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PRESENTATION

Operator

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

Elena Perron - *Redfin Corporation - Head of IR*

Thank you, Brandon. Good afternoon, and welcome to Redfin's financial results conference call for the first quarter ended March 31 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 that 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.

For this call, we're taking a virtual approach and dialing in from separate locations. We appreciate your patience as we work through this new format. And 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 and net loss were better than we projected in our last earnings call. Revenue was up 73% from the first quarter of 2019 to $191 million.

Despite some unusual onetime costs, losses narrowed from $67 million in the first quarter last year to $60 million in the first quarter of 2020. In our core business of brokering home sales through Redfin agents and through other firm's agents working as our partners, revenues increased 26% compared to the same quarter last year. Our market share increased by 10 basis points over the first quarter of 2019. RedfinNow, our business of buying and selling homes on our own account, grew revenues from $21 million in the first quarter of 2019 to $79 million in the first quarter of 2020. Over that same time, our other businesses, primarily lending and title services, grew 39%.

On April 1, Durable Capital bought $70 million of our common stock and another $40 million in preferred stock that we can convert to common stock if our stock price goes up. Adding this $110 million to our March 31 balance gave us $426 million in cash and government securities, including $144 million in convertible notes that are due in 2023. That should leave us enough money to weather the pandemic through 2021.

We didn't easily decide to sell more stock. Chris and I have come to distrust growth companies' habit of raising and losing money. But with all heck break and loose in the last 2 weeks of March, our first obligation was to make sure Redfin has the resources not just to survive but to shape real estate's future. Already, our business has improved since we raised money. For the week ending on April 5, home buying demand was at about 68% of our January and February levels, adjusted for seasonality.

On April 7, we announced a layoff, which would lead to 25% of our employees going on furlough through August 31 and 10% leaving permanently. Many of the people who left were my friends. All were my responsibility. Some were rightfully angry, but what was surprising was how many responded to the furlough with an almost-religious grace, calling and writing to thank Redfin at a moment when those employees had nothing to thank us for. Redfin has long celebrated having the best workforce in real estate, but we never knew how true that was until recently. The company has united behind the anthem to "bring them back." To that end, we've expanded the range of customers our own agents serve, selling $150,000 homes we would normally ask our partners to handle.

We won't serve a customer at a loss, but sometimes we'll serve customers who would have generated more profit through a referral. Our priority has been to honor our culture of service and to retain talent so we can grow in future years. This has come at the expense of immediate gross margins and, to a lesser extent, gross profits. Already on May 1, we asked 14% of our furloughed employees to return. By May 3, seasonally adjusted home buying demand was at 96% of its January and February level. Starting April 6, demand has improved for 4 straight weeks.

Even with the return of some agents from a furlough, each agent is working with an unusually large number of customers. The challenge is that, even though home-buying demand has nearly completely returned to pre-pandemic levels, listing demand has not. Comparing the week ending May 1 with the same week last year, new listings, including homes listed by every U.S. broker, were down 39%. This is an improvement from the trough two weeks ago when new listings were down market-wide, 52%. But for sales to increase, more sellers will soon have to join the fray.

Spurred by low rates, buyers are on the hunt for deals and glad to have less competition. With nearly 1/3 of our April online tour request asking for video chat rather than in-person tours, we had worried customers would be more casual about buying a home, lowering customer success rates. The video chat tours seem to appeal to serious buyers. The percentage of our offers written following a video chat tour was only 2% in March, but that already jumped to 13% in April, and the offers are competitive. For March homebuyers who saw home via video chat, offer acceptance rates were comparable to those from all other buyers.

Service improvements also seem to have lifted homebuyer success rates. Because we wait six months for a new customer to complete a sale, we can't measure the success rate of customers we met in September and October 2019 until February and March 2020. But we now know that the success rate of these customers was higher than the rate for customers we met twelve months before. This is the first time in four years we've had two successive months of success rate gains.

Even better, we have reason to believe that these gains can, after allowing for some pre-pandemic buyers to drop out of their home search, continue. For the customers we met in March, follow-up rates on first tours increased 60%. A customer starting their home search now seem eager to hear from us. Early measures of homebuyer intent include the likelihood that, within fifteen days of asking for service, new customers will browse more Redfin.com listings or reconnect with their Redfin agent or even ask to prepare an offer; from April 2019 to April 2020, all three numbers have increased. Any gain in homebuyer success rate can significantly lift Redfin's gross margins, as our largest variable cost besides sales bonuses is serving customers who don't close.

But those customers will soon run out of homes to buy. From April 2019 to April 2020, the number of homes for sale declined 25%. In a terrible market, the only people selling their homes are the ones who have no choice. In a difficult or uncertain market, folks who just want to move to the next stage of their lives put their homes up for sale. After a birth, a new job or a divorce, the people in this latter category can defer listing their home for months, maybe even a year, but they won't wait forever. We're shifting from a terrible market in March and April to a difficult or uncertain market in May and June. People's unavoidable need to move is why from 2007 to 2019, U.S. home sales varied between 4.5 million units and 6 million units, a difference of only 25% between the depths of the great financial crisis and the recent bull housing market.

If conditions keep improving, it will likely be because buyers are drawing sellers into the market. Comparing April 2019 to April 2020, the median home sale price increased by 5%. The exception to the overall strength in demand for homes under $1 million are entry-level condos, which have been hard to sell. The buyers of these properties are earlier in their career and the most likely to have lost their jobs. The properties in greatest demand are mid-priced single family homes.

In L.A., some of these listings aren't even hosting scheduled showings. A Redfin agent reported hearing from a listing agent that "we're like Trader Joe's now. There are tape markers 10 feet apart on the sidewalk, and there may be waiting times to get in. Bring your own mask and gloves."

Overall, homes are just as likely to sell quickly in the pandemic as in a bull market. If you look at listings that debuted between March 15 and April 15 in 2020 and 2019, the percentage accepting an offer within two weeks of their debut was the same at approximately 25%. Our agents report that buyers who now expect a discount of 10% run into "a brick wall," with some sellers preferring to de-list their home until shelter-in-place orders pass.

If buying and listing trends continue in most North American cities, inventory will reach rock bottom very soon, and possibly as early as this month. Because homeowners can get up to 12 months of mortgage forbearance, distressed sales are more likely to happen in 2021 than 2020, if at all. We thus expect a significant increase in bidding wars this summer, which could draw more home sellers into the market in the second half of the year.

We're also preparing for a seismic demographic shift towards smaller cities. Prior to this pandemic, the housing affordability crisis was already driving people from large cities to small. Now more permissive policies around remote work and a rising wariness about close quarters will likely accelerate that trend. More people will leave San Francisco, New York and even Seattle, some for nearby towns like Sacramento and Tacoma that are close enough to support a weekly office visit, others for a completely remote life in Charleston, Boise, Bozeman or Madison.

Since March 15, searches for homes and towns with population under 50,000 up -- under 50,000 people, excuse me, increased 71%, while over the same period, searches for homes in cities with populations greater than 1 million increased by only 38%. Beyond new sales channels, the best way to gain listing share long term is by giving homeowners better choices than a traditional agent. This starts with a low fee alternative. Redfin is the only major brokerage to offer a standard listing fee of 1% or 1.5%. The 1% fee is for listing customers who also buy their next home with Redfin. 1.5% is for customers who use Redfin only to sell their home.

We instituted this pricing nationwide in December. Prior to that, about half our listing customers paid less and about 20% paid more. The remaining 30% tested the new pricing early. Our results through March supported the prediction we made last quarter. This pricing will have only a modest impact on listing transaction growth, more than offset by increased revenue per transaction.

We made the decision to increase prices on our standing listing service out of financial prudence. But we're still acquisitive about listing share. This is why we give homeowners choices beyond full service at a low fee. Our choices include an instant offer from RedfinNow, or Concierge Service to prepare their home to sell for top dollar. With both RedfinNow and Concierge Service, Redfin takes responsibility for rapidly renovating and staging a home to sell. With RedfinNow, we own the home when it sells and reap the returns from our repairs. With Concierge Service, the original owner bears more risk but reaps the returns, and she still doesn't have to lift a finger.

As we've said before, both services will be options that people consider when selling their home. But when an instant offer is low enough to account for the full cost of owning a home, of maintaining it well vacant but also of having to sell it in a downturn, our bet is that 2 or 3x as many people will choose Concierge Service. This is why RedfinNow only makes sense as one of several choices presented to each listing customer.

RedfinNow's challenge will be to buy homes at higher-margin and lower risk than our competitors. We were the first major institutional buyer to stop buying homes, honoring our pledge to act quickly in defense of our balance sheet. Based on brokerage data only we have about when the market's turning. On the day we stop making offers, March 17, we owned or were under contract to buy $119 million of homes. By April 30, we had reduced that number to $56 million. $37 million of that $56 million is in homes under contract to sell, mostly in the next 14 days. Most of that $56 million came from our line of credit.

For the homes we owned or ended up buying as of March 17, we now project a sales price about 2% less than we assumed when making the offer. We project the total cost of these reduced sale prices to be $3 million or less. After paying for the homes and paying third parties to buy, finance, hold, renovate and sell these homes, we still expect to make nearly $1 million. It's only the cost of RedfinNow's employees that will result in a gross profit loss.

What we learned from these results is that RedfinNow performed better in a downturn than some had feared. Everything else was stuff we already knew in our bones that we had to do. Now it's just scratched into the walls of our home offices. First, lower our instant offers to compensate us for occasionally having to sell our portfolio at a 3% to 5% discount in a downturn, but also to make more money on instant offers now.

Second, squint harder at projected economies of scale and other rationales for expanding a business that doesn't make enough money on each house. Scale will pay for managers and a renovation team, but it doesn't do much for the most important profit lever, pricing discipline.

Third, avoid long holding times, so we can decide whether an offer is profitable within 3 to 4 months of making it. This also makes our money work harder and limits risk.

Fourth, unify our sales force to keep our costs lower than our competitors, and to present a complete set of options to every customer. With these lessons in mind, today, we reopened RedfinNow for purchases in Austin, Denver and the inland Empire East of L.A. We'll limit RedfinNow to using $20 million of our own money, which leaves $9 million for May purchases.

Counting the pre-pandemic purchases we still haven't sold and the ones we'll buy starting today, we expect to own fewer than 100 homes through the second quarter, mostly financed using our line of credit. By May, we'll know whether homeowners will pay a premium for liquidity in an uncertain market, accepting lower RedfinNow offers than before. By July, we should have nearly all of our May purchases back on the market for at least 2 weeks. At which point we can project which offers are likely to be profitable. We'll report on those projections on our second quarter earnings call.

By the time we reopen RedfinNow for purchases more broadly, we'll present instant offers to customers through our brokerage sales force. To support the sales force, our RedfinNow employees will prepare offers and answer questions from a fortress of analytical solitude. The issue with RedfinNow hasn't been customer interest as we have never put anything on our website that homeowners responded to more eagerly than a cash offer. The issue has been just how we respond to that interest. Our agents are the ones best qualified to present an instant offer alongside other options that are better for most homeowners.

Unifying our sales force will take the rest of 2020, but should let us sell more houses than competitors more narrowly focused on instant offers. Our rationale is that having one sales force for all our home selling services makes it easier for everyone at our company to have one goal: to sell as many houses as possible while owning as few as possible.

Any consumer who doesn't want to go through the hassle of preparing a home to be sold is likely to be drawn to an instant offer, but many selling mid-priced or expensive homes will also want to consider our Concierge Service. It's available today in San Francisco, Seattle, Southern California and Washington, D.C. For a listing fee of 2% or 2.5% depending on the market, we advise a homeowner on how to make her listings shine, and make sure all the work gets done, either through contractors or our own renovation superintendents. The homeowner pays the bills, often using the money from the home sale.

Customers have loved this service both for its convenience, but also because the homes look so good. The jaw dropping before-and-after photos of the homes we fixed up illustrate a fundamental truth of how to sell homes for more money: It's not just through an agent's personal salesmanship, or even through Redfin's digital marketing, but by making the home show better to a potential buyer. Our challenge has been operational, building the software programs, contractor relationships and field organizations to deliver a wide range of minor renovations on demand so that we can get most homes ready for the market in one or two weeks.

Until this pandemic hit, the home services team we've been assembling since 2018 prioritized RedfinNow ahead of Concierge Service. The Concierge Service is now our first priority, and we expect to expand Concierge Service from 10 to 14 markets by the start of 2021.

The other business that's expanding rapidly is Redfin Mortgage, in the states we serve but also in the products we offer. Today, 59% of our brokerages homebuyers are in markets served by Redfin Mortgage. But as we open in Arizona, California, Oregon and Washington State, we'll reach 94% by year-end. In a week, we're piloting refinancings. Prior to the pandemic, we had planned to offer this service in 2021, so we expect some glitches, but we also expect demand. Even without any website promotion, our mortgage advisers get a few calls every week from Redfin customers seeking to cash in on lower rates. Though the vast majority of our website visitors are still wary of ditching their long-time realtor for a low-fee broker like Redfin, many may be more price sensitive in choosing a lender.

Even as we grow Redfin Mortgage revenues, we want gross margins to improve, too. Mortgage margins improved significantly from 2018 to 2019 due to improvements in our own loan origination software. But margins plummeted in March due to market volatility. We worried that we'd be unable to sell some loans, but so far that hasn't been the case. We suspended jumbo loans and loans for second homes and investment properties. Even for the loans that conform to federal lending standards, we raised credit requirements for most of April to reduce the likelihood that a borrower would ask for forbearance on a payment before we could sell the loan. We've also significantly increased our reserves for loans we have to repurchase from investors.

But even though we've been able to sell loans on schedule, the prices of these loans have been much lower than expected, costing us nearly $1 million in revenue. After we locked low rates for our home-buying customers in February and March, the prices investors would pay for our loans declined over fears that many people would stop paying their mortgages.

Typically, we offset price declines by betting against mortgage-backed securities. When we lose a dollar of revenue from lower prices, the value of the bet is supposed to increase by a dollar. But starting in late February, investors who paid less for our loans still got more for mortgage-backed securities, largely because the government was buying these securities at inflated prices. This encouraged investors to keep buying loans but left originators like Redfin unprotected when loan prices fell. When we noticed that our hedge wasn't sufficiently hedging our risk, we assumed, like many lenders during this pandemic that this was temporary. It took us until April 3 to shift interest rate risk onto the investors buying our loans. We now stand to make less revenue per loan, but it's the same revenue regardless of whether rates go up or down. At some point later in 2020 or maybe 2021, we'll take on interest rate risk again but only when mortgage-backed securities respond predictably to changes in loan values, and only when our processes for reporting and escalating risk have improved.

Before turning the call over to Chris, we should talk about advertising. To save money but also because we worried our message would fall on deaf ears, we stopped running our TV ads on March 9 and stopped our digital ads on March 16. We avoided $16 million in March and April spending. Since then, we've noticed that TV viewership is between -- is up between 30% and 60%, but rates are down between 10% and 20%. We suspect that many consumers are completely unaware that the housing market is largely open for business or the video chat tours and 3-dimensional scans work fine when people can't meet in person.

Videos promoting these technologies have performed well in digital tests. So in May and June, we'll be running new ads at a second quarter cost of $8 million or less. There are lots of unknowns ahead of us. Changes in consumer behavior that would have taken a decade happened almost overnight. Even when this pandemic ends, the process of buying and selling a home will be far more virtual than Redfin could have hoped for in February. Investors rightly assume that the technology we've spent a decade building gives us a massive competitive advantage in this new world.

But our biggest competitive advantage isn't what we did in the past. It's how fast we're reacting now. When the world is changing this fast, what is most valuable is our own ability to change. The company you want to stake in isn't a big fat incumbent. It's the crazy little mammal, crawling out of the crater of the asteroid strike. Redfin was the first major Seattle company to decide to close its offices on March 3. We were first to encourage our customers to tour homes via video-chat also on March 3. We were first to call the market publicly citing a significant drop in demand on March 4. We were the first to cancel all open houses nationwide to protect public health on March 16. On March 27, we were the first to provide a map of real-time updates on the rules for real estate commerce across 50-plus markets, changing field policy and redfin.com's consumer guidance from day to day and often hour to hour. We were the first to upgrade our website to promote Matterport 3-dimensional scans of homes on April 2. From February to April, new listings with these scans had increased fourfold. And we were the first to offer self-service tours to homes listed by our brokerage but owned by our customers on April 23. Being able to open the door of a vacant listing on your own with just an iPhone is crucial for buyers who are wary of being in a home with an agent or anyone else outside their family.

There are many other firsts from the past few months that we don't have time to discuss here. What's most important is that this company came together when our culture could have fallen apart and ran faster when so many parts of the world came grinding to a halt. With that, let's hear from Chris.

Chris Nielsen - *Redfin Corporation - CFO*

Thanks, Glenn. As Glenn mentioned, prior to the onset of COVID-19 in the United States, we saw the year get off to a very strong start with January and February both delivering solid growth. Even if we saw the virus impact early-stage demand, its overall impact on the first quarter was somewhat limited as we closed deals already in the pipeline at a good pace and finished the quarter above our guidance range on revenue and profitability.

First quarter revenue was $191 million, up 73% from a year ago. Real estate services revenue, which includes our brokerage and partner businesses, grew 26% year-over-year. Brokerage revenue or revenue from home sales closed by our own agents was up 26% on a 27% growth in brokerage transactions. Revenue from our partners was up 37% on a 17% increase in partner transactions. The properties segment, which consists of homes sold through our RedfinNow program, generated $79 million in revenue, up from $21 million one year ago. Our other segment, which includes mortgage, title and other services, contributed revenue of $4 million, an increase of 39% year-over-year.

Total gross profit was $13 million, up 368% year-over-year. Real estate services gross margin was 13.9%, up 800 basis points year-over-year, primarily driven by a 540 basis point decrease in personnel costs as well as a 200 basis point decrease in tour and field costs, each as a percentage of revenue. This was the fifth consecutive quarter of improving agent productivity as compared with the same quarter in the prior year.

Properties gross margin was (0.3)%, up 730 basis points from one year ago, primarily driven by a 370 basis point decrease in personnel costs and a 310 basis point decrease in home purchase costs and related capitalized improvements, each as a percentage of revenue. Other segment had a gross margin of (46.9)%, a decrease of 2,280 basis points from one year ago, primarily driven by our mortgage business, as Glenn discussed in his comments.

Total operating expenses were flat year-over-year and represented 37% of revenue, down from 64% of revenue one year ago. Technology and development expenses increased 30% and from last year, driven by an increase in personnel costs. General and administrative expenses grew 13% year-over-year while marketing expenses declined 23% as we suspended our brand and digital marketing campaigns in March.

Our net loss, including stock-based compensation and depreciation, was $60 million compared to a net loss of $67 million in the first quarter of 2019. Diluted loss per share was $0.64 compared with a net loss of $0.74 per share one year ago. Included in these first quarter results are several unusual items driven in part by the impact of COVID-19. We took a $1.4 million charge related to an investment in another tech company, and we recorded $0.7 million net write-down for our home inventory. We also reevaluated the likelihood of hitting targets on performance stock units and recorded a $0.5 million credit to stock-based compensation.

Now turning to financial expectations for the second quarter of 2020. Revenue is expected to be between $179 million and $189 million, representing year-over-year decrease between 9% and 4%. We expect our properties segment to account for $61 million to $65 million of our revenue.

Net loss is expected to be between $26 million and $21 million compared with a $13 million net loss in the second quarter of 2019. Our guidance includes approximately $7.0 million of stock-based compensation and $3.5 million of depreciation and amortization. The guidance also contains approximately $4.4 million of severance costs and $3.7 million of furlough costs, both including benefits. It assumes, among other things, that no additional business acquisitions, investments, restructurings or legal settlements are concluded and that there are no further revisions to stock-based compensation estimates.

And with that, let's take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Ygal Arounian with Wedbush Securities.

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

Hope you're all staying well. I'm going to ask two hopefully relatively quick ones. Can you -- Glenn, can you touch on Redfin Direct, particularly in California, since you've launched there more recently? Anything to learn from what's been going on in the recent environment? And has the Redfin Direct pick up? Was that something that customers were more interested in? And then I think this is the most bullish I've ever heard you on iBuying. Is that the right characterization? Have your views kind of changed on what iBuying means, what opportunity is there for Redfin? Would you -- should we expect that over time that might become a bigger piece of the business than what you were expecting before the pandemic? And thoughts on how you think people might react to higher fees essentially and lower offers.

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

Thanks. So first of all, with Redfin Direct, it's hard for us to separate improved merchandising from market effects. So we have gotten more aggressive about promoting Redfin Direct, and as a result, more people are starting offers. But that may also be because the market has shifted and more people want to work without an agent. There have just been so many changes to our website that we can't distinguish those 2 effects. We're very excited about the possibility that more people are going to see homes online and really only tour the final two or three, which will defer how long they wait to hire a real estate agent. And in that event, we think people are just going to be more transactional, and they may look at offers the same way they've looked at tours, is an on-demand service, and that would definitely favor Redfin.

On the second point about being bullish on RedfinNow, I'm wondering what I said that sounded more bullish than in the past. I've always felt that RedfinNow is one option that consumers should consider, but try to emphasize that it often won't be their best option. And I think what I'm excited about now is that the market will be more rational. You've had so much money in that space where people have been trying to buy share, but now I think all of us are going to be much more focused on making money on every house we buy. And that is just a better competitive market for us. I think it's better for all the players. But I don't think that RedfinNow is going to take a higher proportion of sales now that we're lowering our offers. We're going to give ourselves more margin for error, and I feel good about that. But I don't know that, that means it will take more share.

Operator

The next question will come from Jason Helfstein with Oppenheimer.

Jonathan Paul Braatz - *Oppenheimer & Co. Inc., Research Division - Research Analyst*

This is Sean on the call for Jason. So first one, you guys had a 10 basis point market share gain versus 13 in 4Q. Is there anything that you'd call out driving a smaller share increase? And then my other question is in regards to the virtual and self-touring. Where do you think the rest of the industry is relative to where Redfin is in this feature that you guys are offering?

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

I'll talk about virtual and self-touring and then invite Chris to talk about share if that's all right with you, Chris?

Chris Nielsen - *Redfin Corporation - CFO*

It sound good.

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

Other agents are rapidly adopting video chat tours. It's something that we've been working on a long time and just being able to advertise it is something you can easily ask for has probably helped us attract more buyers. But self-service touring, where we install a lock on the door of a Redfin listing and let someone open it with an iPhone, that's a proprietary capability. Most real estate agents don't have an application that they can use to let buyers into the property, and they don't have the capability to install those locks at scale. And it has been really popular. One insight from RedfinNow that we applied to the brokerage was just how much in March homebuyers preferred seeing properties that they could see on their own without anyone else being present. And so the conversation that we wanted to have with our listing customers in 2021 just happened right away, which is, listen, people want to see your house. They don't want you to be there or anyone else to be there when that happens. We want to put a different lock on the door. And that has been really successful, and we're glad to be able to bring it forward. It depends on the renovations capabilities that we started building in 2018 and the app that we built a decade ago.

Chris, do you want to talk about share?

Chris Nielsen - *Redfin Corporation - CFO*

Sure. So share gain was 10 basis points in the first quarter of the year comparing to the first quarter of last year. Our view on share gain hasn't fundamentally changed at all. We do see some bounciness quarter-to-quarter in terms of share gain. But we feel really good about our prospects going forward and our ability to gain share through a variety of different market conditions. So I wouldn't draw too much of a conclusion from that.

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

I was going to say just off the cuff, share gains should not be seasonal. I have argued to the point of tears with analysts saying that any year-over-year comparison should not be seasonal. And yet for whatever reason, our first quarter share gain is always lower than later quarters or almost always. I'm not sure what to attribute it to this time, but I just want to let you know that it's something we've noticed over the years.

Operator

The next question will come from Brent Thill with Jefferies.

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

Glenn, I'm just curious if you could just give a little more color about the last 4 weeks. You mentioned demand continue to build. Can you just give us a little more color in terms of what were the most encouraging signs? And then the shift to buying again, can you just give us a sense of how you're dipping your toe back in the water on that and how aggressive you'll get here as you see the demand builds?

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

Sure. So I'm not sure what other color to give about home-buying demand. It's been really strong. What we worried about was that it wouldn't pull-through that when you make it easy for someone to look at a home without leaving their own home because they can just use an iPhone to get a video chat tour, that those people would be looky-loos and that they wouldn't actually write offers that won. But we've had enough time to feel somewhat confident that the demand is going to pull through and even to feel that homebuyers are more serious now than they were earlier, and it's probably because they face less competition. There was a sense of futility people had when writing an offer 4, 6 months ago that it was going to compete against 5 or 10 other offers, and so they weren't really prepared to win the house. And now the people who are in the market are feeling their oats.

As for RedfinNow, I think your question was just about how we feel about dipping our toe in the water. I think the real question is just will people pay a premium for liquidity. So there are so many sellers on the sidelines right now who are worried that they'll put their home on the market in May or June and then have shelter-in-place resume again. And so they're just holding out. That's why inventory is falling so fast, and it may be that if we give them an immediate offer, an instant offer and take that risk ourselves that when we ask for them to compensate us for that risk, they'll pay it. And we just don't know. We want to find out what the market will bear. But I think every iBuyer is going to charge at least a small premium for the increase in risk that we're taking that the market might open and shut.

And so again, I'm just interrogating myself. Did I sound too bullish on RedfinNow. I hope to sound reasoned on it that we're coming back. We're going to spend $10 million to $20 million on homes. And I will see if people can settle into the offer prices we're willing to make.

Operator

The next question will come from Edward Yruma with KeyBanc Capital Markets.

Kaseylyn O'Brien - *KeyBanc Capital Markets Inc., Research Division - Associate*

This is Kasey O'Brien on for Edward Yruma. I have two quick ones. First, what is the percent of lead versus partner agents that you're using today? And when will that return to normal levels? Also, can you give any more color on pricing as new listings remain soft?

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

Sure. So we don't actually report on how many partner agents we have versus how many lead agents we have. What I can tell you is that at the beginning of March, when we were staring down the barrel of having to layoff or furlough some of our own employees, we kept every possible inquiry that we could for ourselves. So agents who normally wouldn't be willing to drive more than 20 or 30 minutes to meet a customer, were driving an hour, we were handling sales of $150,000 homes when normally we try to focus on $200,000 or $300,000 homes and up. And that was just to keep everybody busy. Since then, we've had a furlough, and demand has really picked up, at least home-buying demand has, and we brought some people back to handle it. But we've also started sending more business to our partners because it's such an uncertain time. We don't want to bring people back from furlough and then send them away again if demand is going to be up and down. So that's bouncing around quite a bit by market but also from week to week. And we use that lever to limit our risk, to insulate ourselves from some of the volatility in the market. And it's just not as low as it once was. At one point, we were taking almost all the demand for ourselves, and now we're sending some of it to partners.

As far as listing pricing goes, we tried to emphasize that listings are down industry-wide. We did not actually segment our own listing demand from our buy-side demand. The reason that we talk about buy-side demand in terms of our own inquiries is because there's no other way to measure it. Early-stage demand comes in the forms of tours, and you just can't see that across the industry. But on the sell side, when somebody decides they're interested in selling their home, they list it. And we can look not just at Redfin but across the whole market. And there, listings are down 25% year-over-year for the month of April. So I did not mean to comment on our own listing share. The only share numbers we release are about overall share gains on the buy side and the sell side. The listing business is growing -- was growing nicely prior to this pandemic. And now we still think we'll be able to take share, but it's going to be on a much smaller set of sales.

And one other thing before we go to the next question. Sorry, I keep thinking about one other thing. The price increase is going to hurt transaction growth a little, but it's exactly what we expected it to be so far. And we only have a couple of months of offering it nationwide before the pandemic struck, but results were not better than we'd hoped, and they weren't worse than we'd hope. They were pretty much right in line.

Operator

The next question will come from Jean Li with RBC Capital markets.

Jean Li

This is Jean for Mark Mahaney. Just a question. Sorry if this is covered in earlier remarks, but if you can talk about just the furlough impact that hit maybe at the end of the quarter that probably will be a much more pronounced impact in Q2. How much of that -- if you can just rank order the impact to your Q2 guide on just the agent furlough and also just the impact to margin. And also just like kind of longer term, you mentioned the uptick in people's willingness to your virtual show. You have some innovations there as well. Just do you see how much of that is a permanent change in behavior and perhaps then a permanent higher scalability and productivity to your sales?

Chris Nielsen - *Redfin Corporation - CFO*

Sure. So this is Chris. With regard to the impact of the furlough, there would be no impact of that in the first quarter of the year. All that activity happened in the second quarter of the year. And the information that we've provided on that is that there will be about a $3.7 million cost of the furlough during the course of the quarter, including the benefits that we'll continue to pay for the employees who are on furlough. So with regard to the impact that, that has on margin, of course, those are dollars we continue to pay even though the people are not actively working for the company and closing deals. But we haven't provided any other guidance with regard to expectations for gross margin in the second quarter of the year. And then Glenn, do you want to pick up on...

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

In video chat tours, I think we see those primarily as a way to gain share rather than lower cost. We still have to go out to the house and walk through it. It may be that we can record 1 video chat tour and use it for multiple buyers at some point, but we haven't developed that capability yet. Most buyers are sensitive to sharing information that was given to them with one of their competitors. So I think the main thrust of video chat tours is just to be able to do something that not every agent can advertise and to do it better than other agents so that we can take share.

Operator

The next question will come from Ryan McKeveny with Zelman & Associates.

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

And of course, glad you're doing well and managing through this. So I'll try to squeeze two in. So Glenn, your comments on the mortgage market disruption was very helpful and of course, the actions you're taking. And at the end of the day, I think some of the credit tightening that's been going on is probably more severe than some people realize. So my question is, in the last few weeks, are you sensing any easing or, let's say, stability or easing in the actual underwriting box for consumers with some of the actions of FHFA, other regulators have taken? Or are you anticipating that this kind of consumer tightness or credit tightness remains for the consumer going forward? And second question for you on home prices. So I think we're starting to get some indication on just the trajectory of home sales moving forward, but I think there's probably some more debate rising around what's going to actually happen to home prices. We've probably skewed a bit more positively. Others obviously take different views. But I just wonder what your guys view is on the pricing dynamics. And even with the data that you have access to your contracts or just other data, pending contracts, what are you seeing on a real-time basis or in recent weeks on actual pricing trends? I know we've seen from you and others some of the discussion around listing prices, but of course, list prices and kind of actual home price appreciation are very different things. So just kind of curious how you're -- what you're seeing today and, ultimately, what you think might go on from an actual home price perspective in this period of disruption.

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

Sure. So quickly, it has gotten easier to sell loans, and that means that credit overlays are going to become less prevalent. There was a time when mortgage forbearance created so much risk for lenders that even for an originator like Redfin, where we hold the loan for 15, 30 days, we're worried that someone's going to ask for forbearance in that period, and we're not going to be able to sell it even to Fannie or Freddie or some other investor. So the fact that Fannie and Freddie have stepped up and said that they'll buy loans in forbearance, albeit at a discount, has just made it easier for us to make loans. The servicing market has come back some. We were really in a jam 3 or 4 weeks ago, and I don't mean Redfin. I mean the whole industry was in a jam, trying to figure out how we were going to loan people money when borrowers didn't have to pay their mortgage. And the government was playing a game of whack a mole trying to prop up different parts of the market to make sure that investors would still buy loans. And largely, those efforts have succeeded. But in the middle of April, especially early April, the pipeline was just springing leaks in one place after another. So I think that's gotten better.

And you're right that we are probably more bullish than most on home prices. It doesn't mean that home prices are going to shoot through the roof. It doesn't mean that we don't have anxiety about unemployment and consumer confidence and all the rest, especially, as we said, for urban condos, there are certain types of properties that are likely to be bought by someone who's very early in their career. Vacation homes are also under significant distress just because people can't Airbnb them anymore and they're liquidating them at whatever price they can. But by and large, single-family homes are doing well, and we see no basis for saying that their prices will decline. And it may be just a sad comment on a trend that -- that started a long time ago, which is working-class homeownership has declined. There was a time when any hit to consumer confidence would ripple through the housing market, and it still does. But mostly the people buying homes are the richer half of America, and their stock portfolios are doing reasonably well. They have the kind of jobs that are less likely to be eliminated and they're buying houses. And I think there's just this long-term inventory shortage that even if you eliminated some buyers, we are so far from building enough homes to house all the Americans, and we've had a housing affordability crisis for so long that you're just going to see buyers in any short-term downturn looking for an opportunity to buy. That's why buy-side demand has come back so much faster than people are willing to list their home.

Operator

The next question will come from Jack Micenko with SIG.

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

I'm wondering -- understanding your partner agent model has been sort of a release valve in times of both peak and lower demand. If this sort of forced acceptance by consumers of some of the technology that you have, i.e. virtual tours. Does that get you thinking about changing that over time and that maybe you can do more with your in-house, kind of like you did in the first quarter more permanently.

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

So I want to make sure I understand your question. Has technology let us increase the proportion of inquiries that we can handle ourselves with our own agents rather than through partner agents, is that right?

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

Yes. And particularly, sort of given some of the lessons in the last 3 or 4 or I guess 2 months or so with this sort of forced adoption on the consumer side.

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

I think that's one possible outcome. It's a good question, but the other outcome could be that we start offering some of our tools to partner agents so that if you ask for Redfin service and end up working with a partner, you still get a digitally enhanced experience. That used to just be a bonus, maybe some weird thing that we did to make real estate more efficient. But now it's the only way to sell a house. And so that has really shifted consumer behavior and consumer attitudes towards Redfin's approach. And I think other agents will want a piece of that.

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

And then as my follow-up, you had said, I think -- I don't want to -- It sounds like you're coming to the market prospectively with a more broad sales pitch. So the agent, the brokerage agent comes in and says, okay, here's your RedfinNow quote. Here's what we think the regular quote looks like and here's the concierge option. Am I interpreting that correctly? And if I am, what's changed versus how you maybe did things three, four, five months ago?

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

You interpret it correctly. And what's changed is that when you have a product that is much less mature than your listing service, your full-service listing offering, you have specialized salespeople who are focused on selling that. So RedfinNow had its own salespeople who were trained to deliver instant offers. And we had tried earlier to deliver instant offers through our 1,000 or 2,000 real estate agents, depending on when you counted them. And they really struggle to prepare that offer in the same time frame that they had to prepare for a listing consult. So that offer or that effort floundered somewhat. But when the pandemic hit, we just thought, man, we've got to make that work. That's our competitive advantage, is we already have 1,000 agents in all these living rooms. And the offers that we're going to be making, if they have a higher-margin of error, if they're slightly lower than before, we need to be able to tell people, look, we'll give you this instant offer, but probably the way you're going to make the most money is just by selling your house. You just heard me talk about how inventory is low, prices are going to hold up. If you really believe that and customers are listening to this call, you would want them to just list their dang house, and that's the advice we want to give every customer along with an instant offer. Here it is. Take it if you need it, but the way to make the most money is to list the house. And if you just don't want to go through the hassle, use our Concierge Service.

Operator

The next question will come from Stephen Sheldon with William Blair.

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

Wanted to ask about the potential incremental shift that you mentioned away from urban homebuyer demand to the potentially smaller city demand. Would that trend potentially play out over the next few years? Does that change the way you plan to add agents over the medium term? And on the other side of this, maybe focusing more on starting to build more agent capacity in smaller cities?

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

It does. I think it even applies to how we build our website. It's just a subtle effect. But when your agents live in big coastal cities, every time we test a feature, we see how it works in Seattle or San Francisco or Boston, but we need to make sure it plays in Peoria, too. So we're going to be more aggressive about trying to serve customers, get traffic, drive sales inquiries in smaller cities because we see people migrating. And the way that really benefits us as is that when somebody moves across the country, they're less likely to know a real estate agent in Boise, Idaho or Bozeman, Montana. And if they're coming from a place like Seattle, they'll be familiar with our brand. And so you get some benefit building a national brand. Most brokerages are local. Most real estate agents are absolutely local, but our thesis has been that Redfin can stand for the same thing no matter where you go. So we're going to sell one home in San Francisco and help somebody buy another in Charleston, South Carolina. And I think that will really benefit us.

But we're already seeing more growth in our smaller markets. We launched them later. So they have an earlier advantage, and this could just pour some gas on the fire.

And just one more comment there is that we don't have to lead by hiring the agents. We can see that the demand is starting to materialize in those places, and that's the signal then for us to undertake hiring a lead agent. So that's how we think about this flow here is that we see the demand on the website and various other kinds of inquiries and that we take action based on that.

Operator

(Operator Instructions) The next question will come from Chris Gamaitoni with Compass Point.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

I wanted to follow up on the urban -- call it, the de-urbanization concept. So historically, I think your business model has, as you've already put out, focused on the coastal region's higher home prices. But the other thing that you said that's really struck me was the buyers that you're seeing now are higher intent, which seems to indicate the potential for a significant increase in agent productivity and less of that kind of gross margin waste, the people is doing a lot of tours that don't ultimately buy a home. So I'm wondering your thought of how do you reposition your business or how do you make changes to potentially deal with more home sales in lower home price areas, potentially offset by higher intent buyers. And how do you think about gross margins long term under that construct?

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

Well, first of all, I just want to make it clear that agent productivity increased, I think, for the fifth straight quarter. Homebuyer success rate improved. We're seeing higher intent buyers enter the pipeline now. There's a massive shift toward virtualization, which is a capability as a broker that we can uniquely deliver. I think those are massive tailwinds for us long term. And then the shift towards smaller cities has been one that was underway well before this. It is going to be a challenge to make sure that we can make money on a $300,000 home and the way to solve that challenge is exactly how you adumbrated, which is increased close rates, lower cost of goods sold, make this a product people can buy at every price point. And that's the mission that we're on, and that's the progress that we've made recently.

So I think Redfin has gone from being a niche product for coastal markets to something that works in almost every city in America or every town. And that happened a while ago. And now it's just going to happen faster.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

Okay. And then thoughts on product change. So your ability to put the locks on the doors and show homes that aren't occupied. My question is, moving forward, we kind of in the real estate industry operate with, call it, on-demand inventory. You're trying to sell and buy a home almost instantaneously from a consumer standpoint in most cases. How do you think that changes? And does the industry need different products, some type of bridge product or something where more homes are, call it, stock inventory than on demand? It's -- I don't have a solution. It's just something that seems to be -- the trend seems to be moving to. How are you thinking about that?

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

Well, iBuying was a response to that. And before that, we just had loose credit where you could get 2 mortgages much more easily than you can today. And I still think that's the fundamental obligation of the government. It's fine to outlaw predatory lending. We should absolutely do that, but then the government has to replace it with something else that works for working-class people who are stuck from -- between 1 home and another. And iBuying is just one way to make money off that liquidity problem.

But we just have to acknowledge the fundamental inefficiency of three different parties owning a house when you're trying to transfer it from 1 party to the next. There's a middle man that is going to cost you money, and the idea that it's cheaper to sell a home when it's vacant just ignores the fact that getting the grass cut, paying the homeowners dues is easier for somebody when they're also getting shelter for the property. For us, it's just burning a hole in our pocket. So I think we can solve that liquidity problem, but it's always going to be a premium service that the original owner of the home is going to have to pay for. The idea that it's going to somehow be the same cost as a brokered sale, to me, that seems unlikely. And that's why we're just presenting it as the most expensive option that we have. It certainly solves liquidity problem like that, but you pay for it. You're not going to get quite as much out of your house. And for some people, that's a good trade off. But we just want them to know what their choices are, when they make that choice, and we're the only company that can provide all those choices.

By the way, I just got to say, thanks, guys, for sticking with us for the extra half hour. I know there are billion companies reporting earnings today, and we know how hard you're going to be working tonight. So just bear that in mind when you put the buy rating on Redfin.

I don't mean that. Just call it like you see it. But thanks for your time.

We don't have any more questions, right?

Operator

There are no further questions, sir. I'll turn it back to Elena Perron for further remarks.

Elena Perron - *Redfin Corporation - Head of IR*

Thank you, Brandon. Thanks, everyone, for joining us today. We appreciate your interest in Redfin and look forward to speaking with you again next quarter.

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

Bye.

Operator

Thanks, everyone. You may now disconnect your lines. Enjoy the rest of your day.
