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PRESENTATION

Operator

Good day, and welcome to the Redfin Corporation Q2 2020 Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Elena Perron. Please go ahead, ma'am.

Elena Perron - *Redfin Corporation - Head of IR*

Thank you, Casey. Good afternoon, and welcome to Redfin's financial results conference call for the second quarter ended June 30, 2020. 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 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 second quarter revenue net loss were better than we projected in our last earnings call. Revenue was up 8% from the second quarter of 2019 to $214 million. Losses narrowed from $12.6 million in the second quarter last year to $6.6 million in the second quarter of 2020. RedfinNow, our business of buying and selling homes on our own account, grew revenues from $40 million in the second quarter of 2019 to $72 million in the second quarter of 2020. Over that same time, our other businesses, primarily lending and title services, grew 37%.

In our core business of brokering home sales through Redfin agents and through other firms' agents working as our partners, revenues declined 12% compared to the same quarter last year, but those declines were confined to April, when core revenues fell 28% compared to the same month last year, and to May, when core revenues fell 17%. In June, revenues generated by our own agents and by our referrals to partners' agents increased 4%.

Our market share decreased by 1 basis point from the second quarter of 2019. The loss is due largely to the high proportion of sales Redfin gets from western parts of the U.S. that almost entirely shut down in March and April.

But we also need to hire more agents. Our commitment to employing agents lets us set pricing and service levels and safeguards the welfare of many of our workers, but that commitment also limits our brokerage capacity when demand spikes, as it did after our April reduction in force. The week before we furloughed 36% of our lead agents and laid off another 11%, customer inquiries were down 41% year-over-year. By the end of June, inquiries were up 40% year-over-year. That's crazy.

Our partners have stepped into the gap, serving customers from redfin.com when our own agents are busy. This buffers Redfin financially from the housing market's typical ups and downs, at least to a point. Partners generate less Redfin profit per transaction and much less Redfin revenue. Partners also generate fewer transactions overall because customer success rates are higher with Redfin agents. But partners improve brokerage margins by letting our agents focus on the most lucrative customers. In June 2020, the proportion of customer inquiries handled by our own agents was 17% lower than in June 2019.

We're extending our software and potentially our call centers to give our partner agents more of the support now reserved for our own agents. These efforts should improve our partners' agent service and increase the average gross profit Redfin generates per website visitor.

We're also rapidly hiring. The number of lead agents we employed on June 30, including new hires and those invited back from furlough, was 14% lower than pre-furlough levels. As of July 25, it was still 10% lower. To meet current levels of demand, our lead agent census would have to be 13% higher than pre-furlough levels. Despite reports that our furloughed agents were being aggressively courted by other brokerages, 83% returned from furlough; only 8% quit. This is a testament to our wonderful employees' loyalty. At some point in the fourth quarter, we expect to be fully staffed against our current forecasted 2020 demand and to keep hiring from that point on pace with demand.

Since many of the customers we'll meet in the fourth quarter won't close on a sale until the first quarter of 2021, we may have to wait until the start of 2021 to gain share at our historical rate of around 10 basis points per year. The good news is that by then, we may be able to perform even better than our historical rate, mainly due to gains in our share of online real estate traffic. And even before being fully staffed, we expect our market share will almost certainly improve in the third and fourth quarters.

One reason we're confident that the demand for more agents will continue at least through September is because redfin.com's traffic is accelerating. Comparing the second quarters of 2019 and 2020, average monthly unique visitors increased 16%, with June's visitors up 31% and July's visitors set to grow at a similar pace. June's rate is well above the 26% increase in average monthly unique visitors that occurred between 2018 and 2019. In May and June, Redfin, for the first time, attracted more visitors than Trulia, with only zillow.com and realtor.com still ahead of us.

Much of our traffic gain is due to increasing levels of homebuyer interest, which benefits the whole market. But some of that gain is because Redfin is competing better for traffic. By comparing our traffic growth to that of other major sites and industry reports on home touring activity and on pending home sales, we've concluded that we're increasing our share of real estate traffic even as the overall volume of traffic to all real estate websites increases. We have reason to believe our traffic share gains will continue. For many Google real estate searches, we're now one of the top

3 results, a position that draws far more traffic. And for most of 2020, we've been getting more of the visitors who discover redfin.com for the first time to stay, increasing the rate at which those visitors subscribe to listings from redfin.com or download our mobile application.

And it isn't just more online activity. redfin.com visitors are becoming customers at higher rates, with growth in customer inquiries outstripping traffic gains. At every stage of the home buying process, consumers are now more serious about buying a home than before the pandemic. For example, the customers who went on their first home tour in May, June and July have been about 10% more likely than last year to return to redfin.com within a week of their tour. In the past, this pattern of touring and browsing has been a reliable early indicator of customers' likelihood to buy a home. We've never seen such a sharp increase in home buying intent.

With Redfin getting more home buying customers and more serious home buying customers, our challenge now is serving them well. This goes beyond the agent hiring we discussed at the outset of the call. It's harder to schedule tours automatically, and bidding wars have sprung up in places where they were once uncommon. Because market conditions and customer loads has swung wildly from February to July, our efforts to increase homebuyer success rate will be hard to judge in 2020.

But other efficiency gains are easier to see. As part of our April layoff, we increased the number of agents under each manager, reducing the brokerages per transaction cost by about 1%. This change, originally planned for later in 2020, is part of the long-term plan we've discussed with you on previous calls to develop a more entrepreneurial sales force.

We have the opposite challenge when serving buyers instead of sellers. Listing agent productivity has been high, but we need more demand. Since June 1, listing agent productivity increased year-over-year from an already high level, having already increased in 2019 over 2018. Our agents are making the most of our opportunities, but just need more of them. This problem with listing demand began before the pandemic. Year-over-year growth had already begun to slow from the first quarter of 2019 through February 2020. At that point, demand plunged due to the pandemic before partially recovering in the last 4 weeks, with year-over-year growth in the high single digits. At a time when sellers have been much slower to recover from the pandemic than buyers, any growth in listing demand is meaningful. Market-wide new listings declined 43% year-over-year in April and still haven't completely recovered. Over the last 4 weeks, market-wide new listings are down 3% year-over-year. Since a home can take months to stage and sell, homeowners more than buyers are skittish about economic volatility but also about health risk.

To be a buyer, you have to decide only to walk through each home you're interested in, evaluating the risk home by home. But selling a home can be an open-ended commitment to welcome all comers for as long as it takes to find a buyer. Once the seller decides to meet an agent about listing her home, she wants to get it sold quickly.

The net increase in Redfin's listing fees that we rolled out in December 2019 hasn't helped Redfin agents meet more customers, but it hasn't hurt us much either, reducing demand only modestly. Comparing the large markets where fees went up to the smaller markets where fees decreased slightly, the large markets have gotten customer inquiries at about the same or an even better rate. But in the markets where the fee increased, those customers have then had a moment of pause. We're slightly less likely to schedule a listing consultation. This modest net decrease in how many listing consultations our agents get from a given group of website visitors has been in line with our expectations.

Since our fee increase didn't apply to listing customers who buy their next home via Redfin, we anticipate that the impact on listing transactions will be offset by an almost commensurate increase in home buying transactions from our listing customers. And of course, we expect the impact on listing transactions to be more than offset by a 35% increase in revenues per listing, wherever the price increase took hold.

To drive more listing demand, we've shifted our mass media ads to promote our listing service, when earlier in the year we had promoted our service to both buyers and sellers. The ad that we shot with cellphones for $17,000 in May is outperforming traditional ads that cost more than $1 million to produce. Since we launched the new ad at the beginning of June, the year-over-year change in listing inquiries in the markets where the ad ran was 8 points higher than in the other markets. This performance, coupled with the possibility that the real estate season will extend deeper into the fall because of the pandemic, has encouraged us to spend another $6 million to $11 million on TV media in the third quarter. This range is broader than usual. We'd only spend $11 million if advertising rates stay low despite the election and if this year's housing market keeps bucking the typical pattern of an early summer peak in demand.

We also want to create new online channels for potential home sellers to contact our agents. Just as we built the agent network and software to support on-demand tours, we're now developing a capability to deliver on-demand pricing analyses. So homeowners can talk to an agent at a moment's notice about the price at which Redfin would list their home and how we assess nearby home sales to develop that price.

Homeowners have responded enthusiastically to early trials of this capability, which could lead to a high single-digit increase in Redfin listings once fully rolled out. The rollout will draw on one of the great competitive assets Redfin has developed over the years. We long ago hired locally-licensed agents to work in call centers, at first to answer telephone inquiries from our website. We now expect to expand those call centers to support on-demand pricing analyses in most major markets by early 2021.

Longer term, we want to take listing share not just with new demand channels, but with new products. This is why we aim to be the first company to give homeowners across the U.S. complete set of choices for selling their home. First choice is standard full service at a low fee. The second option is a RedfinNow instant offer that lets the homeowner dispense with any hassle or financial risk in exchange for a lower sales price. The third option is Redfin's Concierge Service to renovate the home for a top dollar sale.

Rather than selling each of these services through a separate online channel and as separate sales force, we'll guide customers through the merits of each product with one channel on our website, one sales adviser in our call center and one agent in the customer's living room. We started piloting this approach yesterday in Southern California. But even before that, we changed the bonuses we pay the RedfinNow employees who generate instant offers. When we restarted RedfinNow on May 7, our offer specialists earn the same bonus if a customer accepted a RedfinNow instant offer or listed her home with a Redfin agent.

The results have been gratifying. Among the homeowners who rejected a Redfin instant offer, we more than doubled the percentage who met with a Redfin listing agent. This ability to make money from a failed instant offer is crucial because so many redfin.com visitors asked for an instant offer and so few accept it. For every homeowner who accepted a RedfinNow offer in 2019, another 7 who contacted us about a RedfinNow offer sold their home in a brokered sale.

But we also want RedfinNow to make money in its own right. Even straddling the pandemic, RedfinNow second quarter gross margins improved year-over-year, by 90 basis points to negative 1.6%. Not only did we sell our pre-pandemic inventory at a slightly higher price than we promised on our last earnings call, we were also able to start buying homes again with lower offers. We've been helped in this regard by homeowners' reluctance to show their properties during a pandemic. Of the homes we've bought and then put on the market, many have gotten an offer for a higher price than we expected. Our goal is to generate gross profits from the business in 2021 or 2022 rather than betting on economies of scale from owning billions of dollars in homes far in the future. RedfinNow today is limited to 10 of our 97 markets. Our Concierge Service operates in another 10, sometimes more expensive markets. RedfinNow and Concierge Service overlap today in 5 markets. We plan to resume expansion of both services to new markets in 2021 after we've unified the process for selling Concierge RedfinNow in our brokerage service and after we've built the systems and staff to renovate many homes.

The business that's growing most quickly within Redfin is Redfin Mortgage, which now accounts for about half of our other revenue. Our title business, Title Forward, contributes much of the rest. Redfin Mortgage turned its first monthly gross profit in May and had another month of gross profit in June. Second quarter gross margins for our other businesses improved year-over-year by 1,100 basis points to 13.2%. Some, but not all, of the gross margin gains are sustainable. We stopped hiring lenders when the pandemic first began causing economic carnage in April, even though mortgage demand kept rising. This in turn forced us to limit volume by raising rates, a tactic common among lenders in 2020. Revenue per loan increased as a result.

We're now investing aggressively in Redfin Mortgage, confident not only that we can loan money to our brokerage customers, but that Redfin Mortgage can recruit customers directly from redfin.com for purchase loans and refinancings. As with our brokerage service for homebuyers, our main challenge with Redfin Mortgage is just keeping pace with demand. We've had to defer expansion to Seattle, Portland and California, but we still hope to reach these markets by year-end, depending on how quickly we can hire lenders. This expansion would lift the percentage of brokerage customers we can reach from 59% to 94%.

We now have the tools and processes to handle refinancings but have served only a few customers because our lenders are busy. We expect to start processing a significant number of refinancings in the first quarter of 2020, setting up mortgage for a two-pronged growth strategy.

The question hanging over our aggressive hiring plans for mortgage, the brokerage and even our title business is about the divergent fortunes of the housing market and the overall economy. Against a backdrop of double-digit unemployment, a second surge of coronavirus infections and widespread protests, the strength of the housing market almost feels eerie. We're monitoring mortgages and forbearance where the borrower has requested to delay mortgage payments for up to 12 months. There's the government moratorium on U.S. foreclosures, but 4.1 million loans or nearly 8% of U.S. loans are in forbearance. That's down from a peak of nearly 5 million loans in mid-May, but still high. 3.2% of mortgages were delinquent in January 2020.

Because widespread forbearance will extend at least into the spring of 2021, we don't expect distress sales to dampen home prices in 2020. But a big question for next year is whether Americans will get back to work before forbearance expires. This disparity between the white-collar homebuyers and others worried about just keeping their home, coupled with the speed of the downturn and then of the recovery, has made it hard to call the 2021 housing market. Every week this summer, execs who led the company through an April layoff have updated our demand forecast and approved more hiring, but never without also discussing the possibility that the bottom could fall out of the economy again. Just last week, we asked our economists to look at the markets where infections are soaring to see if demand there had faltered compared to other markets. But even the earliest demand indicators still show that buyers are mostly unfazed. Though touring demand slowed slightly in Arizona before rebounding.

The housing market may be volatile, but for now, it would be hard to overstate how strong it is. For the homes listed between June 22 and July 19, asking prices increased by a whopping 14% and still buyers were undeterred. 46% of new listings had an offer within 2 weeks, up from 34% for the same period in 2019. In June, only 13% of listings dropped their price, down from 16% in June 2019. Pending sales have increased 8%. The number of homes on the market over the last 4 weeks decreased 29% year-over-year, with the drops only accelerating since April. Price increases have begun to draw new listings into the market but still at lower levels than last year and far below the rate of purchases. As a result, the number of homes for sale in the U.S. is at its lowest level since the National Association of Realtors and the government began tracking this data in 1999. In Maryland this month, 1 Redfin listing got more than 100 showing requests in 3 days.

Low mortgage rates, a flight to affordability, more interest in the home generally and more interest in vacation homes are all driving demand. We hear from our agents in outlying areas that more workers each month are getting permission from their employers to move far from the office. As a result, buyers are flooding into markets like Phoenix, Sacramento, Fresno, Bridgeport, Vegas and Detroit.

In markets like Tucson, our agents meet buyers willing to pay $600,000 for a home in a market where the average is closer to $250,000. In markets like Palm Strings, we meet buyers willing to pay $1 million where the average is less than $500,000. Some customers who are planning to buy a vacation home decide halfway through the purchase to make it their only home. Rather than leaving the city for the summer, they never come back.

Perhaps the most important trend for Redfin is an increase in homeownership rates. In early June, we predicted the first major increase in homeownership rates since 2004, noting that many of our buyers in affordable outlying areas where people who only a few months prior were planning on renting an apartment in an already, in an expensive big city for years to come. On Tuesday, the U.S. Census released a report showing that homeownership rates increased from 64% a year ago to 68% last quarter, potentially the largest such increase in its history.

Before turning the call over to Chris, we want to update you on our efforts to build a diverse workforce. This will be a brief but important feature of our earnings calls because our diversity efforts advance a commercial goal of vital importance to every Redfin stockholder, to hire talent and reach customers that other businesses overlook.

Over the past month, we've published a report showing an increase in the representation of people at color at Redfin from 30% in 2018 to 31% in 2020. Also, this month, we set provisional 2021 diversity targets. We'll finalize those targets in December once we've settled on how many people we need to hire next year. We plan to base 25% of executive bonuses on those targets, focusing on 2021 since we canceled 2020 executive bonuses.

What's even more important than recruiting is developing the people of color now at Redfin for senior roles here through better management training and mentorship programs. By year-end, we also expect to add a new board member, which gives us an opportunity to add a diverse perspective on Redfin at the company's highest level.

It has been a wild year. We responded quickly to the downturn. Now we're scrambling to capture demand, blowing out our financial projections from just a few months ago. We're running naked through the jungle with a Bowie knife clenched between our teeth, which is the way Redfin was born to be.

Now before I sign off, Chris and I wanted to thank the scrupulous and insightful Elena Perron, who's moving from Investor Relations to run Financial Planning and Analysis for Redfin. Elena joined us just before our IPO and taught me how to host an earnings call. Her absolute mastery of our business and her professionalism and calm saved all of you from my dingbat impulses to turn these calls into a fiasco. Take it away, Chris.

Chris Nielsen - *Redfin Corporation - CFO*

Thanks, Glenn. The impact of COVID-19 on our second quarter results was less than we had anticipated, specifically in June when we meaningfully exceeded our expectations.

Second quarter revenue was $214 million, up 8% from a year ago. Real estate services revenue, which includes our brokerage and partner businesses, declined 12% year-over-year. Brokerage revenue, or revenue from home sales closed by our own agents, was down 12% on an 11% decrease in brokerage transactions. Revenue from our partners was down 13% on a 20% decrease in partner transactions.

The properties segment, which consists of homes sold through our RedfinNow program, generated $72 million in revenue, up 81% from 1 year ago. Our other segment, which includes mortgage, title and other services, contributed revenue of $7 million, an increase of 37% year-over-year. Total gross profit was $46 million, down 5% year-over-year. Real estate services gross margin was 34.2%, up 200 basis points year-over-year, primarily driven by a 140 basis point decrease in home touring and field expenses, an 80 basis point decrease in personal technology expenses, a 70 basis point decrease in listing expenses and a 50 basis point decrease in travel and entertainment expenses, each as a percentage of revenue. This was partially offset by 170 basis point increase in personnel costs and transaction bonuses as a percentage of revenue, driven by additional pay for agents as deal volumes temporarily declined.

Properties gross margin was negative 1.6%, up 90 basis points from a year ago, primarily driven by a 270 basis point decrease in personnel costs and transaction bonuses as a percentage of revenue. This was partially offset by a 220 basis point increase in home purchase costs and related capitalized improvements as a percentage of revenue.

We're still being careful about the prices that we pay to buy homes through RedfinNow. Since we believe that the real estate market has normalized after COVID-19-related disruptions earlier this year, we'll go back to no longer providing an update on the capital limit for this business.

Other segment had a gross margin of 13.2%, an increase of 1,100 basis points from a year ago, primarily driven by a 690 basis point decrease in outside services costs as a percentage of revenue. These businesses continue to scale against their fixed costs.

Total operating expenses were down 17% year-over-year and represented 24% of revenue, down from 31% of revenue 1 year ago. Technology and development expenses increased 12% from last year, driven by an increase in personnel costs. Marketing expenses declined 65% year-over-year as we paused our mass media and performance marketing campaigns in late March.

General and administrative expenses grew 30% year-over-year, driven entirely by a net $6.2 million of incremental and direct restructuring costs related to COVID-19. Our net loss, including stock-based compensation and depreciation, was $6.6 million compared to a net loss of $12.6 million in the second quarter of 2019. We also recorded a dividend on convertible preferred stock of $1.3 million. As a result, our net loss attributable to common stock was $7.9 million. Diluted loss per common share was $0.08 compared with a net loss of $0.14 per share 1 year ago.

Now turning to our financial expectations for the third quarter of 2020. Revenue is expected to be between $214 million and $225 million, representing a year-over-year decrease between 10% and 6%. We expect our properties segment to account for $10 million to $14 million of that revenue, representing a decrease between 88% and 83%. We don't typically provide guidance on gross margin, but because our lead agents are so busy right now with serious customers, we do expect real estate services gross margin to increase year-over-year for the third quarter. This would mark our fifth straight quarter of improving real estate services gross margin as compared with the prior year.

Net income is expected to be between $18 million and $23 million compared with the $6.8 million net income in the third quarter of 2019. This guidance assumes that we spend at the high end of the advertising range that Glenn mentioned. Our guidance also includes approximately $8.8 million of stock-based compensation and $3.8 million of depreciation and amortization.

We also expect to pay a quarterly dividend of 30,640 shares of common stock to our preferred stockholder. Accordingly, the value of those shares will impact our net income attributable to common stock. This guidance assumes, among other things, that no additional business acquisitions, investments, restructurings or legal settlements are concluded, and there are no further revisions to stock-based compensation estimates.

And now we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Jason Helfstein of Oppenheimer.

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

Elena, we'll miss you in the IR role. So on the -- I don't know, again, I'm multitasking. Did you comment on what you thought the impact was on the change in market share? Normally, you gain market share this quarter. It was basically flat on a year-over-year basis. And then just a follow-up on Chris' comment about the growth, the real estate gross margin for the second quarter. It sounds like it'd be basically 38% or better, which would be up sequentially, and it would seem like maybe second quarter was even better than you thought for real estate gross margin. So should we start to think that we're kind of at a new -- I don't want to say a new paradigm, but at a new level of agent productivity and you feel like, obviously, pending market volatility that, that new level of gross margin, real estate gross margin is sustainable?

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

Why don't I handle share? And Chris, you can talk margin. Jason, the comment we gave in the earnings script was just about how share was flat to down because we are concentrated in Western markets, which were hit hardest by the pandemic, but also because we laid off or furloughed 1,000 people. So demand went down 40%. A couple of months later, it was up 40% and we had to hire as many people as quickly as we could. So we're pleased at how many folks came back from furlough. We're now hiring above and beyond that, but we need to do that to get back to really strong share gains.

Chris Nielsen - *Redfin Corporation - CFO*

And then with regard to margin, we do expect third quarter real estate services gross margin to be improved over the third quarter of last year. I'd be just a little bit careful about extrapolating that too far, though, because our agents are just super busy right now. They have really met a lot of customers over the last few months with very high intent. That's allowing for very strong productivity. But that may or may not be kind of the normal state of the housing market. And so it's something that we'll just have to watch here for a while. But just as it relates back to the second quarter, we were pleased with the gross margin. We were able to achieve a big chunk of that. It's just that demand came in strong and closed strong, and that obviously helps gross margin when the revenue piece of that works out well.

Operator

We will 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*

Great. Two, if I may. Just first on your mortgage business. Can you talk a bit more about the strength there? Is it just kind of the expansions into new states over the last several months? Is it rising attach rates to your buy side transactions? Is the pandemic driving more consumers to utilize the product, perhaps just color there and if you could update on attach rates due for mortgage and title, that would be great. And then just a quick follow-up.

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

Great. So there are many reasons that the mortgage business is growing. Our agents love recommending that product, so we're bullish on attach rates. We also just see more opportunity for profit because rates are so low and every lender is so busy. So what we did and what other lenders have done, just to limit volume, is to raise our rates above what they would normally be, increasing revenue per mortgage. We're expanding and at the same time, we think we can monetize a vast redfin.com audience by offering mortgages to people who are not Redfin brokerage customers who may want that to buy a home through another agent or who want it for refinancings. We've had requests from our customers who did use Redfin to buy a home about 2 or 3 years ago, have Redfin handle the refinancing. So for many months out, Redfin mortgage is going to grow as fast as we can scale our hiring, our training, our culture.

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

Great. And then just on -- there's been a lot of data points out there about this trend of urban flight and people leaving congested cities. Glenn, I'd just be curious to hear about -- is that an opportunity or a risk for you guys? Obviously, there are a lot of large urban markets that are big core markets for you. And if people are leaving, I guess that's good for the sell-side part of your business. But if they're moving to rural areas where maybe you're not as big, just trying to think through that.

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

If Cheyenne, Wyoming has a real estate boom, we'll miss out on it because we don't cover that market, but we do cover a massive number of markets. We're in places like Rochester and Buffalo and Raleigh and Savannah. So it has been a huge business benefit to us. Almost all of our agents are reporting an exodus from San Francisco, L.A., Boston and New York. If you talk to those folks, you hear about how proximity to transit doesn't matter in Connecticut, about how people aren't worried about an open floor plan anymore. They want a different room to Zoom from for the kids and for themselves. So what they want in a house and where they want to live, coupled with the fact that they're just thinking more about a home, means that there are going to be more real estate transactions in the United States. And it's up to us to take advantage of that and continue to shift our operations to smaller and mid-sized markets. We think we have an opportunity to take more search share in the small and midsized markets because our engineers are located in places like Seattle and San Francisco. We've unconsciously biased the site towards those cities. Searches work much better there than they do in these smaller places. And so as we redefine neighborhood boundaries and recognize listing attributes that may not have been as relevant in some of the big cities, I think we'll take more search share. We're definitely going to hire faster in the smaller markets. We're really bullish on growth. So it would be hard to say that this is anything but a boon to Redfin.

Operator

We will take our next question from Edward Yruma of KeyBanc Capital Markets.

Edward James Yruma - *KeyBanc Capital Markets Inc., Research Division - MD & Senior Research Analyst*

Two quick ones for me. I guess, first, you guys gave some statistics around agents that weren't furloughed that came back. But given the kind of intense market that you have right now, what's the retention like on your lead agents? Are you seeing higher attrition? And then as a follow-up, I know you guys have been very innovative in terms of kind of contactless showings. What's your sense on the consumer appetite for this going forward as we start to see mobility improve?

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

Got it. Well, first of all, just to comment on agent attrition. We haven't seen a significant uptick in attrition, but we are worried about the welfare of our employees. Folks are working really hard under stressful conditions because their kids are at home unable to go to camp or school, and they're worried about meeting customers one after the other when infection risk is still high. So we're just drawing on the reserves and our culture. And we've been doing that all summer. The employee love for Redfin has been tested. And so far, we've passed that test. But we're really going to have to be mindful of it. When earlier there was a question about gross margins and the opportunity to get more leverage over gross margins, Chris responded cautiously because we could maximize agent output over the next 6 weeks and have everybody quit when we're done with the quarter. And instead, we want to play a long game and be the best employer in real estate. So the fact that we're not taking share quite as fast as we could, the fact that we're not working our agents absolutely to the bone is because we are trying to be balanced with financial objectives and long-term agent welfare, long-term customer satisfaction.

As for contactless showings, we're really enthusiastic about self-service access to properties. If you talk to a listing customer, what they're most worried about is the open house and all the private showings. But when you get a vacant listing, you can sell it all day. So the challenge for us is getting an iPhone-enabled lock on the doors of those houses and letting people into the properties. We experimented first with RedfinNow, just because we wanted to be the guinea pig. And what we discovered is that it's not just looky-loos or people trying to have a party in-house, folks who walk through the property on a contactless, iPhone-enabled tour end up making offers. And now we can make that pitch to people who own the house besides Redfin and say, it is worth it. You should put that lock on your door, you're going to get more offers as a result. And we think it is an awesome part of the future, whether there's a pandemic or not.

Operator

We will take our next question from Ygal Arounian from Wedbush Securities.

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

So maybe just -- there's obviously a lot going on. And I'm trying to understand the demand and how it's accelerated since the beginning of the pandemic and tying that into your guidance review. Is there any way to think about what part of that is pent-up demand that you would have seen in late March and April? And how much of it is being driven by lower rates in the kind of new environment of work at home, et cetera? Or do you not think about it that way? And then I'll ask one on RedfinNow and properties. And you mentioned -- or at least what it sounded like to me, kind of slowing down the expansion of RedfinNow for now until you unify the sales process. So maybe any additional color on how to think about the expansion of RedfinNow, what it's going to look like for the rest of the year. Are you going to be a lot more active in the markets you're in or just kind of take it easy and slow until we get into 2021?

Chris Nielsen - *Redfin Corporation - CFO*

Sure. So on pent-up demand, I think it's still hard for us to tell how much of what we're seeing right now is a carryover from the second quarter. It's something we've been trying to pay a lot of attention to. I think we're now getting more comfortable that there's a lot of muscle underneath this because we've now been seeing it for a while. It was not just an initial kind of rebound, but it's now been several months where we've seen really strong demand. And when you put that together with the kind of traffic growth that Glenn talked about, we do find that to be very encouraging in the long run for growth.

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

And on RedfinNow, we remain committed to it as one part of a larger solution. We think everybody who's going to sell a house, at least a house under $600,000 or $700,000, is going to want to compare an instant offer to a brokered sale. They're also going to want to look at brokers who can fix up the house as part of a concierge service. So the only delay for us is just being able to renovate a large number of houses so that we can limit the time we hold the properties. We're scaling up our Home Services division to be able to do that, but also just unifying the sales force in exactly the way that you said. We started RedfinNow with the idea that we needed a separate sales force just because it was a different product and we wanted to learn quickly before trying to train 1,000 people to sell it. But now we've gotten to the point where we'll still have offer specialists figure out how much to bid on a house, but we're going to present that through a listing agent who's able to offer this balanced complete view of all of the customers' options. We think it's in the best interest of the customer to see all of those options from one person who has their best interests at heart. But we also think it's going to lower our delivery cost so that we can have the most efficient channel for making instant offers out of all the iBuyers.

Operator

We will take our next question from Naved Kahn of SunTrust.

Robert Charles Zeller - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

This is Robert Zeller on for Naved. And congratulations, Elena. In terms of -- for hiring more agents, I guess how do you reach your goal? What could delay the plans? And then also, what could be like the perfect world or Utopian scenario that would allow you to beat your time line or hire more agents quicker than you expected? And then I have one follow-up.

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

Great. Well, the way we think about it is how many recruiters do we have and how many agents does each recruiter bring on every week. And so far, we've been outpacing our goals, but we need to add recruiters. When you do a layoff, say, in April, the first people to go are often recruiters because if you're losing employees instead of gaining employees, certainly, you don't need recruiters. But we've been able to bring back that recruiting team, and they've come back hitting on all cylinders. It's a tribute to that team. The challenge is that if real estate is hot for Redfin, it's hot for other brokers. And during those times, it can be hard to lure someone to Redfin because they've got 1 or 2 deals pending with their traditional brokerage, and they're waiting for those to close. Having said that, the whole financial statement benefits from the demand that we're seeing because it's not as if we're turning away customers. When we don't have enough of our own employee agents, we send those customers to partners. And that lets our employee agents focus on more lucrative clients. So in general, we've been excited about the fact that we have more demand than we can handle. That is nearly an ideal situation. And we're fairly confident that we're going to be able to recruit folks because we've been able to get people who come from backgrounds outside of real estate to be very effective as real estate agents very quickly.

We have long insisted that we can't just feast on other brokerages' census. We have to develop agents who are great at customer relationships, great at service, hard-working. And when you take somebody who's working hospitality or retail or some other business and say, you can make $100,000 a year after your first year at work, that is a very lucrative opportunity for those folks. And it's especially appealing now that there's double-digit unemployment. So we're excited about our ability to grow. And we're just determined to make sure that it's high-quality growth, because the quality of the service depends on technology and systems and policies and everything else, but it also depends just on the quality of the mammal who is delivering that service, on the quality of the human being.

Robert Charles Zeller - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Got it. And then just how do you see the pace of home sales for the next quarter and for the rest of the year with all the factors that are in the market right now, such as very low supply, very low rates, increase in prices? So just curious on what you guys are seeing in terms of pace of home sales going forward?

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

Well, if you've been on these calls long enough, you know that I'm a nervous nelly. I'm always talking about how the bottom could fall out or something could go wrong. But if the conditions continue the way that they are, which is a big if, given that there's a second surge of infections and double-digit unemployment and the new GDP results that came out today. But right now, it could not be stronger. Every single indicator at Redfin is bright green on traffic, customer contacts, seriousness of customer all through the pipe. The issue is going to be inventory and bidding wars, but we have a much greater supply. It used to be that everybody was bidding on 150 homes for sale in San Francisco, and now they're spread out across the country. So I do think that bidding wars will be an issue, but not as gating as it was, say, 2 or 3 years ago when we had another big inventory crunch.

Operator

(Operator Instructions) Next, we will take our question from Heath Terry of Goldman Sachs.

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

I just wanted to dig into a couple of things. One, on the discussion that we had earlier around market share, I know it's largely a function of mix with the West Coast. If you were to try and normalize for that, is there almost like a same-store sale number that you could share or sort of qualify for us in some way to look at what share looked like on a market-by-market basis, sort of what you've seen there. And then if on a kind of second question, as you look at the agent efficiency that you're seeing, is there a way to separate out sort of the impact to agent efficiency from the technology efforts that you're making, and especially the new technologies that you're providing to both agents as well as buyers and sellers versus sort of what you're seeing in the macro environment?

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

Sure. So I'll try not to answer both questions. We made a claim in the earnings script that much of the share loss, it was a 1 basis point share loss, but that was largely attributable to the fact that there was a mix shift. And the reason we were able to make that claim is we do have market-by-market data. We do not disclose that data. We've never done it before. We shouldn't do it now. It is not as reliable as the number that we release. But that's what comforted the claim that we think it's largely a mix issue.

As far as agent efficiency, the gain has been so sharp and not entirely correlated to a particular technology release, that most of it is because demand went up, customer loads increased as a result and customer intent has been higher. So you meet people, they are deadly serious about buying a house. We have made some investments in screening out people who are not serious about buying a house. And I think that is material long term to our success, but there's been a secular change in the homebuyer. People who used to walk through houses just because they were cool, they don't want to mask up to do that. It's just like walking into a store. You don't do that anymore unless you've got your hand on your credit card and you know what you want to buy because you're in and out with your mask on and off again. So I think people are pretty serious about buying a house, the ones who are engaged in the market, and plenty of people are engaged. I wish we could take more credit for it, Heath.

Operator

We will take our next question from [Sohan Bosley] of Susquehanna Financial Group.

Unidentified Analyst

I just want to follow-up on the mix shift, I guess. Does this actually make for a good -- is it a good reason, I guess, to maybe keep your efforts in sort of the [gold star] regions rather than move faster into the lower-priced markets as -- in order to sort of maintain that share? Or are you still focused on sort of going into those lower-priced markets? It just seems like if you sort of continue your efforts in the higher-priced markets, you won't see this sort of differential going forward.

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

We're omnivorous. We're going to try to take share in the big markets and in the small markets. We're hiring everywhere. It's like those bears you see in Yellowstone Park, they eat the garbage, the blueberries, they eat everything.

Unidentified Analyst

Okay. I guess just a quick...

Operator

We will take our next question from Brent Thill of Jefferies.

John Robert Colantuoni - *Jefferies LLC, Research Division - Equity Analyst*

This is John Colantuoni on for Brent Thill. I have a bigger picture question. As the brokerage industry has had to contend with social distancing and other constraints to the traditional home touring process, are you seeing any signs that competitors have recently stepped up their investments in digital tools for agents? And other than your site and your site traffic, maybe you can talk about how Redfin maintains its technology edge.

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

So we have seen competitors start to embrace 3-dimensional scans of listings, which make it easier to see a house without actually getting out of your car and walking into the property. But nowhere near the universal or near universal level that Redfin has. So we do see individual agents trying to cobble together a special camera for taking those scans or trying to offer FaceTime video to their customers, just telling each customer that I'll do that for you. But our platform lets us offer that to every single person who's looking at a listing online. And just being able to tell everyone that we can take you through the whole transaction without having to meet you is a comfort to many customers. I would say it's just as important or maybe perhaps more important to home sellers that we know how to sell a house without having to host open house after open house, because we can show you how much traffic that listing is getting online, we can run digital campaigns, and you can see the results in real time from your computer. And just talking to people about the premium amount of traffic we can deliver because of our platform, because of our digital capabilities, has been more important. It used to be that when you told somebody, hey, we're going to run these custom campaigns, it's going be e-mail, it's going to be redfin.com, it's going to be Facebook, there's plenty of work we have to do here, they'd say, but what about the post card? Are you going to send a postcard? Nobody is really saying that anymore. People really want to hear about how you're driving virtual showings. So I do think it favors us. I do think the industry is going to try to close the gap and only get halfway there.

Operator

We will take our next question from Brad Erickson of Needham & Company.

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

I just had 2 follow-ups. First, can you just talk about your agent hiring flexibility relative to the demand? I guess is the goal to have your agents sort of really, really busy like they are right now, where you're kind of hedging on the sustainability demand? Or is the goal ultimately to reduce the demand funnel size for your agents as you hire more over time? That's the first one. And then the second one, just on the traffic acceleration you called out in June and July, particularly on SEO, what do you think is driving that? Was there an algo change that you benefited you? Or did something change in terms of your content? Maybe just talk about what you think is behind that.

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

Sure. So we like to send some demand to our partner agents. There are going to be ups and downs ahead. They may not be as massive as the one that we saw in April. But we try to buffer ourselves against seasonal and macroeconomic swings in demand by having 30%, 40% of demand go to partners. It also improves our margins so that our agents can focus on the most lucrative customers. But having said that, we also want to make sure that it's a good life for our agents, that they have a sustainable workload. And what's been different about this summer is that they get into the red zone for a month or 2 every summer by design. They know that. They plan their lives around it. They want the income. And this summer, it just hasn't come back down. It's month after month after month. So we are intervening to bring it back down to make sure that our customers are well taken care of, but also to make sure that our employees last. So I think our philosophy is to manage load, in part based on our sense of employee welfare and customer satisfaction, but increasingly to do it algorithmically based on agent close rates. So there are some agents who can handle 15, 20 new customers a month, and they are going to make sure every single one of those customers who want to buy a home is successful. And there are other agents who get overwhelmed. And you can't have one size to fit them all. So instead, you're measuring how many of the customers are actively engaged in a home search through their online activity but no longer engage with the brokerage, and then intervening with agents who need to have lower customer loads on an agent by agent basis. And the reason we can do that is because we've elaborately instrumented the brokerage experience and the website to keep track of a customer all the way through from their first visit to getting the keys. And we know when there's a problem, and that's when we're going to take action.

We don't want to get into what we've done to improve our site. But hopefully, we set up some credibility when I told Heath that we can't take credit for increasing agent productivity; it's largely the result of the increasing homebuyer intent. So that I can say now that some of the traffic gain is also a market-driven tailwind and some of it is because we have done things to get more traffic. And the simplest evidence of that is that we passed Trulia. If it was just a rising tide, the Trulia boat would be lifted right alongside ours. But instead, our boat has nudged ahead.

Operator

We have an additional question from [Sohan Bosley] of Susquehanna Financial Group.

Unidentified Analyst

Just the follow-up question I had was, Glenn, on the iBuyer business model, just thinking about it through cycle, there's some debate that the iBuyers could play -- the role that they could play during volatile times. On one hand, some say there's -- there could be liquidity providers. And on the other, we saw in the last couple of months that you guys as well as others have stopped buying completely. So I guess the question is, what are your thoughts on the evolution that's maybe required to the business model to make this more of an ongoing business rather than start-stop in times of volatility.

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

Chris, do you want to start with that one?

Chris Nielsen - *Redfin Corporation - CFO*

Yes, I do think that we will continue indefinitely to adjust our pricing when we see market volatility. We want to respond to uncertain times. And the way we do that is by adjusting our pricing. And so when we're not sure what we can sell an asset for, if we think it might be less than today, we're just going to be way more careful on pricing the home. So you should expect that we'll continue to kind of turn the knob on that, given what we see from a market condition standpoint.

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

I completely agree. Imagine if you are an investor and you had to buy stock every single day in the market. No one says if you decide not to buy a stock one day that you're no longer an investor. They'd just say you're a prudent investor, and that's what we want to be with RedfinNow. There's a time to reap and a time to sow. And in a bad market, we may stop purchasing again. It won't probably be for very long, but we need to get a sense of what the clearing price for a house is going to be.

Operator

We will take our next question from Nat Schindler of Bank of America Merrill Lynch.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

Yes. Sorry. Well, I think most of my questions has been answered, but we really have a kind of a big question that maybe you'll help me out on. We've been hearing about the suburbanization trend for a long time. And everybody is talking about people desperately moving out of the cities to get to the suburbs. And I get that. There's just a thing I've been confused about, is that there's a second side to that equation. Where do the people that are in the suburbs go?

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

Well, I think there's a long-term trend, not just to the suburbs, but to outlying areas. So Boise, Buffalo, Rochester, Raleigh, Savannah, Tucson, these smaller cities and towns are also getting plenty of folks. And then the suburbs can get bigger. Seattle is a perfect example of a city that's bounded on several sides by water, but there's sprawl in those cities where you can plot out new developments. And for the longest time after the great financial crisis, developers were scared to do that. They were excited about urban infill and trying to make Seattle or San Francisco more dense, and often frustrated by zoning policies and by the cost of land. But eventually, you just decide, especially in a place like Nashville, where it's a zoning free-for-all, we're just going to build houses as fast as we possibly can. So the builders are really ramping up to take advantage of this. I also just think that the suburbs themselves are going to get more dense. So you see pressure on suburbs to upzone, to provide more mixed housing, to be more affordable.

Operator

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

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

Congratulations, really a great quarter, very nice guidance here. Of course, a lot has been asked already, but one big picture one for me. So if I look at how this year played out, so you look at the first quarter, you had very strong revenue growth, and I'm talking excluding the RedfinNow, so just real estate services and significant margin expansion. If I look back just the last few years, let's say, since 2017, you've had a revenue CAGR of something like 25%, but the counter was real estate gross margins trended lower over that time. And even with the impact of COVID now, the guidance you gave for 3Q, I think that implies real estate services revenue up something like 20%. You said gross margins will be higher. So it seems the revenue side of the equation -- I guess the question is, is there any reason to think that something around a 25% revenue CAGR going forward can't be continued? And then part 2, it seems like the gross margin's really the kicker here, where you've seen effectively a step function higher. So the question is just how do you keep the growth going, combine that with margin? Obviously, that's the best of both worlds. But -- and I know you're not going to give specific guidance, but just curious how you think about that on a go-forward basis, combining the revenue side with the margin trajectory going forward?

Chris Nielsen - *Redfin Corporation - CFO*

Sure. So on the revenue front, we haven't given that kind of guidance on expected revenue growth rates. And in part, it is because there are ups and downs in the housing market. And so we always just want to be careful about our focus around gaining share in the long run and not around specific CAGRs because, again, those can bounce up or down based on housing market conditions. We do believe, for all the reasons we've talked about on the call, that there's plenty of opportunity to gain share going forward. And so that really is our focus here.

And on the gross margin front, I would just add maybe one more lens in that over the last couple of quarters, and here, I'm talking about Q2 and our guidance for Q3, it is a little hard to disaggregate all of the pieces that are influencing gross margin up. But even before that, we did have 3 quarters -- 2 or 3 quarters where it was up on a year-over-year basis. And so we have been making sets of changes, small changes in the business as it relates to how agents meet customers, the tools they use that we think are having a positive impact on gross margin. And we are focused on continuing to drive that up over time. And I do think that the clouds will clear here a little bit as we get into a more stable housing economy. And as that happens, a little bit easier for us to comment on the actual trajectory on gross margin, excluding some of these kind of weird recent factors.

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

And just to add to what Chris said, and it's really your line, Chris. But his thesis has always been that redfin.com is significantly undermonetized, that we've been promoting one brokerage service to all of our visitors when we've invested so much in different products, when we have a partner network. So I wouldn't just look at our revenue growth as a function of real estate services. I'd be encouraged by the fact that these other businesses that were kind of turkeys for a little while where we're just investing money without getting much return, are starting to pay off. Turkeys, financially.

Operator

We will take our last question from [Spencer Tan] of RBC Capital Markets.

Unidentified Analyst

Just wanted to touch on kind of the gross margin trends in the homes business. I know that you pointed to kind of home acquisition costs as well as some personnel costs. Just trying to maybe bifurcate some of the gross margin decretion and maybe just try to get a better understanding of kind of what you've learned in this tough environment. And whether that gross margin was a result more of kind of the COVID scenario, or more of kind of just overall macro environment such as kind of lower inventory rates and so forth?

Chris Nielsen - *Redfin Corporation - CFO*

Sure. So we commented on 2 pieces on the properties gross margin. One was related to a decrease in personnel costs. And really, that's the result of a scaling of that business. There's a certain amount of fixed cost capacity to operate the business. And we did have a lot of volume in the second quarter, and that allowed us to see a decrease as a percentage of revenue on those personnel costs. And then the year-over-year offset to that was that we did make less on kind of the difference between what we bought the home for and what we sold it for. And that really was a function of us being careful that we owned a lot of homes in April and wanted to make sure that we could sell those homes quickly. And so we did price the homes accordingly to move them along, just given the uncertainty that we had around the housing economy at that point in time. And so that was really, I think, a bit of an unusual negative on the quarter was that we were so aggressive in trying to sell-through those homes just given that

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uncertainty. So I'm not sure it's -- again, it's a little hard to extrapolate all that to more normalized conditions, just given the unusual behavior in the second quarter.

Operator

Thank you. This concludes the question-and-answer session of today. We can now turn the call right back to Elena Perron.

Elena Perron - *Redfin Corporation - Head of IR*

Thank you, Casey, and thanks, everyone, for joining us today and for your interest in Redfin. We appreciate it.

Operator

Thank you, ladies and gentlemen. This concludes today's call. You may now disconnect.
