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PRESENTATION

Operator

Good day, and welcome to the Redfin Corporation Q1 2019 Earnings Conference Call. Today's conference is being recorded. At this time, I will like to turn the conference over to Elena Perron. Please go ahead, ma'am.

Elena Perron - *Redfin Corporation - Head of IR*

Thank you, Jonathan. Good afternoon, and welcome to Redfin's financial results conference call for the first quarter ended March 31, 2019. 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 will be presented on a GAAP basis and include stock-based compensation, as well as depreciation and amortization expenses. In the event we discuss any non-GAAP measures today, we will post the most comparable GAAP measure and a reconciliation on our IR website. 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 first quarter revenues were $110.1 million, up 38% from the first quarter of 2018. We lost $67.2 million, compared to a $36.4 million loss in the first quarter of 2018, with the loss widening due largely to investments in mass media ads and new businesses. Our revenues and earnings were both better than our February earnings call-projections.

In our core business of brokering home sales through Redfin agents and through other firms' agents working as our partners, revenues increased 15% year-over-year, an acceleration from the fourth quarter's growth of 13%. Redfin Now grew revenues from $3.1 million in the first quarter of 2018 to $21.4 million in the first quarter of 2019. And over that same time, our other businesses, primarily mortgage and title services, grew 59%.

Our share gains continued with another 10 basis point gain from the first quarter of 2018 to the first quarter of 2019, which is a solid result but still less than the mid-teens gains from each of the first 3 quarters of 2018. Visitors to our website increased 20% over the same quarter last year, an acceleration compared to the fourth quarter's 18% gain and one that we expect to continue. We also expect growth in revenue excluding Redfin Now to accelerate at least modestly in the coming quarters and for the full year. This acceleration in revenue and traffic is part of a broader trend, fueled only partly by an improving housing market. At times, in March and April, we've had as much demand as we could handle, both in parts of our brokerage and in every one of our new businesses. The Redfin Now business of buying and selling homes on our own account, our Concierge Service to fix up and stage customers' homes, in Redfin Mortgage and in Title Forward. Our growth over the next 2 quarters will largely be limited only by the number of real estate agents, lenders and renovations professionals we hired earlier this year, when demand in Redfin's business and in the overall market was less certain.

We're still hiring fast for the latter 2 roles, but we'll be more selective about hiring agents. Because of the length of the brokerage's sales cycle, any agents we hire now won't be fully productive until the buying season ends. Even with the agents we have now, we can accelerate revenue, but that revenue acceleration will be less than the acceleration in demand if we don't increase customer success rates. Despite last year's investment in personal service, it seems possible that declines in homebuyer success rates will continue in 2019 for our own agents and for our partner agents.

Reversing these declines is important to our gross margins and our growth but also to our commitment to serve every customer well. Over the summer, we plan to develop additional tactics for improving homebuyer success rates, but the earliest we could see results from those new tactics would be in 2020. In the meantime, agent productivity has increased. We've increased the number of customers each agent served by an average of 13% in the first quarter of 2019 compared to the first quarter of 2018, all while keeping in place 2018's new habits and systems for delivering more personal service. First quarter sales per agent already improved 2% year-over-year, though the gross margin gains from that were offset by 12% increase in per sale cost through the coordinators and other staff who support our agents. This cost increase came from hiring support staff earlier in the year, not from increasing the long-term ratio of support staff to agents. So it shouldn't affect results in future quarters.

Two major technologies rolled out nationwide at Redfin in the first quarter, improving our service and giving us an opportunity to hire fewer people to support our 2020 growth. The first is a system to confirm that listings are available for our customer to tour. We've already built a tour scheduling system for pairing customers with an agent from 2012 to 2017. Now we've extended that system to confirm that the listings being toured are available to show, a project that started in 2016 and rolled out nationwide in February 2019. This lowers the average time to confirm a tour, automating some of the work and shifting the rest to a deskbound coordinator who is faster than an agent in confirming listing availability and less highly paid. We'll get more customers as a result.

For the past 5 years, on-demand service has been the point of attack for converting more of our website visitors into customers, so we believe that confirming a tour for a new customer faster than any other brokerage will drive long-term growth. What's more, the new system saves our agents hours each week, giving us more leeway to increase the number of customers each agent serves.

We also rolled out an online queue of tasks for our support staff and documented the division of labor between support staff and agents for closing a homebuyer sale. This deal queue and documentation let us pay coordinators on productivity starting in March without having to worry that a coordinator will forget to perform a task or will shift some of those tasks to the agent in the field. We expect our support staff will earn more money as a result, and that we can also lower the support cost of a deal in 2020 and beyond, as we discover how much more productive a coordinator can be.

But perhaps the most important question to settle in 2019 is what happens when we tell the world that Redfin is the modern way to buy or sell a home? The results we've seen so far in 2019 have confirmed our belief that our mass media ads will have a modest but meaningful impact on sales in 2019. As we discussed on our last call, we launched our largest-ever offline media campaign on January 28, with television, radio and billboard ads reaching 22 markets, 10 for the first time. We expect offline media spending to be between $35 million and $45 million in 2019, about triple what it was in 2018. The good news is that the campaign we planned for 2019 has been less expensive than anticipated. If we extend that campaign beyond the run planned through May, our media spending will be closer to $45 million. Otherwise, it'll be much closer to $35 million.

Demand has been strong in the opening months of the year and getting stronger every month, even more than we would expect, as we approach the peak of the homebuying season. But we can't say for sure how much of that is the result of offline ads because the housing market has also been improving. What we can be certain of, even after only a few months of advertising, is that the ads have increased consumers' awareness of Redfin as a brokerage. When we asked consumers on our 10 largest mass media markets to name the first 3 brokerages that came to mind, the percentage who named Redfin increased from 8% in May 2018 to 10% in March 2019. By contrast, in markets where we haven't run local offline ads, this type of awareness has remained below 5%. In Seattle, where we have high listing share and a 5-year history of running ads, our awareness reached 20% for the first time this March. We hope that the awareness created by these ads will lead to higher sales for years to come.

Whether consumers hear about Redfin via an ad, from Google or through a friend, the fundamental way we're going to increase demand is by offering consumers services no other brokerage can. On March 28, Redfin started a Boston area pilot for Redfin Direct, a new way to buy homes listed by Redfin. Unrepresented buyers who view a Redfin listing on our website now see an option to buy the home through our site without a buyer's agent. This seller of the home pays the total commission of 2% when the typical commissions paid by a Boston area seller working with traditional agents totaled 4% to 5%. On a $500,000 home, this is a savings of $10,000 to $15,000. Of the 127 Boston listings that have accepted an offer since Redfin Direct launched, 5 have been direct offers. Another 12 of those Redfin listings rejected the direct offer, most of which could easily have won. 77% were within 5% of the asking price. 31% were cash offers.

The ability to pair buyers and sellers online depends on listing many homes for sale and reaching many buyers via Redfin's website. No other real estate company has Redfin's listing share and homebuying audience. And no other company has our software for preparing offers and scheduling tours. To attract unrepresented buyers, we've developed a 55-question online guide for preparing the offer. This guide uses data that only we have, collected from other homebuyers' offers via the Fast Offer software Redfin built for our agents to generate offer paperwork. We can tell a buyer that 71% of recent Boston area Redfin client offers included an inspection contingency, more than 87% included a financing contingency. We know that Boston listings sell on average for 1% less than the asking price.

Now we want to caution investors that Redfin Direct is still a trial in 1 market, and it may not work as well or at all in other markets, and that it won't contribute materially to our profits this year or next. We expect the vast majority of homebuyers to need the advice of an agent, hopefully one employed by Redfin. But we're excited about this offering because it can help us fulfill our mission to change the real estate industry in consumers' favor. That mission also depends on being able to offer our customers a complete solution for selling 1 home and buying another but also for getting the loan and closing the sale. Redfin Mortgage had breakthrough results in the first quarter of 2019, with the proportion of Redfin buyers who also get a Redfin Mortgage more than doubling over the past 6 months. What made the difference was hiring local mortgage advisers for our 5 largest mortgage markets in December and January.

Across the 13 states where Redfin Mortgage is available, nearly 1 in 11 Redfin homebuyers also gets a mortgage from Redfin, but in our best state, Maryland, more than 1 in 6 do. Outside of Redfin Mortgage's home, State of Texas, Maryland is the first state where we launched Redfin Mortgage with a local mortgage adviser from the start. The customers using both Redfin Mortgage and Title Forward can now attend the closing virtually, gives our agents a new reason to recommended these services to our homebuyers.

This combination of local service and digital capabilities is likely why Redfin Mortgage demand exceeded our expectations in February and March. Redfin Mortgage had to turn away would-be customers because we hadn't hired enough staff to serve that many people well. We now plan to hire local mortgage advisers in other markets. We're also hiring more people in Dallas to underwrite those loans. Redfin Mortgage won't have a material impact on our 2019 results, these mortgages still account for less than 1% of Redfin's revenues. But from the first quarter of 2018 to the first quarter of 2019, mortgage revenues nearly quintupled. And in 2020 and beyond, the business is on track to make meaningful contributions to our growth rate and revenue excluding Redfin Now.

Other new businesses are also growing quickly. From the first quarter of 2018 to the first quarter of 2019, Redfin Now quadrupled the number of homes we sold. This was still less than 50 sales in a quarter, so we are far from the scale of competitors. Since buying our first home outright in January 2017, Redfin has grown this business carefully, first learning what types of homes to buy, which renovations to make and how to get the homes back on the market quickly. We now serve 6 markets, with plans to expand further in the second half of 2019. Demand in Dallas and Denver, the markets we opened in December and March, has been stronger than we anticipated. And for the first time, we're often competing against offers from other institutional buyers. We're not disclosing how often we win, but the early returns have met our expectations. We still believe that price is the overwhelming criterion for homeowners evaluating instant offers.

The other major development is that we're also starting to institutionalize the benefits of pairing brokerage service with Redfin Now. In April, we began asking homeowners seeking an instant offer on redfin.com if they also wanted to discuss with a Redfin listing agent what their home could sell for in a conventional sale. More than 3 in 4 asked to explore both options. This collaboration between our brokerage and Redfin Now should let us grow more quickly and at a lower cost. But the real beneficiary of this integration is our customer. In Santa Monica last February, a family buying with Redfin found their dream home, then realized they had to sell the current place immediately in order to get the money for the new place. The buyer's agent called on Redfin Now, which made an offer for the family's current home within 7 days of their deciding to buy the new home. The customer got the actual money for that new home another 28 days later. This is why we say that Redfin Now is a buyer's agent's best friend.

What's limiting Redfin Now's growth and slowing our ability to sell the homes we've already bought is our renovations capacity. We're now hiring quickly, with an operations hub in Dallas responsible for setting jobs scopes and paying subcontractors. Local field employees still make sure the work is done well and handle on-the-spot repairs.

While we continue to be pleased at how useful our software for agents is in coordinating who does what to buy and sell Redfin Now homes, we're also now hiring a team of engineers to build software for tracking renovations. This will be a significant investment that can lead to a major competitive advantage, not just for Redfin Now but as the core capability of our brokerage. Online marketing is a major reason why we can sell homes for more money but the best brokers make the actual homes show better at the moment of truth, when a buyer pulls up to the curb for a tour. This is why the Concierge Service we offer listing customers has grown so quickly even at double the fee of our 1% service. The renovations capability we're building for Redfin Now will also support our Concierge Service.

Before I turn the call over to Chris, let's talk about the market. As interest rates on a 30-year mortgage declined to nearly 4% at the end of March, U.S. homebuyers have begun to come back in force for the first time since last June. Nationally, the percentage of Redfin offers that faced competition was 60% last April and is still only 15% now, but that's up from 12% in December. Agents in Boston are saying the market is starting to feel like it did last spring, but elsewhere, in Chicago, in Texas, for example, buyers are still more measured. Even in the strongest markets, buyers are putting immediate offers only on the best listings, while spurning homes with minor problems. And there's a bidding war that usually involves 2 or 3 competing offers, not 8 or 10, limiting price jumps. And the whole market is extraordinarily sensitive to rate increases because so many of the people buying homes today are just barely able to afford them. When rates went up last fall, buyers didn't dig a little deeper to afford a home, many stopped looking altogether.

But now rates are forecasted to remain low through 2019, and the housing market may approach double-digit year-over-year sales gains, as we begin to compare ourselves for the second half of 2018. After 9 months of a fairly sharp correction, West Coast markets, especially Seattle, are likely to see their first sales increases in May, notwithstanding the long-term trend of people migrating from California to more affordable cities.

One reason for our confidence in the overall market is that the demand increases in February and March were equivocal, with an increase in homebuyer activity often followed by a setback. But demand in each of the last 5 weeks has been consistent, and the buyers now making offers on homes are more likely to be successful because competition between homebuyers is less intense than it was in the years past.

With that, Chris will dive into the details of our financial performance.

Chris Nielsen - *Redfin Corporation - CFO*

Thanks, Glenn. First quarter was a solid start to the year with results that exceeded the top of our guidance range. Total revenue was $110 million, an increase of 38% from a year ago. Real estate services revenue, which includes our brokerage and partner businesses, grew 15% year-over-year. Brokerage revenue or revenue from home sales closed by our own agents was up 16% on the same growth in brokerage transactions. Brokerage revenue per transaction was flat year-over-year.

Revenue from our partner agents was down on a 5% decrease in partner transactions as we shifted our transaction mix towards our own lead agents. Revenue per partner transaction was up 1% year-over-year.

The property segment, which consists of homes sold through our Redfin Now program, generated over $21 million of revenue, up from $3 million in the first quarter of 2018. We've increased our property's capital limit to $100 million, which includes homes that we own and also those that we are committed to purchase at any one time. In addition, we intend to put in place a debt facility to help fund future properties growth where we use the homes we buy as collateral.

Our other segment, which includes mortgage, title and other services, contributed revenue of $3 million, a year-over-year increase of 59%.

Gross profit was $2.8 million, down 52% year-over-year, with negative gross profit contributions from both the properties and other segments. Real estate services gross margin was 5.9%, down 310 basis points year-over-year, primarily driven by 110 basis point increase in home touring and field costs an 80 basis point increase in personnel costs and a 60 basis point increase in operating expenses, each as a percentage of revenue. As Glenn mentioned, we hired support staff earlier in 2019 than we did in 2018, and that drove the increase in personnel cost as a percentage of revenue.

Properties and other segment gross margins both showed improvement on a year-over-year basis as those businesses continue to scale. Properties gross margin was negative 7.6%, up 190 basis points from a year ago. Other segment had a gross margin of minus 24.0%, up from minus 40.4%, 1 year ago.

Total operating expenses increased 64% year-over-year and represented 64% of revenue, up from 54%, 1 year ago, primarily driven by marketing. Marketing expenses increased 149% year-over-year, driven by elevated spending related to our brand advertising campaign. We spent $21.1 million on offline media during the first quarter. Technology and development and general and administrative expenses increased by 22% and 28% year-over-year, respectively. Our net loss including stock-based compensation and depreciation was $67.2 million compared to a $36.4 million net loss in the first quarter of 2018. Diluted net loss per common share was $0.74 compared with a $0.44 diluted net loss per common share 1 year ago.

Now turning to our financial expectations for the second quarter of 2019. Revenue is expected to be between $183.7 million and $193.1 million, representing year-over-year growth between 29% and 35%. We expect our Properties segment to account for $30.0 million to $35.0 million of that revenue. Net loss is expected to be between $14.7 million and $11.3 million compared with a $3.2 million net income in the second quarter of 2018. Our guidance includes approximately $6.2 million of stock-based compensation and $1.9 million of depreciation and amortization. It assumes, among other things, that no additional business acquisitions, investments, restructurings or other legal settlements are concluded, and that there are no further revisions to stock-based compensation estimates.

Now I'll turn it back to Glenn.

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

All right. Before I answer your questions, we need to acknowledge that new competitors and vast amounts of capital have, over the past year, changed our landscape. Redfin has enormous respect to the other companies seeking to redefine real estate. But as different as these companies may seem, we all have the same aim: To sell homes to the lowest fee at the highest price with the least hassle. Even if capital were to remain as miraculously inexpensive as it is now, only a small fraction of those homes will be bought by any of us, and then only as a means for a customer to find another home, to get a loan, to close the sale before school starts, the winner will be the company that supports the customer's entire move, not just 1 part of it. iBuying has become an important tool for our agents, but it isn't the whole toolbox.

And efficiency is paramount. It would be disrespectful to imagine that the choices a customer makes at each step or move, between a brokerage sale or an immediate offer, between different agents and lenders, will be governed by anything but beady-eyed calculations of value and risk. Price matters. And software alone won't get the job done. Regardless of who owns a home while it's being sold, someone has to paint the walls and stage the furniture, install the sign and shoot the photos, market the listing and call the customer, host the tour and prepare the offer, underwrite the loan and close the sale. This is why the winner will have software intricately paired with procedures for doing all of that in a different way for each market.

More important, the winner will have a culture of service and financial discipline. That culture depends on a thousand friendships between agents, engineers and lenders. It depends on love disguised as hard work and hard work disguised as love. What's so strange about our society today is that we believe there's more magic in a company's technology than in the people using that technology or the way those people treat one another.

Redfin believes in technology, but technology on its own is just a glorified toaster oven. Redfin's culture is our deepest source of competitive advantage. It's why we are more sure than we've ever been that we can win.

Now we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Mark Mahaney with RBC Capital Markets.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

Great, thanks. I got 3 questions, please. First, you commented that the real estate revenue growth will accelerate you know in the next couple of quarters and for the full year. Could you just summarize again the key factors that'll drive that? Secondly, do you know when you'll have visibility into when Redfin Now could be gross margin positive? The building -- the business has clearly increased. It's up nicely over $20 million. Is there a particular revenue run rate at which you think that could be gross margin positive? And then third, Glenn, you talked -- you mentioned how the U.S. market share was up 10 bps year-over-year as similar to last quarter but not as much as it was last uh year, for part of the year. Any particular reason why the acceleration you saw in traffic and in real estate services revenue didn't translate into kind of accelerating market share gains? Thanks a lot.

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

Mark, you cracked me up. They told you only 1 question. Immediately, you said, just 3, which is fine.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

I couldn't help myself, Glenn. I apologize.

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

The revenue -- I never can either. The revenue acceleration is driven partly by the market, but mostly, it's because our traffic is growing so fast, and we have such strong demand. I think if we'd known how strong demand was going to be, we would have hired more agents. It's going to be hard for those agents to be more productive in the second quarter than they already are. But as we get to the back end of the homebuying season, that demand is just going to translate even more directly into more sales. We are really bullish right now on demand.

As for the gross margins on Redfin Now, we're just not providing distant forward guidance. It's not going to happen in the second or third quarter, so we really can't talk about it.

And then the market share gains at 10 basis points, we would like to do better. It's a solid result. Historically, it's been around 10 basis points of gain, although the past couple of years, it's been better, and I'd love to see us do that again, but we don't have any specific reason that we didn't do better. There was 1 month in particular where we fell short. The same thing happened in the prior quarter. And hopefully, we can just execute really well to close the opportunities in front of us now and take share faster.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

Ok, thank you Glenn.

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

Thanks, Mark.

Operator

We'll take our next question from Jason Helfstein with Oppenheimer.

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

Hey thanks, I'll just do 2, and they're kind of connected. So in hindsight, do you think the decision to reduce the agent productivity in 2018 was a mistake? And when -- again, this is part of the question, and how much of the homebuyer conversion rate is a more of a function of macro conditions versus what you can drive? And then to that point, I mean how much of this is putting the right information and data in front of the buyer so that they put the proper bid to win the house?

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

That still felt like 3 to me.

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

It was like 2.5.

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

I think reducing agent loads in 2018 was half a mistake. Taking a step back and really teaching our agents new habits to make sure that we meet the customer and build a relationship from the first tour was the right thing to do. It changed the culture of Redfin, and it improved the quality of our service. But that said, there were agents that, by the middle of the year, had learned those habits and were champing at the bit to take on more. And when we've increased load this year, we've seen those agents respond happily. We also had to build software to even the distribution of customers. It used to be that when you said, "I'm ready to take on a new customer," you'd get 12 in 20 minutes, and there was no way you were going to be able to serve all 12 well. Now we just have better load-balancing.

In terms of the macro conditions, the decline in partner close rate would indicate to us that some of this is either a secular change in consumer behavior where people just take any service provider for granted in an on-demand world or it's just gotten harder to buy a home. I do think the market has become 1 degree more balanced now, and we should be doing better on close rate. Honestly, the outside world doesn't matter that much to me. We control what we control. We should be improving customer success rates. We should be improving homebuyer success rates.

And then the third part -- oh man, you got me on the third one. What was it?

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

About like...

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

Oh, if we gave them better data?

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

Correct. Or how you think you do that.

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

You know what's interesting about that is we've been surprised at how credible these Redfin Direct offers are, and I've been surprised that you're not just jumping out of your pants about it because I am. When we tell people the facts around what it takes to win, just on a website, not through a real estate agent, most of their offers are very competitive, a third of them almost are all cash offers. So I do think there might be something we could do to provide better data. But the reality is that most people know what it takes to win, and they don't have the dough. Home prices have increased so much faster than wages that you just have a bunch of aspirational people who really want to get into a home. It's our duty to serve them as well as we can but they are stretching.

Operator

We'll take our next question from Heath Terry with Goldman Sachs.

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

Thanks. I appreciate the level of detail, particularly in your market color commentary. I guess you know it sounded like -- maybe it's just -- it was just sort of the recency of the -- towards the end of your comments, but it sounded like the suggestion was that the broader market environment is actually improving, particularly in the last few weeks.s there anything that's sort of implied? Or is there a continuation or share numbers implied by that versus the revenue guidance that you're giving for Q2? Because there seems to be -- and maybe again, I'm overweighting the end of your comments, but there seems to be a bit of a disconnect between the positivity around the market and the guidance for Q2, and again, maybe just conservatism as well.

And then as you look at the -- I thought your comments around the Concierge Service were really interesting, given your focus on bringing down the end cost to the consumer but then also seeing that there's some potential value in that -- in offering sort of the value-added service, for lack of a better term, is there a way that you're thinking about almost unbundling or disaggregating the different parts of the business into -- or different parts of the real estate transaction into fee or revenue-generating services that could become new revenue streams for Redfin over time?

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

Great question, Heath. So first of all, I think the pig is just going to take some time to move through the python. We are seeing really strong traffic growth, we're seeing really strong demand in the last few weeks. And that makes us optimistic about the closing months of Q2 but also the full year 2019. I think it was fairly unusual for us to guide toward acceleration beyond the next quarter into Q3 and Q4 and for all of 2019. You should just bear in mind that we have made our bed on Q2 based on how many agents we hired. So no matter what happens to demand, there's only a certain number of sales that those people can close and still serve customers well. So I think we're really optimistic about the market, and we're also even more optimistic about our share of traffic and our ability to convert that into customers.

The one countercurrent to that, that we tried to be clear about just in the spirit of candor is that close rates have still declined. And if there were 1 area where we really want to execute better, it's on close rate.

As far as unbundling Concierge Service or charging separately for that. I think the customer wants a turnkey solution. When we nickel and dime them and said it's $50 for this and $100 for that, they just don't make the investment in the home that'll really make it sell. And instead, if we just say, let's just charge a 2% instead of 1% as our listing fee, it's still cheaper than almost any traditional listing agent, and it's going to sell for a lot more money. People love that. Long-term though, we think that this is going to help us sell foreclosed homes. It's obviously going to help Redfin Now, and it can even help the buy side of the business because you have a customer who loves everything about the house except the kitchen. And if we can renovate that kitchen, basically every home can be a dream home. I know that sounds like too much of a sales pitch, and it probably is, but the main point here is that we can get buyers over the hump on properties that are almost perfect by making them perfect.

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

That's really helpful. I guess just one thing to follow up on. We spent a lot of time in the last couple of years talking about agency efficiency and the rate that their ability -- that they're able to close. Is there anything that you are doing or anything that you would want to highlight for us in terms of investment that you're making in technology or process? I know you've talked about the ratio of support staff to frontline agents. But anything from a technology standpoint or otherwise that you'd want to highlight for us that you believe it has the ability to get you longer-term improvement in agent efficiency?

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

Well, first of all, we're increasing the number of customers each agent supports, and we've already seen a productivity gain. But we actually want to improve close rates, so that for the same level of demand, we can get more sales. It's not just the labor cost, there's also a cost associated with each opportunity, a reputational cost and a marketing cost. And our first focus was on meeting that customer, building relationships, sales training, things like that. Our focus, going forward, is just around follow-up, really making sure that we capture personal details about the customer at every interaction. And then if someone else is hosting a tour because the customer wants to meet late at night when the agent is at dinner with his family, the agent is still following up right away saying, "Sorry, I couldn't make it but, you know, here's what we learned about you from that tour. Here are the homes that we want to buy or that we want to get more information on." So we just need to make that team-based approach incredibly seamless and totally personal. But it's going to be a slog. We are building a massive amount of software to improve the quality of the follow-up to make the whole experience feel more personal. And I just think that it's going to improve slowly over many months and years. Right now, our forecast is for agent productivity to increase but close rate, at least, for homebuyers, to decrease in 2019. That's our best guess as to what will happen, that our agents will get more opportunities and close more sales but the rate of close will probably decline modestly.

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

Great, thank you very much. Really appreciate that, Glen.

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

Thanks

Operator

We'll take our next question from Jack Micenko with SIG.

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

Glenn, I just want to make sure that I'm understanding this correctly. So when I think about your agent growth versus transaction growth, transactions grew faster than agents this quarter year-over-year for the first time in a couple of quarters. So a couple times, I think, I've heard you say that's going to continue through the year and then a couple of times I'm not clear. So I just wanted to -- as we think about that relationship going forward, should, based on the demand, based on -- it sounds like you're running at full capacity, should transaction growth continue to outpace agent growth through the second, third and fourth quarter? And then my follow-up would be, got a little bit of maybe doublespeak on the marketing. I think it's a $35 million, $45 million. If we do $45 million, curious what you meant by that, and if it's in the guide for 2Q. What's in the guide for 2Q on the marketing side?

Chris Nielsen - *Redfin Corporation - CFO*

Sure. This is Chris on the agent productivity. And we do expect, for the full year, for agent productivity to improve as compared to 2018. Certainly, in the second half of the year, we believe there's a lot of opportunity for agent productivity to improve as we were going up against more difficult comps. But as Glenn mentioned earlier, we've been increasing the number of customers that each of our agents meets, and we think that, that'll have an impact, perhaps even as early as the second quarter but certainly into the second half of the year.

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

And on the advertising spending, we've given you a range of $35 million to $45 million. And I think it'll be closer to $35 million if we just stick to our plan, which was to advertise through May. However, because media has been cheaper than expected and we have some money in the budget, but more importantly because we see some opportunities to try new types of ad campaigns based on some digital experiments that have been extremely successful, we might go beyond our plan and run ads in the summer. It would still be within that range but it would be closer to the $45 million number. So if we stick to the plan, it's $35 million. If we do some speculative projects based on promising digital results, it's closer to $45 million.

Chris Nielsen - *Redfin Corporation - CFO*

And just further note on that as it relates for the guidance, so reflected in the second quarter are our baseline plans for advertising through the month of May. If we were to extend the campaign, that would be reflected in Q3 guidance and spent later on during the summer.

Operator

We'll take our next question from Stephen Sheldon of William Blair.

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

I wanted to get your take on the referral partnership with RE/MAX. And just from your perspective, what are the most notable benefits? And then, I guess, along those lines, does this partnership kind of change your broader plans for where you add agents? I know this focuses on areas where you don't have agents right now. But does this maybe make you prioritize more over the next few years, adding agents in existing bigger metros versus trying to more broadly expand the geographical exposure? Just -- I guess any detail there.

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

Great. Well, there are 3 benefits to the RE/MAX partnership for Redfin. And the first is just lower recruiting cost. We've sometimes been working against the parent brokerage where they have to sign off when a partner agent wants to have a referral relationship with Redfin but it has sometimes felt grudging, whereas, RE/MAX has really embraced that. They're helping us with the communications and the outreach to these agents. So it should lower the administrative cost of the partner business. We should also just get better partners. RE/MAX agents are some of the best because they're not on a split. They've decided that they're doing so much volume, they'd rather pay a fixed fee to hang their license at RE/MAX. We've done the math, among traditional brokers, RE/MAX agents have some of the highest productivity. And also what impressed us, they have some of the lowest attrition rates. So RE/MAX agents tend to stay, better than almost any traditional brokerage you could name. In fact, I think it's better than all of them.

And then the final factor was Canada. RE/MAX is dominant in Canada. And we are launching a website that has continued to gain traffic quickly there, but we're not going to be able to cover the territory without a partner like RE/MAX.

As far as whether it gives us depth or breadth, I think the main issue is breadth. There are places where we get some demand but not enough to even warrant a heavy recruiting effort of partner agents in the outlying areas. And as we lower the recruiting cost, we can just fill in parts of the country where redfin.com is available but we haven't had any fulfillment.

Operator

We'll take our next question from Ygal Arounian of Wedbush Securities.

Ygal Arounian - *Wedbush Securities Inc., Research Division - Research Analyst*

Hey, good afternoon Guys. So a couple of questions. Maybe just starting with gross margins in the second half. I know you don't give full year guidance, and there's some potential marketing in the third quarter. But with productivity improving, marketing either stepping down significantly or partially, can you just help us think through how we should think about gross margins in the second half versus the first half? And then maybe a two-part question on Redfin Now and -- first on the way you guys tied Redfin Now in together with the brokerage in places where you're coming up against others that aren't tying in brokerage models with their iBuyer model. Are you seeing better results there? Are you seeing more customer satisfaction when that could tie together the brokerage and taking the house on the market and having the Redfin Now offer hand-in-hand together? And lastly, in the renovation part of the whole -- this whole Redfin Now process, have you ever put any thought into outsourcing that renovation to a third-party home services provider company like a HomeAdvisor?

Chris Nielsen - *Redfin Corporation - CFO*

So on second half gross margins, as I indicated earlier, we do expect that agent productivity will improve year-over-year in the second half. And if we do that, that will lead to improved gross margins year-over-year in the second half as well. So that's certainly the direction that we believe we're headed.

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

As far as Redfin Now is concerned, I don't think anything matters as much as price. We had been really interested to see what would happen when we came into markets where other iBuyers had a significant presence. We are certainly seeing competition. Some customers -- or homeowners, excuse me, are hosting auctions where they invite 3 or 4 different companies to make a bid at the exact same time, and they seem to enjoy that dynamic. But we've fared reasonably well. I think it's mostly because the price has been right.

Now if you were to evaluate our performance more broadly, where we want to do better beyond price, is when the customer says, "I'm just not going to take any of these offers. I want to weigh it against what I could sell the home for." Our ability to present both choices in a consultative way means that we should do better when the customer says no to the instant offer at picking up the listing because the same person is there to do both, and we can kill 2 birds with 1 stone.

And I think there's a broader point that has really become clear over the past few months, which is that many of our homebuyers have liquidity problems that Redfin Now can solve, and it's one part of this broader solution. So it's one thing to build a business where you make money on 1 transaction, trying to flip a house. There's a lot of capital risk and low margins on that. But if this provides the crucial lubrication, the crucial liquidity for someone who's been searching for months and suddenly realizes, "Oh my gosh, I see the home that I have to have but haven't figured out how to sell my old place," or someone who lists and then, 3 days later, realizes they don't like people tramping through the living room, that is really powerful. So in LA, in particular, where Redfin Now has just been really integrated into brokerage operations, Redfin Now is solving point problems for customers that are buying a wide range of services from us. And there we've had a great competitive advantage, not only over other iBuyers but over other brokerages because we just have a tool in our toolbox that other brokers don't have.

And then outsourcing, renovations to third-parties, we've tried that. We gave away some margin on that. But mostly we give away speed. When somebody decides that they want to sell a house or especially when we own the house and it's burning a hole in our pocket, we go in there like a man on a mission or a woman on a mission. And our goal is to fix that little guy up and get him back on the market. So trying to go through some website and giving somebody else a few points of margin hasn't worked well for us, and we just decided we've got to own it. And I know what you're thinking, we already own a bunch of other problems, but this is so essential to the success of the sale and to the turn times in Redfin Now too, that we just need to be really good at it.

Ygal Arounian - *Wedbush Securities Inc., Research Division - Research Analyst*

Thanks, that's really helpful. Just real quickly, have you ever given any data around how many buyers might come in?

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

Win rate?

Ygal Arounian - *Wedbush Securities Inc., Research Division - Research Analyst*

Like -- Sorry?

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

Win rate?

Ygal Arounian - *Wedbush Securities Inc., Research Division - Research Analyst*

Well, win rate but more so like buyers that come in on Redfin Now, they don't take that and then will move to your brokerage instead.

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

We haven't given any data. The color I can give you is that we're starting to see some traction on that. I would still say that Redfin Now team's focus has been on just executing well with now. And it was only this quarter that we started to see some of that synergy.

Operator

We'll take our next question from Jason Deleeuw with Piper Jaffray.

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

Good afternoon, thanks for taking the question. So on the mass media blitz, just wondering if there are any meaningful variations by market in terms of the home sales speeds or just traffic you're seeing in response to the media blitz. And any change in types of homes, like lower- or higher-priced homes? And then also just on agent front, that's probably the biggest -- one of the biggest challenges for the industry is hiring, retaining agents and competition for agents. So how's that going for Redfin in terms of hiring agents and then retaining the agents that you have?

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

So we have seen variations between markets. So the 22 markets, we've divided them into 4 types of advertising campaigns where sometimes we advertise more heavily in digital, sometimes we advertise more heavily with outdoor or with TV just to make sure we really understand what works the best, and we shift the dollars to the highest performing segment. But we haven't seen meaningful variations in terms of the demographics of the folks who are responding. For one thing, we don't have that precise attribution model. It's not as if we know that the rich people saw the TV ad and the poor people saw the digital ad or vice versa. We just see a broad lift in demand. So generally, the customers we recruit through mass media look similar to the customers who are already on our site coming to us organically.

As far as agent hiring and retention, I think the major insight we've had there is that, in 2018, when we lowered loads, it reduced the company's overall revenue capacity, and Wall Street has definitely taken account of that, but it also reduced each agent's personal income. Because so much of their pay is variable, they weren't getting as many customers and that didn't lead to as many closes, it actually affected our attrition. Not to a major degree. We obviously measure attrition compared to the industry, and it is significantly better than any other brokerage. And the reason for that is pretty simple, if you take care of people with the salary and health care benefits and you have a modern mission, I think there's something aspirational that really keeps agents here. But increasing loads this year has made for a happier workforce.

And the other factor is just striking the right balance between being programmatic about how to deliver great service but also trusting our best agents who are closest to the customer to make a decision on the spot. So we expect to continue to do better than our industry peers at hiring and retaining agents. And I would say our real focus right now is developing a profile of the type of agent who is most likely to prosper at Redfin and getting that agent extremely productive quickly. Because the moment of risk is in the first few months when they're earning a salary but not much in bonus, and we've just got to get them going. And so that focus I think is going to lead to even better retention over the next few years.

Operator

(Operator Instructions) We'll take our next question from Brad Erickson of Needham & Company.

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

So for Chris, I guess, thanks for the quantification of the gross profit impact from the increased cost. I think if you back that out, gross margin was still down a bit from a year ago. And I know we're splitting hairs a little bit, but I guess can you just help us reconcile that relative to the agent efficiency growth and your second half gross margin expansion comp there?

Chris Nielsen - *Redfin Corporation - CFO*

Yes. So we provide a commentary on home touring and field expenses. As Glenn mentioned earlier, we're seeing a lot of good top-of-the-funnel demand activity. And that's costly to us in the first quarter, meaning we're taking customers on tours of homes. Those won't pull through to sales necessarily in the first quarter, and so that did have somewhat of a negative impact on gross margin in the first quarter but we know that's the right thing to do, long term, to build customer relationships. And then I also provided a little bit of commentary with regard to earlier hiring of support staff. And that really is more of a Q1 impact than an impact through the rest of the year because that hiring was just earlier than we did in 2018. But really sets up the support teams to be in good shape to help the agents through the rest of the year.

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

Got it. And then maybe if I could just sneak one more in. Apologies to the operator. Glenn, you said you wished you'd hired faster in the quarter. I understand strongest part of the selling season is in front of us, but wondering if that implies any change to your commentary around accelerating the -- I believe, the brokerage revenue on a year-over-year basis for full year '19?

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

No. No. When we made the full year forecast, it was based on the hiring that we have. And especially as we get into Q3 and Q4, usually our agents are somewhat idle. But if we continue the running strong on demand, we'll just keep them busy and there should be less seasonality in the business. And I want to be careful here because there have been so many questions about Q3 and Q4, and we've really prided ourselves on our discipline and visibility, but I think it is a natural question to ask. Strong demand, some care and hiring for the second quarter because that demand was slow to build but there should be some upside if the demand holds up, and we feel really good about it.

Operator

We'll take our next question from Tom Champion of Cowen Inc.

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

Great, good afternoon. Glenn, you talked about increasing agent-customer caps. I think the number was 13%. Perhaps you could clarify that. And just curious if that's the right number. Does that -- is that dynamic? And was that higher than originally expected? 8% sticks out in the back of my head. Thank you.

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

It's been slightly higher than expected because demand has been so strong and the agents have been eager to take it on. I was just in Southern California yesterday where I had some anxiety that we were running too hot. And I asked the markets, and they roared back, bring it on. Now that's not the only way to run a business. You have to make sure that your customers are really being taken care of. But we feel really good about agent loads right now, and they are 13% higher, not 8% higher. So I think the original thinking was that it would be around 8%, but as demand came in so strong and people were willing to take it on, and we built some systems to make our agents more productive especially around completely booking the tour for those agents, we just felt like we were ready to increase the load.

Operator

We'll take our next question from Brent Thill of Jefferies.

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

Thanks, I'll keep to the script. And one, Glenn, you mentioned close rates, stated it's one of your biggest focused areas. Can you maybe walk through what you think the keys are for that improvement? Are there a couple of things that you would point to that you feel like you could help out and improve? And then I'm just curious any color you could give us that will be helpful.

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

Sure. Well, close rate, first of all, I think it's a difficult problem to solve. So it's not as if we're going to have this syllogistic approach that when we do A, we will get B as a result. But nonetheless, I think improving follow-up, managing performance, investing in coaching from our team managers, all of these things can increase homebuyer close rate. So we are really executing well at meeting the customer, and I think we now need to make sure that we also just follow up, not just from that first meeting, but from every interaction with the brokerage, that the agent is just calling, e-mailing, texting to stay in touch with that customer, to make sure the customer feels that we care. So we are probably going to spend more time in a future call on homebuyer close rate. We try to explain in the script that we're now preparing our strategy for 2020. That involves all sorts of pilots in the second half of the year, and new training programs and the development of new software so that come January, we hit our stride immediately but that hasn't been the focus of this call. So what detail we gave you was what we have.

Operator

We'll take our next question from John Egbert of Stifel.

John Peter Egbert - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

So I wanted to ask about the deeper integration of Redfin Now into the Dallas brokerage. I was wondering what like the operational mechanics of that look like. Do you schedule a quick inspection before the agent visits with the seller and -- so you're making multiple visits to do this? And I was wondering, is there an opportunity to make the business a little more scalable by maybe training traditional agents to both meet with the sellers and then gather the information about the home that you'd need to make an informed instant offer? Or maybe you're already doing this. I'm just kind of curious about how that works and what you like about that, that makes you want to bring it to some more markets.

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

So the change that we've made in the past few months has been to let Redfin Now buyers, these are the people who are responsible for signing the offers, to buy a home from a homeowner, make those offers remotely. And some of the information they need is actually gathered directly from the consumer. So we've just become more active about asking people to upload photos and answer more questions about the home. The listing agent can also provide some color. And what's pleased us is that we haven't seen an increase when we've made remote offers and the number of offers where we have to add repair fees later on. What we were worried about was a bait-and-switch dynamic where you start with a low price, assuming that everything with the house is perfect, then pretend to be surprised when it isn't. That isn't the way we want to run this business. And so far, whether the offer is made by a buyer in person or made by a buyer remotely, the offer has held up to the same degree where we don't have to come back and change our price later because of a problem we expected, not at a higher rate than before. So that's working well, and it should give us more scale in that business, letting us expand it faster but also with better gross margins. I think the larger issue between brokerage integration in Redfin Now is that, as I said, Redfin Now can provide a crucial point of liquidity for a customer who's moving from one house to the next, who's going to do multiple brokerage transactions, a mortgage deal, a title deal, and their only problem is that the moment they see the home of their dreams is when they realize they can't cash out their old place fast enough. And that's where it's really helped.

Operator

We'll take our next question from Tom White of D.A. Davidson.

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

I was just hoping you could give an update on your 1% seller listing product? I'm not sure if I heard any reference to that. A lot of reference to the Concierge. I guess I'm just curious, is it surprising maybe to you guys that Concierge maybe is potentially getting more traction with folks? And maybe just curious to hear your thoughts about why that is the case, if it's the case.

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

Well, the 1% product continues to do well. We have found that customers love that pricing. We have also experimented with offering customers a 1.5% price, where if they end up buying their next home with us, they then qualify for the 1% price, and we found that the market has, so far, had some tolerance for that pricing. I say some only because it's early days but the anecdote has been good around that. So we're very confident about a low-price listing product, and we're also really confident about a 2% product. We don't see as much contradiction between that as you might think, just because in both cases, the customer is really making a value calculation. If we just charge 2% for the same service that we now charge 1% for, I think that would be a real step back in pricing power. But when you can say, listen, we're going to charge you 2%, but we're going to paint this place, and stage it and get the front lawn looking a lot better so the house sells for another $30,000, people respond to that. And sometimes when we fail to sell a listing at a 1% price, the customer decides instead to use this Concierge Service to get it fixed up. There have been cases where we've pulled a listing from the market and listed it for much more money once it's been staged. The before and after pictures would make you cry. They really look good. So I think in both cases, it's a great value.

Operator

We'll take our next question from John Campbell of Stephens Inc.

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

With Redfin Direct, I agree with you, Glenn, that seems like a really big deal, especially for the consumer. But as it relates to you guys or to Redfin, how do you guys win in that transaction? I mean are you not potentially missing an opportunity for agent commission dollars? Or is it that you guys are still getting commission from the listings side? Or maybe there's some other type of referral fee? I just want to better understand that.

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

Sure. So first of all, it's a consumer-focused company. We can't run ourselves into the ground, but our first thought is how can we serve our listing customer better. And in this case, we charge that customer a 1% fee, and then there's another 1% for closing a transaction with an unrepresented buyer. And I don't want to quite characterize that as a purely digital margin, but we are making less revenue than we would if we were representing that customer as a homebuyer but we're involving far less labor. They found the house, they toured it once or maybe they saw it at an open house and they're making an offer, if we get another 1% of the house for that amount of work, it should pencil out quite well. Now we haven't done a thousand of these transactions so don't quote Chris on exactly what the gross margin will be, but we're excited to have some digital characteristics of this marketplace. And we've been really surprised. Our internal goal was to sell 1 house over the website, and we sold 5 in just a few weeks. And we think there's a lot more there. And just so you understand how that can turn a flywheel, it's great for buyers. We see people come into open houses, they're unrepresented buyers because they're earlier in the process. Their ears really perk up when they hear about this offer. But even better, in the listing consultation, we get asked all the time, "What if my cousin buys this house? Or what if somebody who doesn't have an agent buys this house? Do I still have to pay the buyer's agent?" And we've always had an answer around that, that we'll help them find a lawyer or something like that. But now we say, "We're the only brokerage that is trying very hard to help you avoid paying a buyer's agent. We're the only one with the website that reaches 30 million people, and we're going to plaster it across your listing the solicitation to make an unrepresented offer with a tool that will guide you through every step of it with data about what it takes to win." And so our listing agents love being able to hype this or just to talk about it when they go into a consultation.

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

Yes. That makes a lot of sense. It seems like that would be a quick fix to gross margins for sure. And then last one for me, on the off-line spend and just kind of brand awareness, you mentioned the 20% clip in Seattle. That's -- I'm guessing that's a lot better than what you guys see elsewhere. But that's still kind of surprisingly low to me. It seems like you've got a lot of opportunity to improve that, kind of build that out. So my question for you guys is, at what point do you just go all in? The market is advancing quickly, the capital's pouring in. We all know that. Do you guys ever worry that you're kind of missing your opportunity?

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

No. We tripled off-line media spending from '18 to '19. Maybe we could be doing more but I would just remind you that there aren't 3, 4 or 5 brokerage brands in America. There are 5,000. And even within a local market, there are dozens of brokerages. So when we ask someone to name the first 3 brands that come to mind in such a fragmented space, with some brands having 50 or 100 years of history, I think 20% is an achievement, especially compared to less than 1% share. So that's unaided awareness where people get 3 choices and they fill it in. Of course, we always want to do better, but I think you've got a really fragmented market. So for us, that's an encouraging result. And my only other comment on that is that DC isn't that far off. It's not like we go from 20% and the second market is 6%. The next market is high teens.

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

Okay. I just really didn't understand that methodology. So you had to fill in basically 3 brokerages, and it's off the top of your head on unaided awareness?

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

Exactly. Yes.

Operator

We'll take our next question from Ryan McKeveny of Zelman & Associates.

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

I wanted to ask about just the partner business. So obviously, we saw the announcement with RE/MAX. I'm curious if you think there's an opportunity longer term maybe in markets where you don't operate any of the brokerage to expand, effectively, monetization through kind of a partner referral type program and I guess with that, what the challenges or restrictions to doing so might be. And then secondarily on the partner side. I'm curious if you can talk at all about the cost structure and the margin potential there because it seems, on the surface, that a partner deal coming in should theoretically have less cost associated with it. So I'm curious if that's accretive to margin, and any comments you could share would be very helpful.

Chris Nielsen - *Redfin Corporation - CFO*

Sure. So generally we do think of there being lots of opportunities to grow the partner business over time. To have partner agents in local markets, we want to be members of the multiple listing services, which means we're operating as a brokerage in those places as well. And so the approach that we've taken has then to build out our brokerage services in those locations, join the MLS, and then add partner agents. We'll continue to look for opportunities just as we did with RE/MAX to provide as much coverage as we can for partner agents in the places where we may not specifically have agents in those kinds of outlying areas. So that's the way to think about it. And then just in terms of the cost to serve a partner transaction, because the Redfin agent is not providing the direct service to the consumer the partner agent is, you can just think of that as having a lower cost to serve in general. It's typically thought of as a higher-margin business as a result.

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

Okay. And then one on the iBuyer side of things. So Glenn, you mentioned a lot on how important the price side of things is to the consumer. And obviously, you're focusing a lot on the cost efficiencies and different things that you can provide there. If you look forward a few years and it proves to be the case that this is so competitive from a price side, could there be a situation where the iBuyer is actually a breakeven proposition and you would be okay with that because of the -- either ancillaries that you can attach to that or just tying it up with a brokerage and getting more traditional sales that way? I'm just curious, as you look out the next few years, if a breakeven proposition is not necessarily a bad thing.

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

It depends on how you define breakeven. If you are paid truly for the risk that you are taking, where priced in to breakeven is the cost of weathering a downturn, maybe. But I really think you have to be compensated for the risk that you're taking. And the reason that we do think that iBuying in our product mix is going to expand and contract as the market goes north or south is because we have to be paid for that risk. And when that risk premium goes up, I think more people are going to choose the brokerage. And when that risk premium goes down, more people are going to choose iBuying. But the idea that we'd be buying houses to subsidize the rest of the business is untenable.

Operator

At this time there are no further questions in the queue. I would like to turn the floor back over to Ms. Elena Perron.

Elena Perron - *Redfin Corporation - Head of IR*

Thank you, Jonathan, and thanks, everyone, for joining us today. We appreciate your interest in Redfin, and we'll speak with you again next quarter.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.
