the cost that we won't have in 2019. The other factors are that, I think, we've really instrumented our support cost so that we understand them better and we can run more efficiently and we've taken a more cautious view of the market where we're not hiring agents as aggressively, which could leave us exposed. That's what happened in the back half of 2018. So the tradeoff there is that I think we've got some upside on gross margin, but it caps some of our revenue growth upside where if demand really shot through the roof, we just wouldn't have enough agents to handle it. So we would, obviously, refer that business and still get some gross profit out of it, but we wouldn't take every dollar off the table.

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

That's very helpful. And if I can slide in one more related to the sledgehammer. The comment you've made in the 10-K previously, maybe it will be in this one as well on just sellers as a percent of brokerage transactions. So I think, in 2017 the number was slightly over 35%. Can you guys give an update on just the sellers as a percentage of the total for 2018?

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

We will be filing our K and it is included in that and the number, I believe, is just slightly over 40%. So it's following the same trend we've seen over the last few years.

Operator

Our next question today comes from Mark Mahaney, RBC Capital Markets.

Michael Chen ***RBC Capital Markets, LLC, Research Division - Associate***

This is Mike Chen on for Mark. I was just wondering if you can speak little more about your partnership with Notarize. What exactly Notarize does? How much benefit it'll give the mortgage business and what other things could you do to improve the mortgage business? And then I also was wondering if you can provide some more clarification on the intercompany eliminations that you mentioned on the call?

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

Why don't I talk about notarize and you can do intercompany, Chris?

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

Perfect.

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

So Notarize has been a great partner. This is a company that lets you get a document notarized without getting in your car and driving down to an escrow office. And the reason that we've been uniquely positioned to take advantage of Notarize is because we have our own mortgage company and our own title company. And so when we wanted to bring this off for our customers, we had to talk to the people we sell our loans to, to make sure they take this documentation. At first they were hesitant, but we got them onboard. And the same was true for some of the folks who help us with title insurance. And what that means is that when you buy a house through the Redfin broker and you use mortgage and title from Redfin, you're able to do a digital closing. So we've had customers on 3 different continents close and they love it. They love that they don't have to get in their car to close. And it's just part of this vision of being entirely digital, making the whole process seamless and beautiful. And we're just really excited that we've had a partner as good as Notarize to do this.

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

And then on the intercompany, so what we're describing here is that we now have situations where we're selling a home through RedfinNow and the buyer of that home has already previously chosen to work with a Redfin agent. So when we close that transaction, we then have an expense from RedfinNow, which is paying the buyer's agent's commission, but that's just go into Redfin itself. So it's dollars that go from the left hand to the right hand, which are not actual additional revenues for the company and therefore they're eliminated. And this is important. It's a very small amount of money for 2018, but as Glenn discussed on the call, we do think that there are capabilities in our brokerage that are helpful for RedfinNow. So to the extent that we can utilize the services of the Redfin brokerage to support RedfinNow, we want to be able to do that and we are also, obviously, then want to record the intercompany eliminations associated with that.

Operator

Next up, we'll hear from Heath Terry, Goldman Sachs.

Heath Patrick Terry ***Goldman Sachs Group Inc., Research Division - MD***

Great. Glenn, really appreciated your comments on broader market. When you say that you're seeing things beginning to improve and then also in the context of sort of the tougher comps comment that you had as we go through the first half of this year, would you -- is it possible for you to sort of quantify for us the degree of improvement that you're seeing? Are we getting back to Q3 levels? Are we getting back to Q2 levels of last year? Sort of where would you have us sort of take those comments? And then on the rollout of RedfinNow, given what you're saying is the positive reception that you're seeing both from your customers and your agents to having Redfin rollout in new market, any reason that you wouldn't want to go ahead and accelerate the rollout of that, particularly as some of your potential competitors accelerate their rollouts?

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

Sure. Why don't we start with the market? It's better than Q3. It's worse than Q2, would be my take. In Q3, the market may not have seemed that bad to some outsiders, but we had fairly forward-looking indicators that suddenly took a turn for the worse. And so it's like a company that reports good revenues, but then guides way down. I don't know that you can be very optimistic about that company and that's the way we felt about the economy in the third quarter, at least the housing market. And the larger point is that homebuyers have been skittish. I think they've responded much more strongly to interest rates than they normally would probably because of the psychology that the economy has been strong for so long that everyone is waiting for the other shoe to drop. So when the rates go from 4.5% to nearly 5%, which really isn't an earth-shattering change given historically where rates have been, it feels very strong to the homebuyer. And I think that that's also reflected in the stock market. Just this idea that maybe there could be a downturn has now entered Americans consciousness, and so at the first sign of bad news, there's at least some people who head for the hills. And of course, housing is more sensitive to that than any other sector because you're signing up for a 30-year mortgage, you're not just buying an iPad or getting cheese on your cheeseburger. As far as RedfinNow -- and so now you have the strong economy that's powered through that. Sometimes the housing market brings the rest of the economy down, but corporate earnings are strong, the stock market is strong, wages and employment are strong, and inventory is still fairly limited. So I think, instead of having the economy get taken down by housing, I think the economy has boosted housing back up. And the fact that the Fed backed off on rates has really given buyers a new window to win. What you hear from our agents is that buyers are excited because for the first time in a few years, they're able to buy a house and there isn't a bidding war. So I don't think you have to have price drops to lure buyers back, just the absence of competition, that demoralizing feeling that I'm going to pay $50,000 or $100,000 over asking and still not be able to win isn't as strong as it once was. So I don't think we're out of the woods. It's very early days, it's still just the first 6 weeks of 2019. But I was fairly grim in the last call. I think it ended with our saying that the year was ending with a whimper instead of a bang and now things are markedly better. As for RedfinNow expanding faster, you asked why we wouldn't do that? And it's because we're using our own money to buy houses. So I know that fortune can sometimes favor the bold. I know that there are share to be had here, but this is a business where you can make money for 4, 5, maybe 10 quarters in a row and then find yourself long on the housing market, and we've seen some fluctuations. So every market we go into, we have to be sure that we've really got the pricing the right. And then I think the real rate-limiting factor just operationally is the renovations. You've got to be able to keep the grass cut, pay the electric bill and do all the work of owning a house and making it look better. And that work is going to serve us well because we've also got this concierge business, customers who decide that they want to own the house and live in it until they sell it, still want almost everything that we do with RedfinNow. So it's sort of a double barrel blast for our business investing in renovations.

Operator

Next up is Tom Champion, Cowen & Company.

Thomas Steven Champion ***Cowen and Company, LLC, Research Division - VP***

Apologies, if I missed this, but maybe you could clarify. Did agent engagement rates continue to improve? That's the first. And then Glenn, if you'd indulge the question that I'm curious your thoughts on Minneapolis 2040 and curious if you think this is a constructive template for improving housing supply?

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

Sure. So quickly, agent engagement has continued to improve, but what muddles that metric and here the question is really referring to this idea that even though customers aren't pulling the trigger on buying a house, they're coming back for a second or third tour, which has always been the challenge. Many customers use this is as a touring service and just want to see grandma's house or just want to go on one tour because their agent is on vacation, but getting them back for a second or third tour has always led to more sales, and we've gotten better at that. But there are confounding factors that make that number less reliable over time. We have added features to our website that encourage you when you sign up for a first tour to go ahead and sign up for a second tour or to get coffee right after that tour with a real estate agent. And so having that second event when you sign up for both of them on Day 1 makes that second event less meaningful. So the more we change the environment around the agent, the more we change the website and our marketing efforts, the less meaningful that number has become. And so we decided after some discussion not to include it. But it is up, I'm just not sure how much stock to put in it. And I'm so glad you asked about Minneapolis. I have been an advocate for density. I was really excited to see this policy change, but -- and for those of you who don't know, there's an urban planner in Minneapolis who sits on the city council who's basically outlawed the single-family homes, the zoning is really pro density. I think it's nice to see folks on the left really figure out a way to drive growth that still makes housing affordable. But the question is, do you think that Minneapolis is going to outpace a Nashville, a Houston, a San Antonio, an Atlanta? Because as people have usually their second child, the condo just doesn't work anymore. The density dreams go out the window, and they want a backyard because the kids are driving them crazy. So if I had to bet just on a local economy, Minneapolis or a place where there's more land to grow and more builder-favorable laws, I would bet on the latter. If I had to bet on a place where people are going to be able to afford a home, maybe not one with the yard, I'd bet on Minneapolis, and it just depends on what you prioritize.

Operator

We'll go to our next question, it's Stephen Sheldon, William Blair.

Stephen Hardy Sheldon ***William Blair & Company L.L.C., Research Division - Analyst***

I guess, first just thinking about the broader housing market. You talk some about seeing listing consultations trending higher. So good potential sign for overall inventory, but what are you watching to gauge how buyer demand could be trending heading into the key kind of homebuying season? And along those lines, can you maybe talk about website traffic trends in January and so far in February? Have you seen any changes in traffic trends that have impacted your cautiously optimistic view on the broader housing market?

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

Sure. As far as buyer demand goes, there's 2 metrics that are forward-looking: one is price drops. Sellers drop their prices because they can't find a buyer, and one that I like even better is the percentage of listings that go off market within 2 weeks. So there are houses that are so beautiful, and so well priced that in any market, they will get an offer within 2 weeks. There are also a bunch of dogs that even in the strongest bull market are going to sit. But those properties in the middle, the ones that are pretty nice, but have a few problems, in a good market they sell quickly and in a bad market, they sit. And right now that data on off-market homes has been encouraging on homes that go off the market in 2 weeks and price drops has been very encouraging. So those are the 2 things that I think we look at. And we always try to square the data with anecdote. Sometimes the numbers just don't square with what our agents are saying, and that gives us a reason to dig more into the numbers. I want to make sure that nobody is popping champagne corks or starting a party out there because we're not out of the woods yet. The market is significantly better. There is a window where rates are lower and people are taking advantage of it. I do think there's reason to believe that rates will stay low for the rest of the year. Inventory still is in a reasonable place, so it's a decent market, but I just don't want to assume that we're off to the races. As far as website traffic goes, traffic has been holding up nicely. The thing that we pay attention to is not just the number of sessions, most online businesses are getting very good at driving frequency, you get more notifications. It's a very data-driven exercise trying to find a way to entice an already engaged user to come back more often, but remember we don't make money from sessions. We make money by selling houses. So increasingly we look at the pool of users who are actively engaged and whether we're increasing that pool. And that number is also increasing, but I still think it isn't increasing as fast as a session growth. And the session growth is going up, simply because we're getting people to come back more often. So the number we reported is really just about visitors, and I think that's where I would look versus sessions.

Stephen Hardy Sheldon ***William Blair & Company L.L.C., Research Division - Analyst***

Got it. That's helpful. And then just on the marketing spend. I just wanted to -- how big of a delta have you seen in terms of market share gains over the last 3 to 4 years between cities where you've invested in brand marketing and the cities where you didn't? Is there a way to help kind of frame that?

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

We don't want you to start modeling that at a market-by-market level. What I would say is that it's consistent across years, across different types of markets. It's correlated with spending, more spending does matter. I just think we've proven the correlation at least historically beyond any reasonable doubt. That doesn't mean that something couldn't break the correlation, I guess, that's possible, but it just seemed very unlikely after so many markets, and so many years. But I wouldn't describe it as a hockey stick, I would just describe it is as a different trajectory. And it compounds over time where you think, "Oh, that was significantly better, that's nice." And then the next year, "And it's better again." And the compounding value of being able to do that over 2 or 3 years has been really powerful for us. This is an infrequent purchase. So building long-term awareness really matters. If we were selling ab crunchers, if we didn't get a sale while the ad was running, we would judge the ad a failure. But in this case, it seems that it just puts the market on a different long-term trajectory and when you plot that out over 4 years, the 2 dots, one representing a city that didn't get advertising and the another representing a very similar city that did, they're quite far apart, but it takes 4 years for that spread to become so large.

Operator

Our next question is Jason Deleeuw, Piper Jaffray.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

I was just wondering on the outperformance in the Redfin properties revenue versus your guidance in the fourth quarter. What drove that? Did you just see more opportunity? And then if you could just speak to the competitive environment on the instant buy business?

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

Well, one reason we did well in the fourth quarter is because we decided to liquidate our inventory. We're not in the business of being a real estate investment trust where we want to go long on the real estate market. So in a softening market as we saw in Q4, we didn't hope for better days. We took the profits that we had and if he had to take losses on 1 or 2 houses, we were willing to do that as well. So that limited our purchase activity, but we're starting to make up for lost ground in Q1 now. It does mean that coming into the quarter, we had a somewhat empty pantry of homes to sell. As for the competition, it's formidable. Zillow is a very well-run company, Opendoor is a very well-run company. Each of them has one part of the equation. Zillow has got audience, amazing traffic on its website. Opendoor has really been investing in the operations of flipping a house. And we offer both. Sometimes people ask, "How do you expect to compete on this, when it's all that other businesses do?" And I always want to turn that question around, how can you possibly compete when most customers want to compare a brokerage sale to an instant offer? How can you possibly compete if you're paying acquisition costs to meet both the seller and the buyer? We've been selling houses for 13, 14 years something like that, and being able to do that is the #1 qualification for being good at flipping houses. We know what we can sell them for, and we can sell them for top dollar. So I think our competitive position is good. I don't think this is going to be a race that's settled on the first 10 meters. I think we're going to be running for a long time and it's going to depend on both software and in-the-field operational expertise. And that's a combination where we have suffered. And we have competitive advantage over many companies. So tough competition, but we hope to be a tough competitor too.

Jason Scott Deleeuw ***Piper Jaffray Companies, Research Division - VP & Senior Research Analyst***

And then another just quick one, the media spend. How should we think about that impact to the homebuyer versus seller mix over time? It would seem like maybe the seller mix would grow faster, but just how are you thinking about that?

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

We think about that a lot. It turns out that the message that works best is one, targeting the seller. They know exactly what they want in a real estate agent. They want someone who will sell their house for more money and charge a lower fee. When you talk to buyers about what they want in a real estate agent, they have a much more nebulous concept. So making an ad that really resonates is easier when you target the seller, and it puts pressure on us to make sure that those sellers turn into buyers. And if you were to compare just 2 programs that we launched into the field in 2018: One, to increase homebuyer close rates for personal service, and the other to get sellers to become buyers. That second program has probably been an easier road row to hoe, but we certainly made progress faster. Where just almost right away, we saw more of our sellers out there with our buyer's agents looking at properties. So I think there is some upside in our ability to convert sellers into buyers and that upside is going to be more important in a year when the ad is focused on sellers rather than buyers.

Operator

Your next question comes from John Campbell, Stephens.

John Robert Campbell ***Stephens Inc., Research Division - MD***

Back to the agent productivity gains. I guess, at least, from a listing side, I mean, it looks like the average days on market are up a good bit, and I think 3x-or-so in some of your bigger markets versus, I guess, what we've seen in 2017. You guys called out, I guess, higher productivity expectations this year, but I'm just curious does the velocity in the market or just the time to sell have any influence on how productive agents can be? Are you feeling like, I guess, the system you put in place last year is going to solve for that?

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

Yes, that's a good question. Our comments in the prepared remarks consistently refer to improving close rates for homebuyers because that had been the area where we saw a 38-month decline, and while we never like to blame the market, that's obviously a factor that it became just harder and harder for buyers to close and now perhaps it will get easier. But as the market giveth, it taketh away on the other side, it's going to get harder to sell a house. So we expect listing agent productivity to come under pressure, and we just got back from our big kickoff with our real estate agents where we spent an enormous amount of time talking about what are you going to do at 30 days? What are you going to do at 60 days? You can't come into somebody's living room and just talk about dropping the price. You got have a new marketing plan, you got have a way to make the property look better, you've got to get more information from the buyer's agents who are touring the property, but not pulling the trigger. So we've always been better at selling houses than our competition. But the financial cost of a longer holding period isn't one that's just borne by the customer, it's borne by us. Ideally, we'll have a balanced market, but in the event that the market really turns bearish that's going to hurt listing agent productivity. So our hope is for a more balanced market because that's the market where it's easiest to put deals together from either side of the deal.

John Robert Campbell ***Stephens Inc., Research Division - MD***

Okay. And one follow-up to that. I just want to make sure I'm on the same vernacular as you guys, but when you talk about productivity gains, you're talking about having -- adding additional customers to the agent, not necessarily the amount of transactions the agent is doing on a year-over-year basis, if that makes sense?

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

No, no, no. When we say productivity, we mean that an agent should close more transactions than he or she did in the year prior. When we talk about customer loads, we're talking about the number of customers an agent gets. And I think the story of 2018 for our buyer's agents, where agent productivity had been declining, was agents wanting more customers and Redfin saying, "We want to make sure that we give you the space for this cultural change. We will give you the customers back, but first, we really have to develop these new habits around not just meeting a customer once every few weeks, but consistently getting out there and hosting as many tours as you can, sitting down for coffee with the customer." So the agents on the buy side are going to get more opportunities in 2019 than they got in 2018, and more even than they got in 2017. And we think we're ready for that. On the listing side, I don't expect customer loads to increase. And we don't expect productivity to increase much where we really want to bend the curve is around buy-side agent productivity and our hope is that the improvement in buy-side agent productivity will be significant enough to lift overall productivity and you should take that as a measure of transactions per agent per year.

John Robert Campbell ***Stephens Inc., Research Division - MD***

Okay. So that was down 10% in 2018, you expect that to be up 8% in 2019 is basically the gist?

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

No, no. You almost got it. We're increasing loads 8% on buy-side agents only. They may not have the same close rate year-over-year, but their close rate would have to drop 8% for their productivity not to increase. And I think just because I want to be clear about this, we don't want anyone to be misguided. We think that our buyer's agents productivity has an opportunity to improve, we think there's a possibility that listing agent productivity will decline as holding periods increase, and that the net effect will be modestly positive.

Operator

Brad Erickson from Needham & Company has the next question.

Bradley D. Erickson ***Needham & Company, LLC, Research Division - Senior Analyst***

I'll follow on to the last one, I guess, a little bit related to that 8% load improvement in 2019 maybe just talk about the dials you'll turn to achieve that, between I guess, driving more traffic or related to the brand marketing spend versus just not hiring agents as fast.

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

Well, it started with not hiring as many agents. If you look at the agent census going -- excuse me, going into 2018, we'd really hired significantly because we wanted to take the pressure off our agents in terms of customer loads so that they could focus on the behavior change that we thought we needed. Now going into 2019, we haven't hired as many agents. We also have the ability to route customers who were headed to partners to our agents. So if there were a shortfall in demand, our partners would feel that effect first, and our agents would still be busy. That isn't a perfect system just because there are many different agents and many different regions and having every single agent perfectly loaded as our goal, but it's hard to attain. But having said that, we think that the modesty, the caution around agent hiring will let us keep our agents busy more over the year.

Bradley D. Erickson ***Needham & Company, LLC, Research Division - Senior Analyst***

Got it. And then not to beat a dead horse, but just back to that transactions per agent clarification you just had a minute ago that was helpful on the brokerage business. And I guess, just in the context of the accelerating narrative you're talking about as we move through 2019, I mean is it the type of thing where, I guess, if we saw similar level declines, I understand you're going to shift that mix between buy side and sell side a little bit. That would be in line with your expectations or is the outlook here, just to be clear, that you're contemplating those on a whole basis, those per agent transaction rates sort of stabilized or even improve from here on, on a net basis going forward? Maybe if you could just clarify what contemplated in the guide there?

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

I just want to be careful about this because we're not providing full year guidance, and to the extent you're trying to build a model based on what's going to happen in Q3 agent productivity, it's not like we're hiding the ball that we know exactly what it's going to be and we're just not telling you to play some perverse game. We don't know what it will be either. We've given you the information that we have around agent hiring and the number of customers we expect each agent to get, it is possible that there will be a demand shortfall, it is possible that we'll have higher agent attrition and I'm not saying that those are the most likely scenarios. I think the most likely scenario is that the net increase in agent productivity across sellers and buyers will be the same or slightly up, but life is uncertain. So we're trying to manage the business very closely so that our agents stay busy. It's important to the gross margins of the business, but also to the income of the agent. People work here because they want a regular set of customers, the savings we offer those customers depends on the agent being consistently busy, and so that's the way we're managing the business. I'm just trying -- did that add anything? Like, I know you guys have been asking this, and I'm wondering Elena or Chris am I missing the question?

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

I think that's the best clarification we can give.

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

All right. Is that it? Are we done?

Operator

That does conclude the question-and-answer session. I'll hand things back to Elena for additional or closing remarks.

Elena Perron ***Redfin Corporation - Head of IR***

Well, thank you, Lisa, and thanks everyone for joining us today. And we'll speak with you again next quarter.

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

See you in 3 months.

Operator

Again, ladies and gentlemen, that does conclude today's conference. We would like to thank you all for your participation today. You may now disconnect.