UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2021

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___ to ___

Commission file number 001-38160

Redfin Corporation

(Exact name of registrant as specified in its charter)

Delaware	**74-3064240**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1099 Stewart Street Suite 600	
Seattle WA	**98101**
(Address of Principal Executive Offices)	(Zip Code)

(206) 576-8333
Registrant's telephone number, including area code

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value per share	RDFN	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

The registrant had 104,041,511 shares of common stock outstanding as of April 28, 2021.

Redfin Corporation

Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2021

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As used in this quarterly report, the terms "Redfin," "we," "us," and "our" refer to Redfin Corporation and its subsidiaries taken as a whole, unless otherwise noted or unless the context indicates otherwise. However, when referencing (i) the 2023 notes, the 2025 notes, and the 2027 notes, the terms “we,” “us,” and “our” refer only to Redfin Corporation and not to Redfin Corporation and its subsidiaries taken as a whole, (ii) the secured revolving credit facility with Goldman Sachs, the terms "we," "us," and "our" refer only to RedfinNow Borrower LLC, and (iii) each warehouse credit facility, the terms "we," "us"," and "our" refer only to Redfin Mortgage, LLC.

Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements. All statements contained in this report other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, our market growth and trends, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “could,” “would,” “project,” “plan,” "hope," “potentially,” “preliminary,” “likely,” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, and assumptions, including those described under Item 1A of our annual report for the year ended December 31, 2020, as supplemented by Part II, Item 1A of this report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the effect of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Accordingly, you should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, performance, or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update any of these forward-looking statements for any reason after the date of this report or to conform these statements to actual results or revised expectations.

Note Regarding Industry and Market Data

This quarterly report contains information using industry publications that generally state that the information contained therein has been obtained from sources believed to be reliable, but such information may not be accurate or complete. While we are not aware of any misstatements regarding the information from these industry publications, we have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied on therein.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Redfin Corporation and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share and per share amounts, unaudited)

	March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 1,241,255	$ 925,276
Restricted cash	101,790	20,544
Short-term investments	140,843	131,561
Accounts receivable, net of allowances for credit losses of $182 and $160	47,416	54,719
Inventory	97,371	49,158
Loans held for sale	43,447	42,539
Prepaid expenses	15,224	12,131
Other current assets	7,014	4,898
Total current assets	1,694,360	1,240,826
Property and equipment, net	47,649	43,988
Right-of-use assets, net	47,932	44,149
Long-term investments	6,906	11,922
Goodwill and intangibles, net	10,894	11,016
Other assets, noncurrent	8,836	8,619
Total assets	$ 1,816,577	$ 1,360,520
Liabilities, mezzanine equity and stockholders' equity		
Current liabilities		
Accounts payable	$ 15,568	$ 5,644
Accrued liabilities	75,754	69,460
Other payables	19,117	13,184
Warehouse credit facilities	40,663	39,029
Secured revolving credit facility	48,851	23,949
Convertible senior notes, net	23,428	22,482
Lease liabilities	12,611	11,973
Total current liabilities	235,992	185,721
Lease liabilities and deposits, noncurrent	53,333	49,339
Convertible senior notes, net, noncurrent	1,136,974	488,268
Payroll tax liabilities, noncurrent	6,812	6,812
Total liabilities	1,433,111	730,140
Commitments and contingencies (Note 7)		
Series A convertible preferred stock—par value $0.001 per share; 10,000,000 shares authorized; 40,000 shares issued and outstanding	39,834	39,823
Stockholders' equity		
Common stock—par value $0.001 per share; 500,000,000 shares authorized; 103,983,585 and 103,000,594 shares issued and outstanding, respectively	104	103
Additional paid-in capital	641,702	860,556
Accumulated other comprehensive income	161	211
Accumulated deficit	(298,335)	(270,313)
Total stockholders' equity	343,632	590,557
Total liabilities, mezzanine equity and stockholders' equity	$ 1,816,577	$ 1,360,520

See Notes to the consolidated financial statements.

Redfin Corporation and Subsidiaries
Consolidated Statements of Comprehensive Loss
(in thousands, except share and per share amounts, unaudited)

	Three Months Ended March 31,	
	2021	2020
Revenue		
Service	$ 175,593	$ 111,478
Product	92,726	79,517
Total revenue	268,319	190,995
Cost of revenue		
Service	134,851	98,368
Product	91,110	79,748
Total cost of revenue	225,961	178,116
Gross profit	42,358	12,879
Operating expenses		
Technology and development	27,678	20,274
Marketing	11,802	25,708
General and administrative	37,391	24,327
Total operating expenses	76,871	70,309
Loss from operations	(34,513)	(57,430)
Interest income	159	1,103
Interest expense	(1,338)	(2,444)
Other income (expense), net	(92)	(1,346)
Net loss	$ (35,784)	$ (60,117)
Dividends on convertible preferred stock	(2,336)	—
Net loss attributable to common stock—basic and diluted	$ (38,120)	$ (60,117)
Net loss per share attributable to common stock—basic and diluted	$ (0.37)	$ (0.64)
Weighted average shares to compute net loss per share attributable to common stock—basic and diluted	103,427,764	93,442,706
Net loss	$ (35,784)	$ (60,117)
Other comprehensive income (loss)		
Foreign currency translation adjustments	—	(25)
Unrealized gain (loss) on available-for-sale securities	(50)	559
Comprehensive loss	$ (35,834)	$ (59,583)

See Notes to the consolidated financial statements.

Redfin Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Three Months Ended March 31,	
	2021	2020
Operating Activities		
Net loss	$ (35,784)	$ (60,117)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,341	3,307
Stock-based compensation	12,583	7,211
Amortization of debt discount and issuance costs	855	1,730
Non-cash lease expense	2,533	2,254
Impairment costs	—	1,420
Net gain on IRLCs, forward sales commitments and loans held for sale	(1,052)	(494)
Other	109	(119)
Change in assets and liabilities:		
Accounts receivable, net	7,303	(2,598)
Inventory	(48,213)	3,941
Prepaid expenses and other assets	(3,359)	4,934
Accounts payable	5,947	514
Accrued liabilities, other payables, and payroll tax liabilities, noncurrent	8,873	18,725
Lease liabilities	(2,951)	(2,693)
Origination of loans held for sale	(227,090)	(132,697)
Proceeds from sale of loans originated as held for sale	225,140	111,233
Net cash used in operating activities	(50,765)	(43,449)
Investing activities		
Purchases of property and equipment	(5,285)	(3,406)
Purchases of investments	(67,877)	(33,267)
Sales of investments	—	31,608
Maturities of investments	63,589	1,597
Net cash used in investing activities	(9,573)	(3,468)
Financing activities		
Proceeds from the issuance of common stock pursuant to employee equity plans	3,411	4,103
Tax payments related to net share settlements on restricted stock units	(10,860)	(3,307)
Borrowings from warehouse credit facilities	216,382	131,310
Repayments to warehouse credit facilities	(214,747)	(110,025)
Borrowings from secured revolving credit facility	71,177	11,854
Repayments to secured revolving credit facility	(46,275)	(7,398)
Proceeds from issuance of convertible senior notes, net of issuance costs	488,691	—
Purchases of capped calls related to convertible senior notes	(54,480)	—
Payments for repurchases and conversions of convertible senior notes	(1,886)	—
Other payables—deposits held in escrow	6,521	3,684
Principal payments under finance lease obligations	(67)	(15)
Cash paid for secured revolving credit facility issuance costs	(305)	—
Net cash provided by financing activities	457,562	30,206
Effect of exchange rate changes on cash and cash equivalents	1	(25)
Net change in cash, cash equivalents, and restricted cash	397,225	(16,736)
Cash, cash equivalents, and restricted cash:		
Beginning of period	945,820	247,448
End of period	$ 1,343,045	$ 230,712
Supplemental disclosure of cash flow information		
Cash paid for interest	973	1,582
Non-cash transactions		
Stock-based compensation capitalized in property and equipment	732	504
Property and equipment additions in accounts payable and accrued liabilities	2,348	451
Leasehold improvements paid directly by lessor	1,334	—

See Notes to the consolidated financial statements.

Redfin Corporation and Subsidiaries
Consolidated Statements of Changes in Mezzanine Equity and Stockholders' Equity
(in thousands, except share amounts, unaudited)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2019	—	$ —	93,001,597	$ 93	$ 583,097	$ (251,786)	$ 42	$ 331,446
Issuance of common stock pursuant to exercise of stock options	—	—	738,398	1	3,915	—	—	3,916
Issuance of common stock pursuant to settlement of restricted stock units	—	—	320,440	—	—	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(102,661)	—	(3,307)	—	—	(3,307)
Stock-based compensation	—	—	—	—	7,715	—	—	7,715
Other comprehensive income	—	—	—	—	—	—	533	533
Net loss	—	—	—	—	—	(60,117)	—	(60,117)
Balance, March 31, 2020	—	$ —	93,957,774	$ 94	$ 591,420	$ (311,903)	$ 575	$ 280,186
Balance, December 31, 2020	40,000	$ 39,823	103,000,594	$ 103	$ 860,556	$ (270,313)	$ 211	$ 590,557
Adjustment related to adoption of ASU 2020-06	—	—	—	—	(170,240)	7,762	—	(162,478)
Issuance of convertible preferred stock, net	—	11	—	—	—	—	—	—
Issuance of common stock as dividend on convertible preferred stock	—	—	30,640	—	—	—	—	—
Issuance of common stock pursuant to exercise of stock options	—	—	670,050	1	3,462	—	—	3,463
Issuance of common stock pursuant to settlement of restricted stock units	—	—	360,351	—	—	—	—	—
Common stock surrendered for employees' tax liability upon settlement of restricted stock units	—	—	(115,030)	—	(10,860)	—	—	(10,860)
Purchases of capped calls related to convertible senior notes	—	—	—	—	(54,480)	—	—	(54,480)
Issuance of common stock in connection with conversion of convertible senior notes	—	—	36,980	—	(52)	—	—	(52)
Stock-based compensation	—	—	—	—	13,316	—	—	13,316
Other comprehensive loss	—	—	—	—	—	—	(50)	(50)
Net loss	—	—	—	—	—	(35,784)	—	(35,784)
Balance, March 31, 2021	40,000	$ 39,834	103,983,585	$ 104	$ 641,702	$ (298,335)	$ 161	$ 343,632

See Notes to the consolidated financial statements.

Index to Notes to Consolidated Financial Statements

Redfin Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(in thousands, except share and per share amounts, unaudited)

Note 1: Summary of Accounting Policies

Basis of Presentation—The consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”).

The financial information as of December 31, 2020 that is included in this quarterly report is derived from the audited consolidated financial statements and notes for the year ended December 31, 2020 included in Item 8 in our annual report for the year ended December 31, 2020. Such financial information should be read in conjunction with the notes and management’s discussion and analysis of the consolidated financial statements included in our annual report.

The unaudited consolidated interim financial statements, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position as of March 31, 2021, the statements of comprehensive loss, statements of cash flows, and statements of changes in mezzanine equity and stockholders’ equity for the three months ended March 31, 2021 and 2020. The results for the three months ended March 31, 2021 are not necessarily indicative of the results to be expected for the year ending December 31, 2021 or for any interim period or for any other future year.

Certain amounts presented in the prior period consolidated statements of cash flows have been reclassified to conform to the current period financial statement presentation. The change in classification does not affect previously reported cash flows from operating activities, investing activities or financing activities in the consolidated statements of cash flows.

Principles of Consolidation—The unaudited consolidated interim financial statements include the accounts of Redfin Corporation and its wholly owned subsidiaries, including those entities in which we have a variable interest and of which we are the primary beneficiary. Intercompany transactions and balances have been eliminated.

Use of Estimates—The preparation of consolidated financial statements, in conformity with GAAP, requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and results of operations during the respective periods. Our estimates include, but are not limited to, valuation of deferred income taxes, stock-based compensation, net realizable value of inventory, capitalization of website and software development costs, the incremental borrowing rate for the determination of the present value of lease payments, recoverability of intangible assets with finite lives, fair value of our mortgage loans held for sale, fair value of interest rate lock commitments ("IRLCs") and forward sales commitments, fair value of reporting units for purposes of evaluating goodwill for impairment, current expected credit losses on certain financial assets, and the fair value of the convertible feature related to our convertible senior notes. The amounts ultimately realized from the affected assets or ultimately recognized as liabilities will depend on, among other factors, general business conditions and could differ materially in the near term from the carrying amounts reflected in the consolidated financial statements.

Agreement to Acquire RentPath Holdings, Inc.—On February 19, 2021, we entered into an Asset Purchase Agreement (the "Purchase Agreement") with RentPath Holdings, Inc. ("RentPath") and certain of its wholly owned subsidiaries (together with RentPath Holdings, Inc., the "Sellers"). RentPath is a provider of digital marketing solutions for rental properties through a network of internet listing websites. Pursuant to the Purchase Agreement, we will acquire, for $608,000 in cash, all of the equity interests of RentPath, as reorganized following an internal restructuring of the Sellers (“Reorganized RentPath”) pursuant to the joint chapter 11 plan of reorganization of the Sellers in the chapter 11 cases of the Sellers (the "Plan") and certain of their affiliates filed on February 12, 2020 in the U.S. Bankruptcy Court for the District of Delaware (the "Acquisition"). In connection with the internal restructuring, certain assets and liabilities related to the Sellers' business of providing digital media services to clients in the residential real estate business will be transferred to Reorganized RentPath, and the remaining assets and liabilities will be transferred to a wind-down company.

In connection with our entry into the Purchase Agreement, we deposited $60,800 into an escrow account, and this amount will be applied towards the purchase price at the closing of the Acquisition. If the Purchase Agreement is terminated, other than in a situation involving our breach of the Purchase Agreement, then the deposit will be returned to us. We have recorded the deposit in escrow account as part of restricted cash on the consolidated balance sheet. See Note 16 for details on the closing of our acquisition of RentPath that occurred on April 2, 2021.

Convertible Senior Notes—In accounting for the issuance of our convertible senior notes, we treat the instrument wholly as a liability, in accordance with the adoption of ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity ("ASU 2020-06").

Issuance costs are being amortized to expense over the respective term of the convertible senior notes.

For conversions prior to the maturity of the notes, we will settle using cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. The carrying amount of the instrument (including unamortized debt issuance costs) is reduced by cash and other assets transferred, with the difference reflected as a reduction to additional paid-in capital. The indentures governing our convertible senior notes allow us, under certain circumstances, to irrevocably fix our method for settling conversions of the applicable notes by giving notice to the noteholders. Our election to irrevocably fix the settlement method could affect the calculation of diluted earnings per share when applicable. We have no plans to exercise our rights to fix the settlement method.

Unsettled Conversion Requests of Convertible Senior Notes—Our 2023 notes were convertible during the quarter ended March 31, 2021. We received conversion requests for $39 aggregate principal amount of the notes prior to the end of the quarter that we will settle using a combination of cash and shares of our common stock during the quarter ending June 30, 2021. All references to the outstanding aggregate principal amount of our 2023 notes as of March 31, 2021 includes the $39 principal amount with respect to which we received conversion requests on or prior to such date.

Recently Adopted Accounting Pronouncements—In August 2020, the Financial Accounting Standards Board (the "FASB") issued authoritative guidance under ASU 2020-06.

This guidance removes the liability and equity separation models for convertible instruments with a cash conversion feature or beneficial conversion feature. As a result, companies will more likely account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock (i.e., as a single unit of account). In addition, the guidance simplifies the settlement assessment that issuers perform to determine whether a contract in their own equity qualifies for equity classification. Finally, the guidance requires entities to use the if-converted method to calculate earnings per share for all convertible instruments.

We early adopted ASU 2020-06 as of January 1, 2021 using the modified retrospective approach. The cumulative effect of initially applying the new standard was recognized as an adjustment to accumulated deficit. Upon the adoption of the new standard we recognized the following adjustments:

	Ending Balance as of December 31, 2020	ASU 2020-06 Adjustments	Beginning Balance as of January 1, 2021
Convertible senior notes, net	$ 22,482	$ 2,723	$ 25,205
Convertible senior notes, net, noncurrent	488,268	159,755	648,023
Additional paid-in capital	860,556	(170,240)	690,316
Accumulated deficit	(270,313)	7,762	(262,551)

The $7,762 adjustment to accumulated deficit represents a reduction to non-cash interest expense related to the accretion of the debt discount under the historical separation model.

Note 2: Segment Reporting and Revenue

In operation of the business, our management, including our chief operating decision maker, who is also our chief executive officer, evaluates the performance of our operating segments based on revenue and gross profit. We do not analyze discrete segment balance sheet information related to long-term assets, substantially all of which are located in the United States. All other financial information is presented on a consolidated basis. We have five operating segments and two reportable segments, real estate services and properties.

We generate revenue primarily from commissions and fees charged on each real estate services transaction closed by our lead agents or partner agents, and from the sale of homes. Our key revenue components are brokerage revenue, partner revenue, properties revenue, and other revenue.

Information on each of the reportable and other segments and reconciliation to consolidated net loss is as follows:

	Three Months Ended March 31,	
	2021	2020
Real estate services		
Brokerage revenue	$ 156,447	$ 102,351
Partner revenue	12,162	6,285
Total real estate services revenue	168,609	108,636
Cost of revenue	128,216	93,562
Gross profit	40,393	15,074
Properties		
Revenue	92,726	79,098
Cost of revenue	91,130	79,299
Gross profit	1,596	(201)
Other		
Revenue	9,357	4,250
Cost of revenue	8,988	6,244
Gross profit	369	(1,994)
Intercompany eliminations		
Revenue	(2,373)	(989)
Cost of revenue	(2,373)	(989)
Gross profit	—	—
Consolidated		
Revenue	268,319	190,995
Cost of revenue	225,961	178,116
Gross profit	42,358	12,879
Operating expenses	76,871	70,309
Interest income	159	1,103
Interest expense	(1,338)	(2,444)
Other income (expense), net	(92)	(1,346)
Net loss	$ (35,784)	$ (60,117)

Note 3: Financial Instruments

Derivatives

Our primary market exposure is to interest rate risk, specifically U.S. treasury and mortgage interest rates, due to their impact on mortgage-related assets and commitments. We use forward sales commitments on whole loans and mortgage-backed securities to manage and reduce this risk. We do not have any derivative instruments designated as hedging instruments.

Forward Sales Commitments—We are exposed to interest rate and price risk on loans held for sale from the funding date until the date the loan is sold. Forward sales commitments on whole loans and mortgage-backed securities are used to fix the forward sales price that will be realized at the sale of each loan.

Interest Rate Lock Commitments—IRLCs represent an agreement to extend credit to a mortgage loan applicant. We commit (subject to loan approval) to fund the loan at the specified rate, regardless of changes in market interest rates between the commitment date and the funding date. Outstanding IRLCs are subject to interest rate risk and related price risk during the period from the date of commitment through the loan funding date or expiration date. Loan commitments generally range between 30 and 90 days and the borrower is not obligated to obtain the loan. Therefore, IRLCs are subject to fallout risk, which occurs when approved borrowers choose not to close on the underlying loans. We review our commitment-to-closing ratio ("pull-through rate") as part of an estimate of the number of mortgage loans that will fund according to the IRLCs.

Notional Amounts	March 31, 2021	December 31, 2020
Forward sales commitments	$ 105,107	$ 130,109
IRLCs	111,753	88,923

The locations and amounts of gains (losses) recognized in income related to our derivatives are as follows:

		Three Months Ended March 31,	
Instrument	Classification	2021	2020
Forward sales commitments	Service revenue	$ 1,928	$ (1,571)
IRLCs	Service revenue	166	1,195

Fair Value of Financial Instruments

A summary of assets and liabilities related to our financial instruments, measured at fair value on a recurring basis and as reflected in our consolidated balance sheets, is set forth below:

	Balance at March 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents				
Money market funds	$ 612,590	$ 612,590	$ —	$ —
U.S. treasury securities	4,912	4,912	—	—
Total cash equivalents	617,502	617,502	—	—
Short-term investments				
U.S. treasury securities	140,843	140,843	—	—
Loans held for sale	43,447	—	43,447	—
Other current assets				
Forward sales commitments	1,465	—	1,465	—
IRLCs	2,146	—	—	2,146
Total other current assets	3,611	—	1,465	2,146
Long-term investments				
Agency bonds	6,906	6,906	—	—
Total assets	$ 812,309	$ 765,251	$ 44,912	$ 2,146
Liabilities				
Accrued liabilities				
Forward sales commitments	$ 10	$ —	$ 10	$ —
IRLCs	209	—	—	209
Total liabilities	$ 219	$ —	$ 10	$ 209

	Balance at December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash equivalents				
Money market funds	$ 886,261	$ 886,261	$ —	$ —
U.S. treasury securities	6,100	6,100	—	—
Total cash equivalents	892,361	892,361	—	—
Short-term investments				
U.S. treasury securities	131,561	131,561	—	—
Loans held for sale	42,539	—	42,539	—
Other current assets				
Forward sales commitments	34	—	34	—
IRLCs	1,781	—	—	1,781
Total other current assets	1,815	—	34	1,781
Long-term investments				
Agency bonds	11,922	11,922	—	—
Total assets	$ 1,080,198	$ 1,035,844	$ 42,573	$ 1,781
Liabilities				
Accrued liabilities				
Forward sales commitments	$ 507	$ —	$ 507	$ —
IRLCs	10	—	—	10
Total liabilities	$ 517	$ —	$ 507	$ 10

There were no transfers into or out of Level 3 financial instruments during the periods presented.

The significant unobservable input used in the fair value measurement of IRLCs is the pull-through rate. Significant changes in the input could result in a significant change in fair value measurement. The pull-through rate used to determine the fair value of IRLCs was as follows:

Key Inputs	Valuation Technique	March 31, 2021	December 31, 2020
Weighted-average pull-through rate	Market pricing	72.8%	72.3%

The following is a summary of changes in the fair value of IRLCs for the three months ended March 31, 2021:

Balance, net—January 1, 2021	$ 1,771
Issuances of IRLCs	5,504
Settlements of IRLCs	(5,139)
Net loss recognized in earnings	(199)
Balance, net—March 31, 2021	$ 1,937
Changes in fair value recognized during the period relating to assets still held at March 31, 2021	$ 166

The following table presents the carrying amounts and estimated fair values of our 2023 notes, 2025 notes, and our 2027 notes that are not recorded at fair value on our consolidated balance sheets:

	March 31, 2021		December 31, 2020	
Issuance	Net Carrying Amount	Estimated Fair Value	Net Carrying Amount	Estimated Fair Value
2023 notes	$ 23,428	$ 53,683	$ 22,482	$ 59,894
2025 notes	648,713	772,651	488,268	802,083
2027 notes	488,261	510,340	—	—

The difference between the principal amounts and unsettled conversions of our 2023 notes, our 2025 notes, and our 2027 notes, which were $23,777, $661,250, and $500,000, respectively, and the net carrying amounts of the notes represents the unamortized debt issuance costs (see Note 15 for additional details). The estimated fair value of each tranche of convertible senior notes is based on the closing trading price of the notes on the last day of trading for the period, and is classified as Level 2 within the fair value hierarchy, due to the limited trading activity of the notes. As of March 31, 2021, the difference between the net carrying amount of the notes and their estimated fair values represented the equity conversion value premium the market assigned to the notes. Based on the closing price of our common stock of $66.59 on March 31, 2021, the if-converted value of the 2023 notes exceeded the principal amount of $23,777, while the if-converted values of the 2025 notes and 2027 notes were less than the principal amounts of $661,250 and $500,000, respectively. See Note 15 for additional details on the convertible senior notes.

See Note 11 for the carrying amount of our convertible preferred stock.

Assets and liabilities recognized or disclosed at fair value on a nonrecurring basis include items such as property and equipment, goodwill and other intangible assets, cost method investments, and other assets. These assets are measured at fair value if determined to be impaired.

The cost or amortized cost, gross unrealized gains and losses, and estimated fair market value of our cash, money market funds, restricted cash, and available-for-sale investments were as follows:

	March 31, 2021						
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash, Cash Equivalents, Restricted Cash	Short-term Investments	Long-term Investments
Cash	$ 623,753	$ —	$ —	$ 623,753	$ 623,753	$ —	$ —
Money markets funds	612,590	—	—	612,590	612,590	—	—
Restricted cash	101,790	—	—	101,790	101,790	—	—
U.S. treasury securities	145,630	125	—	145,755	4,912	140,843	—
Agency bonds	6,900	7	(1)	6,906	—	—	6,906
Total	$ 1,490,663	$ 132	$ (1)	$ 1,490,794	$ 1,343,045	$ 140,843	$ 6,906

	December 31, 2020						
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash, Cash Equivalents, Restricted Cash	Short-term Investments	Long-term Investments
Cash	$ 32,915	$ —	$ —	$ 32,915	$ 32,915	$ —	$ —
Money markets funds	886,261	—	—	886,261	886,261	—	—
Restricted cash	20,544	—	—	20,544	20,544	—	—
U.S. treasury securities	137,502	159	—	137,661	6,100	131,561	—
Agency bonds	11,900	22	—	11,922	—	—	11,922
Total	$ 1,089,122	$ 181	$ —	$ 1,089,303	$ 945,820	$ 131,561	$ 11,922

We have evaluated our portfolio of available-for-sale debt securities based on credit quality indicators for expected credit losses and do not believe there are any expected credit losses. Our portfolio consists of U.S. government securities, all with a high quality credit rating issued by various credit agencies.

As of March 31, 2021 and December 31, 2020, we had accrued interest of $44 and $108, respectively, on our available-for-sale investments, of which we have recorded no expected credit losses. Accrued interest receivable is presented within other current assets in our consolidated balance sheets.

Note 4: Inventory

The components of inventory were as follows:

	March 31, 2021	December 31, 2020
Properties for sale	$ 43,428	$ 17,153
Properties not available for sale	14,515	7,225
Properties under improvement	39,428	24,780
Inventory	$ 97,371	$ 49,158

Inventory costs include direct home purchase costs and any capitalized improvements, net of lower of cost or net realizable value write-downs applied on a specific home basis. As of March 31, 2021 and December 31, 2020, lower of cost or net realizable value write-downs were $112 and $29, respectively. During the three months ended March 31, 2021 and 2020, we directly purchased $120,488 and $65,167 of homes and sold $74,598 and $68,083 in cost basis of homes, respectively.

Note 5: Property and Equipment

The components of property and equipment were as follows:

	Useful Lives (Years)	March 31, 2021	December 31, 2020
Leasehold improvements	Shorter of lease term or economic life	$ 31,132	$ 29,558
Website and software development costs	2-3	35,308	33,278
Computer and office equipment	3	9,922	7,765
Software	3	1,871	1,858
Furniture	7	7,277	7,450
Property and equipment, gross		85,510	79,909
Accumulated depreciation and amortization		(45,254)	(41,614)
Construction in progress		7,393	5,693
Property and equipment, net		$ 47,649	$ 43,988

Depreciation and amortization expense for property and equipment amounted to $4,219 and $3,186 for the three months ended March 31, 2021 and 2020, respectively. We capitalized software development costs, including stock-based compensation, of $3,365 and $2,677 for the three months ended March 31, 2021 and 2020, respectively.

Note 6: Leases

We lease office space under noncancelable operating leases with original terms ranging from one to 11 years and vehicles under noncancelable finance leases with terms of four years. Generally, the operating leases require a fixed minimum rent with contractual minimum rent increases over the lease term. The components of lease expense were as follows:

Lease Cost	Classification	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Operating lease cost:			
Operating lease cost(1)	Cost of revenue	$ 2,324	$ 2,138
Operating lease cost(1)	Operating expenses	1,117	1,094
Total operating lease cost		$ 3,441	$ 3,232
Finance lease cost:			
Amortization of right-of-use assets	Cost of revenue	$ 56	$ 17
Interest on lease liabilities	Cost of revenue	9	$ 3
Total finance lease cost		$ 65	$ 20

(1) Includes lease expense with initial terms of twelve months or less of $271 and $226 for the three months ended March 31, 2021 and 2020, respectively.

Maturity of Lease Liabilities	Lease Liabilities Operating	Lease Liabilities Financing	Other Leases Operating	Total Lease Obligations
2021, excluding the three months ended March 31, 2021	$ 11,267	$ 163	$ 369	$ 11,799
2022	14,475	217	14	14,706
2023	13,442	204	—	13,646
2024	12,039	110	—	12,149
2025	8,881	—	—	8,881
Thereafter	13,384	—	—	13,384
Total lease payments	$ 73,488	$ 694	$ 383	$ 74,565
Less: Interest(1)	8,181	57		
Present value of lease liabilities	$ 65,307	$ 637		

(1) Includes interest on operating leases of $2,601 and financing lease of $29 within the next twelve months.

Lease Term and Discount Rate	March 31, 2021	December 31, 2020
Weighted average remaining operating lease term (years)	5.3	5.2
Weighted average remaining finance lease term (years)	3.3	3.5
Weighted average discount rate for operating leases	4.5 %	4.4 %
Weighted average discount rate for finance leases	5.4 %	5.4 %

Supplemental Cash Flow Information	Three Months Ended March 31, 2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 3,643	$ 3,464
Operating cash flows from finance leases	9	3
Financing cash flows from finance leases	45	12
Right of use assets obtained in exchange for lease liabilities		
Operating leases	$ 6,247	$ 223
Finance leases	39	—

Note 7: Commitments and Contingencies

Legal Proceedings

Below is a discussion of our material, pending legal proceedings. Except as discussed below, we have not accrued any legal expenses for these proceedings because we cannot estimate a range of reasonably possible losses given the preliminary stage of these proceedings and the claims and issues presented. In addition to the matters discussed below, from time to time, we are involved in litigation, claims, and other proceedings arising in the ordinary course of our business. Except for the matters discussed below, we do not believe that any of our pending litigation, claims, and other proceedings is material to our business.

Lawsuit by David Eraker—On May 11, 2020, David Eraker, our co-founder and former chief executive officer who departed Redfin in 2006, filed a complaint through Appliance Computing III, Inc. (d/b/a Surefield) ("Surefield"), which is a company that Mr. Eraker founded and that we believe he controls, in the U.S. District Court for the Western District of Texas, Waco Division. The complaint alleges that we are infringing patents claimed to be owned by Surefield without its authorization or license. Surefield is seeking an unspecified amount of damages and an injunction against us offering products and services that allegedly infringe the patents at issue. On July 15, 2020, we filed a counterclaim against Surefield to allege that (i) we are not infringing on the patents that Surefeld has alleged that we are infringing and (ii) the patents claimed by Surefield are invalid. This counterclaim asks the court to declare judgment in our favor.

Lawsuit Alleging Violations of the Fair Housing Act—On October 28, 2020, a group of ten organizations filed a complaint against us in the U.S. District Court for the Western District of Washington. The organizations are the National Fair Housing Alliance, the Fair Housing Center of Metropolitan Detroit, the Fair Housing Justice Center, the Fair Housing Rights Center in Southeastern Pennsylvania, the HOPE Fair Housing Center, the Lexington Fair Housing Council, the Long Island Housing Services, the Metropolitan Milwaukee Fair Housing Council, Open Communities, and the South Suburban Housing Center. The complaint alleges that certain of our business policies and practices violate provisions of the Fair Housing Act (the “FHA”). The plaintiffs allege that these policies and practices (i) have the effect of our services being unavailable in predominantly non-white communities on a more frequent basis than predominantly white communities and (ii) are unnecessary to achieve a valid interest or legitimate objective. The complaint focuses on the following policies and practices, as alleged by the plaintiffs: (i) a home's price must exceed a certain dollar amount before we offer service through one of our lead agents or partner agents and (ii) our services and pricing structures are available only for homes serviced by one of our lead agents and those same services and pricing structures may not be offered by one of our partner agents. The plaintiffs seek (i) a declaration that our alleged policies and practices violate the FHA, (ii) an order enjoining us from further alleged violations, (iii) an unspecified amount of monetary damages, and (iv) payment of plaintiffs’ attorneys' fees and costs.

Lawsuits Alleging Misclassification—On August 28, 2019, Devin Cook, who is one of our former independent contractor licensed sales associates, whom we call associate agents, filed a complaint against us in the Superior Court of California, County of San Francisco. The plaintiff initially pled the complaint as a class action and alleged that we misclassified her as an independent contractor instead of an employee. The plaintiff also sought representative claims under California's Private Attorney General Act ("PAGA"). On December 6, 2019, we filed a motion to compel arbitration and asserted that the plaintiff had agreed to arbitrate her claims and had waived all class claims. Following that filing, we and the plaintiff stipulated to allow the plaintiff to amend her complaint to dismiss the class action claim and assert only claims under PAGA. On January 14, 2020, pursuant to the parties' stipulation, the court granted the plaintiff leave to file a first amended complaint, and she filed her first amended complaint on January 30, 2020. Following this stipulation, only the plaintiff's claims under PAGA will proceed. The plaintiff continues to seek unspecified penalties for alleged violations of PAGA.

On November 20, 2020, Jason Bell, who is one of our former lead agents as well as a former associate agent, filed a complaint against us in the U.S. District Court for the Southern District of California. The complaint is pled as a class action and alleges that, during the time he served as an associate agent, we misclassified him as an independent contractor instead of an employee. The plaintiff also asserts representative claims under PAGA. The plaintiff is seeking unspecified amounts of unpaid overtime wages, regular wages, meal and rest period compensation, penalties, injunctive, and other equitable relief, and plaintiff's attorneys' fees and costs. On December 2, 2020, we filed a motion to compel arbitration and asserted that the plaintiff had agreed to arbitrate his claims and had waived all class claims.

On March 24, 2021, Anthony Bush, who is one of our former associate agents, filed a complaint against us in the Superior Court of California, County of Alameda. The complaint alleges that, during the time he served as an associate agent, we misclassified him as an independent contractor instead of an employee. The plaintiff also asserts representative claims under PAGA. The plaintiff is seeking unspecified amounts of unpaid overtime wages, regular wages, meal and rest period compensation, penalties, injunctive, and other equitable relief, and plaintiff's attorneys' fees and costs.

Potential Employment Claim—On April 6, 2021, two of our former employees and one of our current employees (together, the "claimants") submitted notices to the California Labor & Workforce Development Agency (the "LWDA") to notify the LWDA that they intend to seek penalties against us under PAGA for our alleged violations of provisions of the California Labor Code. With respect to some or all of the claimants, these violations relate to alleged non-payment of owed wages, improper wage deductions, not providing wage statements, retaliation, failure to keep payroll records, failure to pay a minimum wage, failure to provide a written agreement regarding commission payments, and failure to reimburse business expenses. Certain of these violations are also asserted on behalf of other allegedly aggrieved employees. The claimants had also previously submitted complaints against us and two of our former employees to the California Department of Fair Employment and Housing alleging harassment, discrimination, and retaliation. Prior to the claimants' submission of their LWDA notices, we had offered to settle all of the claimants' allegations, but the claimants rejected our offer. We accrued a legal expense for our rejected settlement offer for the quarter ended March 31, 2021. In addition, we believe that it is reasonably possible that losses beyond the amount of our rejected settlement offer could occur. However, we are unable to estimate the amount of any additional loss.

Other Commitments

Other commitments relate to homes that are under contract to purchase through our properties business but that have not closed, and network infrastructure for our data operations.

Future payments due under these agreements as of March 31, 2021 are as follows:

	Other Commitments
2021, excluding the three months ended March 31, 2021	$ 141,866
2022	8,956
2023	1,849
2024	807
2025 and thereafter	36
Total future minimum payments	$ 153,514

Note 8: Acquired Intangible Assets

The components of intangible assets were as follows:

		March 31, 2021			December 31, 2020		
	Useful Lives (Years)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Trade names	10	$ 1,040	$ (676)	$ 364	$ 1,040	$ (650)	$ 390
Developed technology	10	2,980	(1,937)	1,043	2,980	(1,862)	1,118
Customer relationships	10	860	(559)	301	860	(538)	322
Total		$ 4,880	$ (3,172)	$ 1,708	$ 4,880	$ (3,050)	$ 1,830

Amortization expense amounted to $122 and $122 for each of the three months ended March 31, 2021 and 2020, respectively. We will recognize the remaining amortization expense of $1,708 over a four-year period, with the first three years recognizing expense of $488 per year, and the fourth year recognizing expense of $366.

Note 9: Accrued Liabilities

The components of accrued liabilities were as follows:

	March 31, 2021	December 31, 2020
Accrued compensation and benefits	$ 54,498	$ 49,238
Miscellaneous accrued liabilities	10,969	9,722
Payroll tax liability deferred by the CARES Act	6,812	6,812
Customer contract liabilities	3,475	3,688
Total accrued liabilities	$ 75,754	$ 69,460

Note 10: Other Payables

Other payables consists primarily of customer deposits for cash held in escrow on behalf of real estate buyers using our title and settlement services. Since we do not have rights to the cash, the customer deposits are recorded as a liability with a corresponding asset in the same amount recorded within restricted cash.

The components of other payables were as follows:

	March 31, 2021	December 31, 2020
Customer deposits	$ 17,704	$ 11,183
Miscellaneous payables	1,413	2,001
Total other payables	$ 19,117	$ 13,184

Note 11: Mezzanine Equity

On April 1, 2020, we issued 4,484,305 shares of our common stock, at a price of $15.61 per share, and 40,000 shares of our preferred stock, at a price of $1,000 per share, for aggregate gross proceeds of $110,000. We designated this preferred stock as Series A Convertible Preferred Stock (our "convertible preferred stock"). Our convertible preferred stock is classified as mezzanine equity in our consolidated financial statements as the substantive conversion features at the option of the holder precludes liability classification. We have determined there are no material embedded features that require recognition as a derivative asset or liability.

We allocated the gross proceeds of $110,000 to the common stock issuance and the convertible preferred stock issuance based on the standalone fair value of the issuances, resulting in a fair valuation of $40,000 for the preferred stock, which is also the value of the mandatory redemption amount.

As of March 31, 2021, the carrying value of our convertible preferred stock, net of issuance costs, is $39,834, and holders have earned unpaid stock dividends in the amount of 30,640 shares of common stock. This stock dividend was issued on April 1, 2021. These shares are included in basic and diluted net loss per share attributable to common stock in Note 13. As of March 31, 2021, no shares of the preferred stock have been converted, and the preferred stock was not redeemable, nor probable to become redeemable in the future as there is a more than remote chance the shares will be automatically converted prior to the mandatory redemption date. The number of shares of common stock reserved for future issuance resulting from dividends, conversion, or redemption with respect to the preferred stock was 2,622,177 as of the issuance date.

Dividends—The holders of our convertible preferred stock are entitled to dividends. Dividends accrue daily based on a 360 day fiscal year at a rate of 5.5% per annum based on the issue price and are payable quarterly in arrears on the first business day following the end of each calendar quarter. Assuming we satisfy certain conditions, we will pay dividends in shares of common stock at a rate of the dividend payable divided by $17.95. If we do not satisfy such conditions, we will pay dividends in a cash amount equal to (i) the dividend shares otherwise issuable on the dividends multiplied by (ii) the volume-weighted average closing price of our common stock for the ten trading days preceding the date the dividends are payable.

Participation Rights—Holders of our convertible preferred stock are entitled to dividends paid and distributions made to holders of our common stock to the same extent as if such preferred stockholders had converted their shares of preferred stock into common stock and held such shares on the record date for such dividends and distributions.

Conversion—Holders may convert their convertible preferred stock into common stock at any time at a rate per share of preferred stock equal to the issue price divided by $19.51 (the "conversion price"). A holder that converts will also receive any dividend shares resulting from accrued dividends.

Our convertible preferred stock may also be automatically converted to shares of our common stock. If the closing price of our common stock exceeds $27.32 per share (i) for each day of the 30 consecutive trading days immediately preceding April 1, 2023 or (ii) following April 1, 2023 until 30 trading days prior to November 30, 2024, for each day of any 30 consecutive trading days, then each outstanding share of preferred stock will automatically convert into a number of shares of our common stock at a rate per share of preferred stock equal to the issue price divided by the conversion price. Upon an automatic conversion, a holder will also receive any dividend shares resulting from accrued dividends.

Redemption—On November 30, 2024, we will be required to redeem any outstanding shares of our convertible preferred stock, and each holder may elect to receive cash, shares of common stock, or a combination of cash and shares. If a holder elects to receive cash, we will pay, for each share of preferred stock, an amount equal to the issue price plus any accrued dividends. If a holder elects to receive shares, we will issue, for each share of preferred stock, a number of shares of common stock at a rate of the issue price divided by the conversion price plus any dividend shares resulting from accrued dividends.

A holder of our convertible preferred stock has the right to require us to redeem up to all shares of preferred stock it holds following certain events outlined in the document governing the preferred stock. If a holder redeems as the result of such events, such holder may elect to receive cash or shares of common stock, as calculated in the same manner as the mandatory redemption described above. Additionally, such holder will also receive, in cash or shares of common stock as elected by the holder, an amount equal to all scheduled dividend payments on the preferred stock for all remaining dividend periods from the date the holder gives its notice of redemption.

Liquidation Rights—Upon our liquidation, dissolution, or winding up, holders of our convertible preferred stock will be entitled to receive cash out of our assets prior to holders of the common stock.

Note 12: Equity and Equity Compensation Plans

Common Stock—As of March 31, 2021 and December 31, 2020, our amended and restated certificate of incorporation authorized us to issue 500,000,000 shares of common stock with a par value of $0.001 per share.

Preferred Stock—As of March 31, 2021 and December 31, 2020, our amended and restated certificate of incorporation authorized us to issue 10,000,000 shares of preferred stock with a par value of $0.001.

Amended and Restated 2004 Equity Incentive Plan—We granted options under our 2004 Equity Incentive Plan, as amended (our "2004 Plan"), until July 26, 2017, when we terminated it in connection with our initial public offering. Accordingly, no shares are available for future issuance under our 2004 Plan. Our 2004 Plan continues to govern outstanding equity awards granted thereunder. The term of each stock option under the plan is no more than 10 years, and each stock option generally vests over a four-year period.

2017 Equity Incentive Plan—Our 2017 Equity Incentive Plan (our "2017 EIP") became effective on July 26, 2017, and provides for the issuance of incentive and nonqualified common stock options and restricted stock units to employees, directors, and consultants. The number of shares of common stock initially reserved for issuance under our 2017 EIP was 7,898,159. The number of shares reserved for issuance under our 2017 EIP will increase automatically on January 1 of each calendar year beginning on January 1, 2018, and continuing through January 1, 2028, by the number of shares equal to the lesser of 5% of the total outstanding shares of our common stock as of the immediately preceding December 31 or an amount determined by our board of directors. The term of each stock option and restricted stock unit under the plan will not exceed 10 years, and each award generally vests between two and four years.

We have reserved shares of common stock for future issuance under our 2017 EIP as follows:

	March 31, 2021	December 31, 2020
Stock options issued and outstanding	5,063,462	5,733,738
Restricted stock units outstanding	3,879,392	4,459,743
Shares available for future equity grants	16,796,584	11,309,377
Total shares reserved for future issuance	25,739,438	21,502,858

2017 Employee Stock Purchase Plan—Our 2017 Employee Stock Purchase Plan (our "ESPP") was approved by our board of directors on July 27, 2017 and enables eligible employees to purchase shares of our common stock at a discount. Purchases will be accomplished through participation in discrete offering periods. We initially reserved 1,600,000 shares of common stock for issuance under our ESPP. The number of shares reserved for issuance under our ESPP will increase automatically on January 1 of each calendar year beginning after the first offering date and continuing through January 1, 2028, by the number of shares equal to the lesser of 1% of the total outstanding shares of our common stock as of the immediately preceding December 31 or an amount determined by our board of directors. On each purchase date, eligible employees will purchase our common stock at a price per share equal to 85% of the lesser of (i) the fair market value of our common stock on the first trading day of the offering period and (ii) the fair market value of our common stock on the purchase date.

We have reserved shares of common stock for future issuance under our ESPP as follows:

	Three Months Ended March 31, 2021	Year Ended December 31, 2020
Shares available for issuance at beginning of period	4,039,667	3,330,271
Shares issued during the period	—	(320,609)
Total shares available for future issuance at end of period	4,039,667	3,009,662

Stock Options—Option activity for the three months ended March 31, 2021 was as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding as of January 1, 2021	5,733,738	$ 7.23	4.39	$ 352,076
Options exercised	(670,050)	5.17		
Options forfeited	(223)	10.80		
Options expired	(3)	8.61		
Outstanding as of March 31, 2021	5,063,462	7.50	4.28	299,210
Options exercisable as of March 31, 2021	4,891,618	6.87	4.15	292,128

The grant date fair value of options to purchase common stock is recorded as stock-based compensation over the vesting period. As of March 31, 2021, there was $480 of total unrecognized compensation cost related to stock options. These costs are expected to be recognized over a weighted-average period of 0.67 years.

On June 1, 2019, we granted stock options subject to performance conditions ("PSOs"), with a target of 150,000 shares and a maximum 300,000 shares, to our chief executive officer. The options have an exercise price of $27.50 per share and have the same performance and vesting conditions as the restricted stock units subject to performance conditions that we granted in 2019. We determined that vesting is probable and have accrued compensation expense for the PSOs. None of the options vested during the three months ended March 31, 2021.

Restricted Stock Units—Restricted stock unit activity for the three months ended March 31, 2021 was as follows:

	Restricted Stock Units	Weighted Average Grant-Date Fair Value
Outstanding as of January 1, 2021	4,459,743	$ 27.44
Granted	76,942	59.84
Vested[(1)]	(357,737)	20.97
Forfeited or canceled	(299,556)	22.77
Outstanding or deferred as of March 31, 2021[(1)]	3,879,392	$ 29.04

(1) Starting with the restricted stock units granted to them in June 2019, our non-employee directors have the option to defer the issuance of common stock receivable upon vesting of such restricted stock units until 60 days following the day they are no longer providing services to us or, if earlier, upon a change in control transaction. The amount reported as vested excludes restricted stock units that have vested but whose settlement into shares have been deferred. The amount reported as outstanding or deferred as of March 31, 2021 includes these restricted stock units. As no further conditions exist to prevent the issuance of the shares of common stock underlying these restricted stock units, the shares are included in basic and diluted weighted shares outstanding used to calculate net loss per share attributable to common stock. The amount of shares whose issuance have been deferred is not considered material and is not reported separately from stock-based compensation in our consolidated statements of changes in mezzanine equity and stockholders' equity.

The grant date fair value of restricted stock units is recorded as stock-based compensation over the vesting period. As of March 31, 2021, there was $102,465 of total unrecognized compensation cost related to restricted stock units, which is expected to be recognized over a weighted-average period of 2.45 years.

As of March 31, 2021, there were 260,509 restricted stock units subject to performance and market conditions ("PSUs") at 100% of the target level. Depending on our achievement of the performance and market conditions, the actual number of shares of common stock issuable upon vesting of PSUs will range from 0% to 200% of the target amount. For each PSU recipient, the awards will vest only if the recipient is continuing to provide service to us upon our board of directors, or its compensation committee, certifying that we have achieved the PSU's related performance or market conditions. Stock-based compensation expense for PSUs with performance conditions is recognized when it is probable that the performance conditions will be achieved. For PSUs with market conditions, the market condition is reflected in the grant-date fair value of the award and the expense is recognized over the life of the award. Stock-compensation expense associated with the PSUs is as follows:

	Three Months Ended March 31,	
	2021	2020
Expense associated with the current period	$ 1,099	$ 153
Expense due to reassessment of achievement related to prior periods	—	$ (617)
Total expense	$ 1,099	$ (464)

Compensation Cost—The following table details, for each period indicated, our stock-based compensation, net of forfeitures, and the amount capitalized in internally developed software, each as included in our consolidated statements of comprehensive loss:

	Three Months Ended March 31,	
	2021	2020
Cost of revenue	$ 2,978	$ 1,638
Technology and development (1)	5,761	3,648
Marketing	542	375
General and administrative	3,302	1,550
Total stock-based compensation	$ 12,583	$ 7,211

(1) Net of $732 and $504 of stock-based compensation that was capitalized in the three months ended March 31, 2021 and 2020, respectively,

Note 13: Net Loss per Share Attributable to Common Stock

Net loss per share attributable to common stock is computed by dividing the net loss attributable to common stock by the weighted-average number of common shares outstanding. We have outstanding stock options, restricted stock units, options to purchase shares under our ESPP, convertible preferred stock, and convertible senior notes, which are considered in the calculation of diluted net income per share whenever doing so would be dilutive.

We calculate basic and diluted net loss per share attributable to common stock in conformity with the two-class method required for companies with participating securities. We consider our convertible preferred stock to be participating securities. Under the two-class method, net loss attributable to common stock is not allocated to the preferred stock as its holders do not have a contractual obligation to share in losses, as discussed in Note 11.

The calculation of basic and diluted net loss per share attributable to common stock was as follows:

	Three Months Ended March 31,	
	2021	2020
Numerator:		
Net loss	$ (35,784)	$ (60,117)
Dividends on convertible preferred stock	(2,336)	—
Net loss attributable to common stock—basic and diluted	$ (38,120)	$ (60,117)
Denominator:		
Weighted average shares—basic and diluted[1]	103,427,764	93,442,706
Net loss per share attributable to common stock—basic and diluted	$ (0.37)	$ (0.64)

(1) Basic and diluted weighted average shares outstanding include (i) common stock earned but not yet issued related to share-based dividends on our convertible preferred stock, and (ii) restricted stock units that have vested but whose settlement into common stock were deferred at the option of certain non-employee directors.

The following outstanding shares of common stock equivalents were excluded from the computation of the diluted net loss per share for the periods presented because their effect would have been anti-dilutive:

	Three Months Ended March 31,	
	2021	2020
2023 notes as if converted[1]	778,297	—
2025 notes as if converted	9,119,960	—
2027 notes as if converted	5,346,000	—
Convertible preferred stock as if converted	2,040,000	—
Stock options outstanding[2]	5,063,462	7,028,719
Restricted stock units outstanding[2][3]	3,862,964	4,681,875
Employee stock purchase plan	128,032	233,416
Total	26,338,715	11,944,010

(1) Includes $39 principal amount of 2023 notes with respect to which we received conversion requests by March 31, 2021. See Note 1.
(2) Excludes 260,509 incremental PSUs and 150,000 incremental PSOs that could vest, assuming applicable performance criteria and market conditions are achieved at 200% of target, which is the maximum achievement level. See Note 12 for additional information regarding PSUs and PSOs.
(3) Excludes 16,428 restricted stock units that have vested but whose settlement into common stock were deferred at the option of certain non-employee directors as of March 31, 2021.

Note 14: Income Taxes

Our effective tax rate for the three months ended March 31, 2021 and 2020 was 0% as a result of our recording a full valuation allowance against the deferred tax assets.

In determining the realizability of the net U.S. federal and state deferred tax assets, we consider numerous factors including historical profitability, estimated future taxable income, prudent and feasible tax planning strategies, and the industry in which we operate. Management reassesses the realization of the deferred tax assets each reporting period, which resulted in a valuation allowance against the full amount of our U.S. deferred tax assets for the three months ended March 31, 2021 and 2020. To the extent that the financial results of our U.S. operations improve in the future and the deferred tax assets become realizable, we will reduce the valuation allowance through earnings.

Under Section 382 of the Internal Revenue Code of 1986, as amended, substantial changes in our ownership may limit the amount of net operating loss ("NOL") carryforwards that could be utilized annually in the future to offset taxable income. Any such annual limitation may significantly reduce the utilization of the NOLs before they expire. A Section 382 limitation study performed as of March 31, 2017 determined there was an ownership change in 2006 and $1,538 of the 2006 net operating loss is unavailable.

As of December 31, 2020, we had accumulated approximately $227,751 of federal tax losses and approximately $12,576 (tax effected) of state net operating losses, and approximately $2,050 of foreign net operating losses. Federal net operating losses are available to offset federal taxable income and begin to expire in 2025. Federal net operating loss carryforwards of $142,420 generated after 2017 available to offset future U.S. federal taxable income over an indefinite period.

Our material income tax jurisdiction is the United States (federal) and Canada (foreign). As a result of NOL carryforwards, we are subject to audit for all tax years for federal purposes. All tax years remain subject to examination in various other jurisdictions that are not material to our consolidated financial statements.

Note 15: Debt

Warehouse Credit Facilities—To provide capital for the mortgage loans that it originates, Redfin Mortgage, our wholly owned mortgage origination subsidiary, utilizes warehouse credit facilities that are classified as current liabilities in our consolidated balance sheets. Borrowings under each warehouse credit facility are secured by the related mortgage loan and rights and income associated with the loan. The following table summarizes borrowings under these facilities as of the periods presented:

	March 31, 2021			December 31, 2020		
Lender	Borrowing Capacity	Outstanding Borrowings	Weighted Average Interest Rate on Outstanding Borrowings	Borrowing Capacity	Outstanding Borrowings	Weighted Average Interest Rate on Outstanding Borrowings
Western Alliance Bank	$ 50,000	$ 15,853	3.25 %	$ 50,000	$ 18,277	3.25 %
Texas Capital Bank, N.A.	40,000	17,971	3.35 %	40,000	12,903	3.35 %
Flagstar Bank, FSB	$ 15,000	$ 6,839	3.00 %	15,000	7,849	3.00 %
Total	$ 105,000	$ 40,663	—	$ 105,000	$ 39,029	—

Borrowings under the facility with Western Alliance Bank ("Western Alliance") mature on June 15, 2021 and generally bear interest at a rate equal to the greater of (i) one-month LIBOR plus 2.00% or (ii) 3.25%. Redfin Corporation has agreed to make capital contributions in an amount as necessary for Redfin Mortgage to satisfy its adjusted tangible net worth financial covenant under the agreement, but it was not obligated to make any such capital contributions as of March 31, 2021.

Borrowings under the facility with Texas Capital Bank, N.A. ("Texas Capital") mature on July 14, 2021 and generally bear interest at a rate equal to the greater of (i) the rate of interest accruing on the outstanding principal balance of the loan minus 0.25% or (ii) 3.35%. Redfin Corporation has guaranteed Redfin Mortgage’s obligations under the agreement.

Borrowings under the facility with Flagstar Bank, FSB ("Flagstar") generally bear interest at a rate equal to the greater of (i) one-month LIBOR plus 2.00% or (ii) 3.00%. This facility does not have a stated maturity date, but Flagstar may terminate the facility upon 30 days prior notice. Redfin Mortgage would be required to pay all amounts owed to Flagstar upon the facility's termination.

Secured Revolving Credit Facility—To provide capital for the homes that it purchases, RedfinNow has, through a special purpose entity called RedfinNow Borrower, entered into a secured revolving credit facility with Goldman Sachs Bank, N.A. ("Goldman Sachs"). Borrowings under the facility are secured by RedfinNow Borrower's assets, including the financed homes, as well as the equity interests in RedfinNow Borrower. The following table summarizes borrowings under this facility as of the periods presented:

	March 31, 2021			December 31, 2020		
Lender	Borrowing Capacity	Outstanding Borrowings	Weighted Average Interest Rate on Outstanding Borrowings	Borrowing Capacity	Outstanding Borrowings	Weighted Average Interest Rate on Outstanding Borrowings
Goldman Sachs Bank USA	$ 125,000	$ 48,851	3.30 %	$ 100,000	$ 23,949	4.40 %

The facility matures on July 12, 2022, but we may extend the maturity date for an additional six months to repay outstanding borrowings. Goldman Sachs may, at its sole option, finance a portion of RedfinNow Borrower's acquisition costs of qualified homes that have been purchased. The portion financed is based, in part, on how long the qualifying home has been owned by a Redfin entity. Each new borrowing under the facility on and after January 12, 2021 generally bears interest at a rate of one-month LIBOR (subject to a floor of 0.30%) plus 3.00%. Outstanding borrowings originated before January 12, 2021 generally bears interest at a rate of one-month LIBOR (subject to a floor of 0.50%) plus an additional rate agreed upon between RedfinNow Borrower and Goldman Sachs.

RedfinNow Borrower must repay all borrowings and accrued interest upon the termination of the facility, and it has the option to repay the borrowings, and the related interest, with respect to a specific financed home upon the sale of such home. In certain situations involving a financed home remaining unsold after a certain time period or becoming ineligible for financing under the facility, RedfinNow Borrower may be obligated to repay all or a portion of the borrowings, and related interest, with respect to such home prior to the sale of such home. In instances involving "bad acts," Redfin Corporation has guaranteed repayment of amounts owed under the facility, in some situations, and indemnification of certain expenses incurred, in other situations.

As of March 31, 2021, RedfinNow Borrower had $141,067 of total assets, of which $92,914 related to inventory and $27,369 in cash and cash equivalents. As of December 31, 2020, RedfinNow Borrower had $65,191 of total assets, of which $47,620 related to inventory and $11,818 in cash and equivalents.

For the three months ended March 31, 2021 and 2020, we amortized $86 and $154 of the debt issuance costs, respectively, and recognized $340 and $80 of interest expense, respectively.

Convertible Senior Notes—We have issued convertible senior notes with the following characteristics:

Issuance	Maturity Date	Stated Cash Interest Rate	Effective Interest Rate	First Interest Payment Date	Semi-Annual Interest Payment Dates	Conversion Rate
2023 notes	July 15, 2023	1.75 %	2.45 %	January 15, 2019	January 15; July 15	32.7332
2025 notes	October 15, 2025	— %	0.42 %	—	—	13.7920
2027 notes	April 1, 2027	0.50 %	0.91 %	October 1, 2021	April 1; October 1	10.6920

We issued our 2023 notes on July 23, 2018, with an aggregate principal amount of $143,750. Subsequent to the issuance date, we repurchased or settled conversions of an aggregate of $119,973 of our 2023 notes.

We issued our 2025 notes on October 20, 2020, with an aggregate principal amount of $661,250.

We issued our 2027 notes on March 25, 2021, with an aggregate principal amount of $500,000. Our proceeds from the issuance, after deducting the initial purchasers' discount and offering expenses payable by us, were $488,234.

The components of the convertible senior notes were as follows:

	March 31, 2021			
Issuance	Aggregate Principal Amount	Unamortized Debt Discount	Unamortized Debt Issuance Costs	Net Carrying Amount
2023 notes	$ 23,777	$ —	$ 349	$ 23,428
2025 notes	$ 661,250	$ —	$ 12,537	$ 648,713
2027 notes	$ 500,000	$ —	$ 11,739	$ 488,261

Issuance	December 31, 2020			
	Aggregate Principal Amount	Unamortized Debt Discount	Unamortized Debt Issuance Costs	Net Carrying Amount
2023 notes	$ 25,626	$ 2,776	$ 368	$ 22,482
2025 notes	$ 661,250	$ 163,077	$ 9,905	$ 488,268

	Three Months Ended	
	March 31, 2021	March 31, 2020
2023 notes		
Contractual interest expense	$ 104	$ 629
Amortization of debt discount	—	1,390
Amortization of debt issuance costs	72	186
Total interest expense	$ 176	$ 2,205
2025 notes		
Contractual interest expense	$ —	$ —
Amortization of debt discount	—	—
Amortization of debt issuance costs	690	—
Total interest expense	$ 690	$ —
2027 notes		
Contractual interest expense	$ 35	$ —
Amortization of debt discount	—	—
Amortization of debt issuance costs	27	—
Total interest expense	$ 62	$ —
Total		
Contractual interest expense	$ 139	$ 629
Amortization of debt discount	—	1,390
Amortization of debt issuance costs	789	186
Total interest expense	$ 928	$ 2,205

Conversion of Our Convertible Senior Notes

Prior to the conditional conversion date, a holder of each tranche of our convertible senior notes may convert its notes in multiples of $1,000 principal amount only if one or more of the conditions described below is satisfied. Following the conditional conversion date, a holder may convert its notes in such multiples without any conditions. The conditional conversion date is April 15, 2023 for our 2023 notes, July 15, 2025 for our 2025 notes, and January 1, 2027 for our 2027 notes.

The conditions are:

- during any calendar quarter (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day (with respect to our 2027 notes, this condition applies beginning with the quarter commencing July 1, 2021);

- during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the applicable notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on each such trading day
- if we call any or all of the applicable notes for redemption, at any time prior to the close of business on the scheduled trading day prior to the redemption date; or
- upon the occurrence of specified corporate events.

With respect to our 2023 notes, the first condition described above was satisfied during the quarter ended March 31, 2021. As a result, our 2023 notes will be convertible at a holder's option during the quarter ending June 30, 2021, and have been classified as current liabilities on our consolidated balance sheet as of March 31, 2021. During the three months ended March 31, 2021, we settled conversion requests with respect to our 2023 notes with an aggregate principal amount of $1,849 using a combination of $1,886 cash and 36,980 shares. We also received additional conversion requests for aggregate principal amount of $39, which we will settle in the following quarter, pursuant to the indenture governing our 2023 notes.

We intend to settle any future conversions of our convertible senior notes by paying or delivering, as the case may be, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our election. We apply the if-converted method to calculate diluted earnings per share when applicable. Under the if-converted method, the denominator of the diluted earnings per share calculation is adjusted to reflect the full number of common shares issuable upon conversion, while the numerator is adjusted to add back interest expense for the period.

Classification of Our Convertible Senior Notes

Historically, we had separated our 2023 notes and our 2025 notes into liability and equity components. With our adoption of ASU 2020-06 on January 1, 2021, this accounting treatment is no longer applicable. All of our convertible senior notes are now accounted for wholly as liabilities. See Note 1 for adoption information related to the new standard. The difference between the principal amount of the notes and the carrying amount represents the debt discount, which we record as a deduction from the debt liability in our consolidated balance sheets. This discount is amortized to interest expense using the effective interest method over the term of the notes.

See Note 3 for fair value information related to our convertible senior notes.

2027 Capped Calls—In connection with the pricing of our 2027 notes, we entered into capped call transactions with certain counterparties (the “2027 capped calls”). The 2027 capped calls have initial strike prices of $93.53 per share and initial cap prices of $138.56 per share, in each case subject to certain adjustments. Conditions that cause adjustments to the initial strike price and initial cap price of the 2027 capped calls are similar to the conditions that result in corresponding adjustments to the conversion rate for our 2027 notes. The 2027 capped calls cover, subject to anti-dilution adjustments, 5,346,000 shares of our common stock and are generally intended to reduce or offset the potential dilution to our common stock upon any conversion of the 2027 notes, with such reduction or offset, as the case may be, subject to a cap based on the cap price. The 2027 capped calls are separate transactions, and not part of the terms of our 2027 notes. As these instruments meet certain accounting criteria, the 2027 capped calls are recorded in stockholders’ equity and are not accounted for as derivatives. The cost of $54,450 incurred in connection with the 2027 capped calls was recorded as a reduction to additional paid-in capital.

Note 16: Subsequent Events

Closing of RentPath Acquisition—On April 2, 2021, we closed our acquisition of RentPath and paid $608,000 in cash in connection with the closing. This amount includes the release, to the Sellers, of $60,800 that we had previously deposited into an escrow account and reported in restricted cash as of March 31, 2021. We are currently in the process of determining the purchase price allocation and will record the estimated fair values when we have obtained and evaluated all required information.

Additional 2027 Notes and Additional 2027 Capped Calls—On April 5, 2021 and pursuant to the initial purchasers exercise of their option to purchase additional 2027 notes, we issued additional 2027 notes with an aggregate principal amount of $75,000. Our proceeds from the issuance, after deducting the initial purchaser's discount and offering expenses payable by us, were $73,270. In connection with the initial purchasers' exercise of their option, we entered into additional 2027 capped calls on March 31, 2021 that settled on April 5, 2021. These additional capped calls cover 801,900 additional shares of our common stock, subject to anti-dilution adjustments. The cost of $8,168 incurred in connection with the additional 2027 capped calls was recorded as a reduction to additional paid-in capital.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements, the accompanying notes, and other information included in this quarterly report and our annual report for the year ended December 31, 2020. In particular, the disclosure contained in Item 1A in our annual report, as updated by Part II, Item 1A in this quarterly report, may reflect trends, demands, commitments, events, or uncertainties that could materially impact our results of operations and liquidity and capital resources.

The following discussion contains forward-looking statements, such as statements regarding our future operating results and financial position, our business strategy and plans, our market growth and trends, and our objectives for future operations. Please see "Note Regarding Forward-Looking Statements" for more information about relying on these forward-looking statements. The following discussion also contains information using industry publications. Please see "Note Regarding Industry and Market Data" for more information about relying on these industry publications.

When we use the term "basis points" in the following discussion, we refer to units of one-hundredth of one percent.

Overview

We help people buy and sell homes. Representing customers in over 95 markets in the United States and Canada, we are a residential real estate brokerage. We pair our own agents with our own technology to create a service that is faster, better, and costs less. We meet customers through our listings-search website and mobile application.

We use the same combination of technology and local service to originate mortgage loans and offer title and settlement services; we also buy homes directly from homeowners who want an immediate sale, taking responsibility for selling the home while the original owner moves on.

Our mission is to redefine real estate in the consumer’s favor.

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Key Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key metrics to evaluate our business, develop financial forecasts, and make strategic decisions.

	Three Months Ended								
	Mar. 31, 2021	Dec. 31, 2020	Sep. 30 2020	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019
Monthly average visitors (in thousands)	46,202	44,135	49,258	42,537	35,519	30,595	35,633	36,557	31,107
Real estate services transactions									
Brokerage	14,317	16,951	18,980	13,828	10,751	13,122	16,098	15,580	8,435
Partner	3,944	4,940	5,180	2,691	2,479	2,958	3,499	3,357	2,125
Total	18,261	21,891	24,160	16,519	13,230	16,080	19,597	18,937	10,560
Real estate services revenue per transaction									
Brokerage	$ 10,927	$ 10,751	$ 10,241	$ 9,296	$ 9,520	$ 9,425	$ 9,075	$ 9,332	$ 9,640
Partner	3,084	3,123	2,988	2,417	2,535	2,369	2,295	2,218	2,153
Aggregate	9,233	9,030	8,686	8,175	8,211	8,127	7,865	8,071	8,134
Aggregate home value of real estate services transactions (in millions)	$ 9,621	$ 11,478	$ 12,207	$ 7,576	$ 6,098	$ 7,588	$ 9,157	$ 8,986	$ 4,800
U.S. market share by value	1.14 %	1.04 %	1.04 %	0.93 %	0.93 %	0.94 %	0.96 %	0.94 %	0.83 %
Revenue from top-10 Redfin markets as a percentage of real estate services revenue	62 %	63 %	63 %	63 %	61 %	62 %	63 %	64 %	64 %
Average number of lead agents	2,277	1,981	1,820	1,399	1,826	1,526	1,579	1,603	1,503
RedfinNow homes sold	171	83	37	162	171	212	168	80	43
Revenue per RedfinNow home sold	$ 525,173	$ 471,551	$ 504,583	$ 444,690	$ 461,916	$ 466,939	$ 476,770	$ 498,083	$ 496,437

Monthly Average Visitors

The number of, and growth in, visitors to our website and mobile application are important leading indicators of our business activity because these channels are the primary ways we meet customers. For a particular period, monthly average visitors refers to the average of the number of unique visitors to our website and mobile application for each of the months in that period. Monthly average visitors are influenced by, among other things, market conditions that affect interest in buying or selling homes, the level and success of our marketing programs, seasonality, and how our website appears in search results. We believe we can continue to increase monthly visitors, which helps our growth.

Given the lengthy process to buy or sell a home, a visitor during one month may not convert to a revenue-generating customer until many months later, if at all.

When we refer to "monthly average visitors" for a particular period, we are referring to the average number of unique visitors to our website and our mobile applications for each of the months in that period, as measured by Google Analytics, a product that provides digital marketing intelligence. Google Analytics tracks visitors using cookies, with a unique cookie being assigned to each browser or mobile application on a device. For any given month, Google Analytics counts all of the unique cookies that visited our website and mobile applications during that month. Google Analytics considers each unique cookie as a unique visitor. Due to third-party technological limitations, user software settings, or user behavior, it is possible that Google Analytics may assign a unique cookie to different visits by the same person to our website or mobile application. In such instances, Google Analytics would count different visits by the same person as separate visits by unique visitors. Accordingly, reliance on the number of unique cookies counted by Google Analytics may overstate the actual number of unique persons who visit our website or our mobile applications for a given month.

Real Estate Services Transactions

We record a brokerage real estate services transaction when one of our lead agents represented the homebuyer or home seller in the purchase or sale, respectively, of a home. We record a partner real estate services transaction (i) when one of our partner agents represented the homebuyer or home seller in the purchase or sale, respectively, of a home or (ii) when a Redfin customer sold his or her home to a third-party institutional buyer following our introduction of that customer to the buyer. We include a single transaction twice when our lead agents or our partner agents serve both the homebuyer and the home seller of the transaction. Additionally, when one of our lead agents represents RedfinNow in its sale of a home, we include that transaction as a brokerage real estate services transaction.

Increasing the number of real estate services transactions is critical to increasing our revenue and, in turn, to achieving profitability. Real estate services transaction volume is influenced by, among other things, the pricing and quality of our services as well as market conditions that affect home sales, such as local inventory levels and mortgage interest rates. Real estate services transaction volume is also affected by seasonality and macroeconomic factors.

Real Estate Services Revenue per Transaction

Real estate services revenue per transaction, together with the number of real estate services transactions, is a factor in evaluating revenue growth. We also use this metric to evaluate pricing changes. Changes in real estate services revenue per transaction can be affected by, among other things, our pricing, the mix of transactions from homebuyers and home sellers, changes in the value of homes in the markets we serve, the geographic mix of our transactions, and the transactions we refer to partner agents and any third-party institutional buyer. We calculate real estate services revenue per transaction by dividing brokerage, partner, or aggregate revenue, as applicable, by the corresponding number of real estate services transactions in any period.

We generally generate more real estate services revenue per transaction from representing homebuyers than home sellers. However, we believe that representing home sellers has unique strategic value, including the marketing power of yard signs and digital marketing campaigns, and the market effect of controlling listing inventory. To keep revenue per brokerage transaction about the same from year to year, we expect to reduce our commission refund to homebuyers if a greater portion of our brokerage transactions come from home sellers.

Aggregate Home Value of Real Estate Services Transactions

The aggregate home value of brokerage and partner real estate services transactions is an important indicator of the health of our business, because our revenue is largely based on a percentage of each home’s sale price. This metric is affected chiefly by the number of customers we serve, but also by changes in home values in the markets we serve. We compute this metric by summing the sale price of each home represented in a real estate services transaction. We include the value of a single transaction twice when our lead agents or our partner agents serve both the homebuyer and home seller of the transaction.

U.S. Market Share by Value

Increasing our U.S. market share by value is critical to our ability to grow our business and achieve profitability over the long term. We believe there is a significant opportunity to increase our share in the markets we currently serve.

We calculate the aggregate value of U.S. home sales by multiplying the total number of U.S. existing home sales by the mean sale price of these homes, each as reported by the National Association of REALTORS®. We calculate our market share by aggregating the home value of brokerage and partner real estate services transactions. Then, in order to account for both the sell- and buy-side components of each transaction, we divide that value by two-times the estimated aggregate value of U.S. home sales.

Revenue from Top-10 Markets as a Percentage of Real Estate Services Revenue

Our top-10 markets by real estate services revenue are the metropolitan areas of Boston, Chicago, Denver (including Boulder and Colorado Springs), Los Angeles (including Santa Barbara), Maryland, Northern Virginia, Orange County, San Diego, San Francisco, and Seattle. This metric is an indicator of the geographic concentration of our real estate services segment. We expect our revenue from top-10 markets to decline as a percentage of our total real estate services revenue over time.

Average Number of Lead Agents

The average number of lead agents, in combination with our other key metrics such as the number of brokerage transactions, is a basis for calculating agent productivity and is one indicator of the potential future growth of our business. We systematically evaluate traffic to our website and mobile application and customer activity to anticipate changes in customer demand, helping determine when and where to hire lead agents.

We calculate the average number of lead agents by taking the average of the number of lead agents at the end of each month included in the period.

RedfinNow Homes Sold

The number of homes sold by RedfinNow is a useful indicator for investors to understand the underlying transaction volume growth of our RedfinNow business. This number is influenced by, among other things, the level and quality of our homes available for sale inventory, and market conditions that affect home sales, such as local inventory levels and mortgage interest rates.

Revenue per RedfinNow Home Sold

Revenue per RedfinNow home sold, together with the number of RedfinNow homes sold, is a factor in evaluating revenue growth. Changes in revenue per RedfinNow home sold can be affected by, among other things, the geographic mix of RedfinNow's home sales, the types and sizes of homes that it had previously purchased, our pricing, and changes in the value of homes in the markets it serves. We calculate revenue per RedfinNow home sold by dividing revenue from sales of homes by RedfinNow by the number of homes sold by RedfinNow in any period.

Components of Our Results of Operations

Revenue

We generate revenue primarily from commissions and fees charged on each real estate services transaction closed by our lead agents or partner agents, and from the sale of homes.

Real Estate Services Revenue

Brokerage Revenue—Brokerage revenue includes our offer and listing services, where our lead agents represent homebuyers and home sellers. We recognize commission-based brokerage revenue upon closing of a brokerage transaction, less the amount of any commission refunds, closing-cost reductions, or promotional offers that may result in a material right. Brokerage revenue is affected by the number of brokerage transactions we close, the mix of brokerage transactions, home-sale prices, commission rates, and the amount we give to customers.

Partner Revenue—Partner revenue consists of fees paid to us from partner agents or under other referral agreements, less the amount of any payments we make to homebuyers and home sellers. We recognize these fees as revenue on the closing of a transaction. Partner revenue is affected by the number of partner transactions closed, home-sale prices, commission rates, and the amount we refund to customers. If the portion of customers we introduce to our own lead agents increases, we expect the portion of revenue closed by partner agents to decrease.

Properties Revenue

Properties Revenue—Properties revenue consists of revenues earned when we sell homes that we previously bought directly from homeowners and when we perform maintenance on customers' homes. Properties revenue is recorded at closing on a gross basis, representing the sales price of the home or maintenance performed.

Other Revenue

Other Revenue—Other services revenue includes fees earned from mortgage origination services, title settlement services, Walk Score data services, and advertising. Substantially all fees and revenue from other services are recognized when the service is provided.

Intercompany Eliminations

Intercompany Eliminations—Revenue earned from transactions between operating segments are eliminated in consolidating our financial statements. Intercompany transactions primarily consist of services performed from our real estate services segment for our properties segment.

Cost of Revenue and Gross Margin

Cost of revenue consists primarily of personnel costs (including base pay, benefits, and stock-based compensation), transaction bonuses, home-touring and field expenses, listing expenses, home costs related to our properties segment, office and occupancy expenses, and depreciation and amortization related to fixed assets and acquired intangible assets. Home costs related to our properties segment include home purchase costs, capitalized improvements, selling expenses directly attributable to the transaction, and home maintenance expenses.

Gross profit is revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin has and will continue to be affected by a number of factors, but the most important are the mix of revenue from our relatively higher-gross-margin real estate services segment and our relatively lower-gross-margin properties segment, real estate services revenue per transaction, agent and support-staff productivity, personnel costs and transaction bonuses, and, for properties, the home purchase costs.

Operating Expenses

Technology and Development

Our primary technology and development expenses are building software for our customers, lead agents, and support staff to work together on a transaction, and building a website and mobile application to meet customers looking to move. These expenses primarily include personnel costs (including base pay, bonuses, benefits, and stock-based compensation), data licenses, software and equipment, and infrastructure such as for data centers and hosted services. The expenses also include amortization of capitalized internal-use software and website and mobile application development costs. We expense research and development costs as incurred and record them in technology and development expenses.

Marketing

Marketing expenses consist primarily of media costs for online and offline advertising, as well as personnel costs (including base pay, benefits, and stock-based compensation).

General and Administrative

General and administrative expenses consist primarily of personnel costs (including base pay, benefits, and stock-based compensation), facilities costs and related expenses for our executive, finance, human resources (including recruiting), and legal organizations, depreciation related to our fixed assets, and fees for outside services. Outside services are principally comprised of external legal, audit, and tax services.

Interest Income, Interest Expense, and Other Income (Expense), Net

Interest Income

Interest income consists primarily of interest earned on our cash, cash equivalents, and investments.

Interest Expense

Interest expense consists primarily of any interest payable on our convertible senior notes and, for the three months ended March 31, 2021, the amortization of debt discounts and issuance cost related to our convertible senior notes. See Note 15 to our consolidated financial statements for information regarding interest on our convertible senior notes.

Interest expense also includes interest on borrowings and the amortization of debt issuance costs related to our secured revolving credit facility. See Note 15 to our consolidated financial statements for information regarding interest for the facility.

Other Income (Expense), Net

Other expense, net consists primarily of realized and unrealized gains and losses on investments. See Note 3 to our consolidated financial statements for information regarding unrealized losses on our investments.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our revenue for those periods.

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Revenue	$ 268,319	$ 190,995
Cost of revenue[1]	225,961	178,116
Gross profit	42,358	12,879
Operating expenses		
Technology and development[1]	27,678	20,274
Marketing[1]	11,802	25,708
General and administrative[1]	37,391	24,327
Total operating expenses	76,871	70,309
Loss from operations	(34,513)	(57,430)
Interest income	159	1,103
Interest expense	(1,338)	(2,444)
Other income (expense), net	(92)	(1,346)
Net loss	$ (35,784)	$ (60,117)

(1) Includes stock-based compensation as follows:

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Cost of revenue	$ 2,978	$ 1,638
Technology and development	5,761	3,648
Marketing	542	375
General and administrative	3,302	1,550
Total stock-based compensation	$ 12,583	$ 7,211

	Three Months Ended March 31,	
	2021	2020
	(as a percentage of revenue)	
Revenue	100.0 %	100.0 %
Cost of revenue[1]	84.2	93.3
Gross profit	15.8	6.7
Operating expenses		
Technology and development[1]	10.3	10.6
Marketing[1]	4.4	13.5
General and administrative[1]	13.9	12.7
Total operating expenses	28.6	36.8
Loss from operations	(12.9)	(30.1)
Interest income	0.1	0.6
Interest expense	(0.5)	(1.3)
Other income (expense), net	—	(0.7)
Net loss	(13.3)%	(31.5)%

(1) Includes stock-based compensation as follows:

	Three Months Ended March 31,	
	2021	2020
	(as a percentage of revenue)	
Cost of revenue	1.1 %	0.9 %
Technology and development	2.2	1.9
Marketing	0.2	0.2
General and administrative	1.2	0.8
Total	4.7 %	3.8 %

Comparison of the Three Months Ended March 31, 2021 and 2020

Revenue

	Three Months Ended March 31,		Change	
	2021	2020	Dollars	Percentage
	(in thousands, except percentages)			
Real estate services revenue				
Brokerage revenue	$ 156,447	$ 102,351	$ 54,096	53 %
Partner revenue	12,162	6,285	5,877	94
Total real estate services revenue	168,609	108,636	59,973	55
Properties revenue	92,726	79,098	13,628	17
Other revenue	9,357	4,250	5,107	120
Intercompany elimination	(2,373)	(989)	(1,384)	140
Total revenue	$ 268,319	$ 190,995	$ 77,324	40
Percentage of revenue				
Real estate services revenue				
Brokerage	58.3 %	53.6 %		
Partner revenue	4.5	3.3		
Total real estate services revenue	62.8	56.9		
Properties revenue	34.6	41.4		
Other revenue	3.5	2.2		
Intercompany elimination	(0.9)	(0.5)		
Total revenue	100.0 %	100.0 %		

In the three months ended March 31, 2021, revenue increased by $77.3 million, or 40%, as compared with the same period in 2020. This increase in revenue was primarily attributable to a $60.0 million increase in real estate services revenue, and a $13.6 million increase in properties revenue. Brokerage revenue increased by $54.1 million, and partner revenue increased by $5.9 million. Brokerage revenue increased 53% during the period, driven by a 33% increase in brokerage transactions and a 15% increase in brokerage revenue per transaction. We believe the increase in brokerage transactions was attributable to higher levels of customer awareness of Redfin and increasing customer demand, while the increase in brokerage revenue per transaction was driven primarily by increasing home values. Properties revenue increased by $13.6 million. Properties revenue increased 17%, primarily driven by a 14% increase in revenue per RedfinNow home sold and no increase in RedfinNow homes sold.

Cost of Revenue and Gross Margin

	Three Months Ended March 31,		Change	
	2021	2020	Dollars	Percentage
	(in thousands, except percentages)			
Cost of revenue				
Real estate services	$ 128,216	$ 93,562	$ 34,654	37 %
Properties	91,130	79,299	11,831	15
Other	8,988	6,244	2,744	44
Intercompany elimination	(2,373)	(989)	(1,384)	140
Total cost of revenue	$ 225,961	$ 178,116	$ 47,845	27
Gross profit				
Real estate services	$ 40,393	$ 15,074	$ 25,319	168 %
Properties	1,596	(201)	1,797	(894)
Other	369	(1,994)	2,363	(119)
Total gross profit	$ 42,358	$ 12,879	$ 29,479	229
Gross margin (percentage of revenue)				
Real estate services	24.0 %	13.9 %		
Properties	1.7	(0.3)		
Other	3.9	(46.9)		
Total gross margin	15.8	6.7		

In the three months ended March 31, 2021, total cost of revenue increased by $47.8 million, or 27%, as compared with the same period in 2020. This increase in cost of revenue was primarily attributable to a $32.2 million increase in personnel costs and transaction bonuses, due to increased headcount and increased brokerage transactions, respectively. This was also driven by a $9.5 million increase in home-touring and field costs, and a $5.3 million increase in home purchase costs and related capitalized improvements by our properties business.

Total gross margin increased 910 basis point as compared with the same period in 2020, driven by improvements in real estate services, properties, and other gross margin, and by our properties business contributing to a lesser proportion of revenue relative to our real estate services and other businesses.

In the three months ended March 31, 2021, real estate services gross margin increased 1,010 basis points as compared with the same period in 2020. This was primarily attributable to a 450 basis-point decrease in personnel costs and transaction bonuses, a 270 basis-point decrease in travel and entertainment expenses, and a 120 basis-point decrease in listing expenses, each as a percentage of revenue.

In the three months ended March 31, 2021, properties gross margin increased 200 basis points as compared with the same period in 2020. This was primarily attributable to a 760 basis-point decrease in home purchase costs and related capitalized improvements as a percentage of revenue. This was partially offset by a 290 basis-point increase in personnel costs and transaction bonuses as a percentage of revenue.

In the three months ended March 31, 2021, other gross margin increased 5,080 basis points. This was primarily attributable to a 3,100 basis-point decrease in personnel costs and transaction bonuses, a 990 basis-point decrease in outside services costs, a 290 basis-point decrease in travel and entertainment expenses, and a 280 basis-point decrease personal technology expenses, each as a percentage of revenue.

Operating Expenses

	Three Months Ended March 31,		Change	
	2021	2020	Dollars	Percentage
	(in thousands, except percentages)			
Technology and development	$ 27,678	$ 20,274	$ 7,404	37 %
Marketing	11,802	25,708	(13,906)	(54)
General and administrative	37,391	24,327	13,064	54
Total operating expenses	$ 76,871	$ 70,309	$ 6,562	9
Percentage of revenue				
Technology and development	10.3 %	10.6 %		
Marketing	4.4	13.5		
General and administrative	13.9	12.7		
Total operating expenses	28.6 %	36.8 %		

In the three months ended March 31, 2021, technology and development expenses increased by $7.4 million, or 37%, as compared with the same period in 2020. The increase was primarily attributable to a $6.7 million increase in personnel costs due to increased headcount.

In the three months ended March 31, 2021, marketing expenses decreased by $13.9 million, or 54%, as compared with the same period in 2020. The decrease was attributable to a $14.4 million decrease in marketing media costs as we did not run a mass-media advertising campaign as we have in prior years.

In the three months ended March 31, 2021, general and administrative expenses increased by $13.1 million, or 54%, as compared with the same period in 2020. The increase was primarily attributable to a $5.8 million increase in personnel costs due to increased headcount, a $5.0 million increase in advertising campaign and contractor expenses for recruiting employees and independent contractors, a $3.1 million increase in legal expenses, largely due to a rejected settlement offer we made to resolve a threatened claim, and a $2.1 million increase in transaction expenses for our acquisition of RentPath. We had no such transaction expenses for acquisitions during the same period in 2020. This was partially offset by a $4.1 million decrease in corporate events costs, because we did not conduct an in-person, all-company event as we have in prior years due to COVID-19 restrictions.

Interest Income, Interest Expense, and Other Income (Expense), Net

	Three Months Ended March 31, 2021		Change	
	2021	2020	Dollars	Percentage
	(in thousands, except percentages)			
Interest income	159	1,103	(944)	(86)
Interest expense	(1,338)	(2,444)	1,106	45
Other income (expense), net	(92)	(1,346)	1,254	93
Interest income, interest expense, and other income (expense), net	$ (1,271)	$ (2,687)	$ 1,416	53
Percentage of revenue				
Interest income	0.0	0.6		
Interest expense	(0.5)	(1.3)		
Other income (expense), net	0.0	(0.7)		
Interest income, interest expense, and other income (expense), net	(0.5)%	(1.4)%		

In the three months ended March 31, 2021, interest income, net decreased by $1.4 million as compared to the same period in 2020. Interest income decreased $0.9 million due to lower interest rates on our cash, cash equivalents, and investments. Interest expense decreased by $1.1 million due primarily to the implementation of ASU 2020-06, which eliminates the liability and equity separation models for convertible instruments. As a result, we did not incur an expense for the accretion of the equity portion of our convertible senior notes during the three months ended March 31, 2021. See Note 1 to our consolidated financial statements for more information on our adoption of this accounting standard. Other income (expense), net decreased by $1.3 million, primarily due to a non-cash impairment charge we had recorded on an investment in a privately-held company during the three months ended March 31, 2020, and we did not have a similar charge for the same period this year.

Liquidity and Capital Resources

As of March 31, 2021, we had cash and cash equivalents of $1,241.3 million and investments of $147.7 million, which consist primarily of operating cash on deposit with financial institutions, money market instruments, U.S. treasury securities, and agency bonds. On April 2, 2021, we closed our acquisition of RentPath and paid $608.0 million in cash in connection with the closing. This amount includes the release, to the sellers, of $60.8 million that we had previously deposited into an escrow account and reported in restricted cash as of March 31, 2021.

Also as of March 31, 2021, we had $1,185.0 million aggregate principal amount of convertible senior notes outstanding across three issuances maturing between July 15, 2023 and April 1, 2027. See Note 15 to our consolidated financial statements for our obligations to pay semi-annual interest and to repay any outstanding amounts at the notes' maturity.

On April 5, 2021, the initial purchasers of our 2027 notes exercised their option to purchase an additional $75 million aggregate principal amount of our 2027 notes. In connection with the issuance of these additional notes and also on April 5, 2021, we settled our purchase of additional capped call options. See Note 16 to our consolidated financial statements for our net proceeds from the issuance of additional 2027 notes and our cash outlay for our purchase of additional options.

Also as of March 31, 2021, we had 40,000 shares of convertible preferred stock outstanding. See Note 11 to our consolidated financial statements for our obligations to pay quarterly interest and to redeem any outstanding shares on November 30, 2024.

With respect to the cash outlay for our properties business, for the quarter ended March 31, 2021, we relied on (i) a combination of our cash on hand and borrowings from a secured revolving credit facility to fund home purchase prices and (ii) solely on our cash on hand to fund capitalized improvement costs and home maintenance expenses. See Note 4 to our consolidated financial statements for more information on changes to inventory related to home purchases and home sales for our properties business. See Note 15 to our consolidated financial statements for more information regarding the secured revolving credit facility.

Our mortgage business has significant cash requirements due to the period of time between its origination of a mortgage loan and the sale of that loan. We have relied on warehouse credit facilities with different lenders to fund substantially the entire portion of the mortgage loans that our mortgage business originates. Once our mortgage business sells a loan in the secondary mortgage market, we use the proceeds to reduce the outstanding balance under the related facility. See Note 15 to our consolidated financial statements for more information regarding our warehouse credit facilities.

We believe that our existing cash and cash equivalents and investments, together with cash we expect to generate from future operations, and borrowings from our secured revolving credit facility and our warehouse credit facilities, will provide sufficient liquidity to meet our operational needs and fulfill our payment obligations with respect to our convertible senior notes and convertible preferred stock. However, our liquidity assumptions may change or prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. As a result, we may seek new sources of credit financing or elect to raise additional funds through equity, equity-linked, or debt financing arrangements. We cannot assure you that any additional financing will be available to us on acceptable terms or at all.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Three Months Ended March 31,	
	2021	2020
	(in thousands)	
Net cash used in operating activities	$ (50,765)	$ (43,449)
Net cash used in investing activities	(9,573)	(3,468)
Net cash provided by financing activities	457,562	30,206

Net Cash Used In Operating Activities

Our operating cash flows result primarily from cash generated by commissions paid to us from our real estate services business and sales of homes from our properties business. Our primary uses of cash from operating activities include payments for personnel-related costs, including employee benefits and bonus programs, marketing and advertising activities, purchases of homes for our properties business, office and occupancy costs, and outside services costs. Additionally, our mortgage business generates a significant amount operating cash flow activity from the origination and sale of loans held for sale.

Net cash used operating activities was $50.8 million for the three months ended March 31, 2021, primarily attributable to a net loss of $35.8 million, offset by $19.4 million of non-cash items related to stock-based compensation, depreciation and amortization, amortization of debt discounts and issuances costs, lease expense related to right-of-use assets, and other non-cash items. Changes in assets and liabilities decreased cash provided by operating activities by $34.4 million. The primary sources of cash related to changes in our assets and liabilities were a $14.8 million increase in accounts payable and other accrued liabilities related to the timing of vendor payments and payroll related expenses, and a $7.3 million decrease in accounts receivable related to the timing of escrow payments in-transit. The primary use of cash related to changes in our assets and liabilities was a $48.2 million increase in inventory related to our properties business.

Net cash used in operating activities was $43.4 million for the three months ended March 31, 2020, primarily attributable to a net loss of $60.1 million, offset by $15.3 million of non-cash items related to stock based compensation, depreciation and amortization, amortization of debt discounts and issuance costs, lease expense related to right-of-use assets, impairment charge on our cost method investment, and other noncash items. Changes in assets and liabilities decreased cash used in operating activities by $1.4 million driven primarily by a $18.5 million increase in accrued liabilities, primarily related to timing of payments, a $4.9 million decrease in prepaid expenses. This was partially offset by an increase of $21.5 million in net loans held for sale related to our mortgage business.

Net Cash Used In Investing Activities

Our primary investing activities include the purchase of investments and property and equipment, primarily related to capitalized software development expenses and computer equipment and software.

Net cash used in investing activities was $9.6 million for the three months ended March 31, 2021, primarily attributable to $4.3 million in net investments in U.S. government securities, and $2.6 million of capitalized software development expenses.

Net cash used in investing activities was $3.5 million for the three months ended March 31, 2020, primarily attributable to $2.5 million of capitalized software development expenses. Additionally, we had $33.2 million of maturities and sales of investments that was offset by $33.3 million of purchases of similar type investments.

Net Cash Provided By Financing Activities

Our primary financing activities have come from (i) our initial public offering in August 2017, (ii) sales of our common stock and 2023 notes in July 2018, our common stock and convertible preferred stock in April 2020, our 2025 notes in October 2020, and our 2027 notes in March 2021, and (iii) the sale of our common stock pursuant to stock option exercises and our ESPP. Additionally, we generate a significant amount of financing cash flow activity due to borrowings from and repayments to our warehouse credit facilities and, since July 2019, our secured revolving credit facility.

Net cash provided by financing activities was $457.6 million for the three months ended March 31, 2021, attributable to $434.2 million in net proceeds from the issuance of our 2027 notes offering including the purchase of capped calls related to those notes, and a $24.9 million increase in net borrowings under our secured revolving credit facility.

Net cash provided by financing activities was $30.2 million for the three months ended March 31, 2020, primarily attributable to a $21.3 million increase in our net borrowings under warehouse credit facilities and $4.5 million in net borrowings under the secured revolving credit facility.

Critical Accounting Policies and Estimates

Discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue, and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies and estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and estimates addressed below. In addition, we have other key accounting policies and estimates that are described in Note 1 to our consolidated financial statements.

Revenue Recognition

Our key revenue components are brokerage revenue, partner revenue, property revenue, and other revenue. Of these, we consider the most critical of our revenue recognition policies relate to commissions and fees charged on brokerage transactions closed by our lead agents, and from the sale of homes. We recognize commission-based brokerage revenue upon closing of a brokerage transaction, less the amount of any commission refunds, closing-cost reductions, or promotional offers that may result in a material right. We determined that brokerage revenue primarily contains a single performance obligation that is satisfied upon the closing of a transaction, at which point the entire transaction price is earned. We evaluate our brokerage contracts and promotional pricing to determine if there are any additional material rights and allocate the transaction price based on standalone selling prices.

Properties revenue is earned when we sell homes that were previously bought directly from homeowners. Our contracts with customers contain a single performance obligation that is satisfied upon a transaction closing. Properties revenue is recorded at closing on a gross basis, representing the sales price of the home.

We have utilized the practical expedient in *ASC 606, Revenue from Contracts with Customers*, and elected not to capitalize contract costs for contracts with customers with durations less than one year. We do not have significant remaining performance obligations or contract balances.

See Note 1 to our consolidated financial statements for further discussion of our revenue recognition policy.

Inventory

Our inventory represents homes purchased with the intent of resale and are accounted for under the specific identification method. Direct home acquisition and improvement costs are capitalized and tracked directly with each specific home. Homes are stated in inventory at cost and are reviewed on a home by home basis. When evidence exists that the net realizable value of a home is lower than its cost, we recognize the difference as a loss in the period in which it occurs. In determining net realizable value, management must use judgment and estimates, including assessment of readily available market value indicators such as the Redfin Estimate and other third-party home value indicators, assessment of a current listing or pending offer price if either are available, and the value of any improvements made to the home. If a home's estimated market value is less than the inventory cost then the home is written down to net realizable value. While no significant adjustments were required to our home inventory during the three months ended March 31, 2021, material adjustments may be required in the future due to changing market conditions, natural disasters, or other forces outside of our control.

See Note 4 to our consolidated financial statements for a summary of our inventory categories and any net realizable write-downs.

Recent Accounting Standards

For information on recent accounting standards, see Note 1 to our consolidated financial statements.

Item 3. Qualitative and Quantitative Disclosures About Market Risk.

Our primary operations are within the United States and Canada. We are exposed to market risks in the ordinary course of our business. These risks primarily consist of fluctuations in interest rates.

Interest Rate Risk

Our investment policy allows us to maintain a portfolio of cash equivalents and investments in a variety of securities, including U.S. treasury and agency issues, bank certificates of deposit that are 100% insured by the Federal Deposit Insurance Corporation, and SEC-registered money market funds that consist of a minimum of $1 billion in assets and meet the above requirements. The goals of our investment policy are liquidity and capital preservation. We do not enter into investments for trading or speculative purposes.

As of March 31, 2021, we had cash and cash equivalents of $1,241.3 million and investments of $147.7 million. Our investments are comprised of available-for-sale securities that consist primarily of U.S. treasury securities with maturities of two years or less. We believe that we do not have any material exposure to changes in the fair value of these assets as a result of changes in interest rates due to the relatively short-term nature and risk profile of our portfolio. Declines in interest rates, however, would reduce future investment income. Assuming no change in our outstanding cash, cash equivalents, and investments during the second quarter of 2021, a hypothetical 10% change in interest rates, occurring during and sustained throughout that quarter, would not have a material impact on our financial results for that quarter.

We are exposed to interest rate risk on our mortgage loans held for sale and IRLCs associated with our mortgage loan origination services. We manage this interest rate risk through the use of forward sales commitments on both a best effort whole loans basis and on a mandatory basis. Forward sales commitments entered into on a mandatory basis are done through the use of commitments to sell mortgage-backed securities. We do not enter into or hold derivatives for trading or speculative purposes. The fair value of our IRLCs and forward sales commitments are reflected in other current assets and accrued liabilities, as applicable, with changes in the fair value of these commitments recognized as revenue. The net fair value change for the periods presented were not material. See Note 3 to our consolidated financial statements for a summary of the fair value of our forward sales commitments and our IRLCs.

We are subject to interest rate risk on borrowings under our secured revolving credit facility. See Note 15 to our consolidated financial statements for a description of this facility. Changes in the market interest rate will increase or decrease our interest expense. Assuming no change in the outstanding borrowings under the facility during the second quarter of 2021, a hypothetical 10% change in interest rates, occurring during and sustained throughout that quarter, would not have a material impact on our financial results for that quarter.

Foreign Currency Exchange Risk

As our operations in Canada have been limited, and we do not maintain a significant balance of foreign currency, we do not currently face significant foreign currency exchange rate risk.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934), as of the end of the period covered by this quarterly report. Based on such evaluation, our principal executive and principal financial officers have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level described below.

Changes in Internal Control

In connection with the evaluation required by Rule 13a-15(d) under the Securities Exchange Act of 1934, there were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

See "Legal Proceedings" under Note 7 to our consolidated financial statements for a discussion of our material, pending legal proceedings.

Item 1A. Risk Factors.

Except as discussed below, there have not been any material changes from the risk factors included in Item 1A of our annual report for the year ended December 31, 2020. You should carefully consider the risks described below, together with all other information in this quarterly report, before investing in any of our securities. The occurrence of any single risk or any combination of risks could materially and adversely affect our business, operating results, financial condition, liquidity, or competitive position, and consequently, the value of our securities. The material adverse effects include, but are not limited to, not growing our revenue or market share at the pace that they have grown historically or at all, our revenue and market share fluctuating on a quarterly and annual basis, an extension of our history of losses and a failure to become profitable, not achieving the revenue and net income (loss) guidance that we provide, and harm to our reputation and brand.

Risks Related to Our Business and Industry

Our business is concentrated in certain geographic markets. Our failure to adapt to any substantial shift in the relative percentage of residential housing transactions from these markets to other markets in the United States could adversely affect our financial performance.

For the quarter ended March 31, 2021, our top-10 markets by real estate services revenue consisted of the metropolitan areas of Boston, Chicago, Denver (including Boulder and Colorado Springs), Los Angeles (including Santa Barbara), Maryland, Northern Virginia, Orange County, San Diego, San Francisco, and Seattle.

Local and regional conditions in these markets may differ significantly from prevailing conditions in the United States or other parts of the country. Accordingly, events may adversely and disproportionately affect demand for and sales prices of homes in these markets. Any overall or disproportionate downturn in demand or home prices in any of our largest markets, particularly if we are unable to increase revenue from our other markets, could adversely affect growth of our revenue and market share or otherwise harm our business.

Our top markets are primarily major metropolitan areas, where home prices and transaction volumes are generally higher than other markets. As a result, our real estate services revenue and gross margin are generally higher in these markets than in our smaller markets. To the extent there is a net migration to cities outside of these markets due to lower home prices, climate change, COVID-19, or other factors, and this migration continues to take place over the long-term, then the relative percentage of residential housing transactions may shift away from our historical top markets where we have historically generated most of our revenue. Our inability to effectively adapt to any shift, including failing to increase revenue from other markets, could adversely affect our financial performance and market share.

We may be unable to attract homebuyers and home sellers to our website and mobile application in a cost-effective manner.

Our website and mobile application are our primary channels for meeting customers. Accordingly, our success depends on our ability to attract homebuyers and home sellers to our website and mobile application in a cost-effective manner. To meet customers, we rely heavily on traffic generated from search engines and downloads of our mobile application from mobile application stores. We also rely on marketing methods such as targeted email campaigns, paid search advertising, social media marketing, and traditional media, including TV, radio, and billboards.

The number of visitors to our website and downloads of our mobile application depend in large part on how and where our website and mobile application rank in Internet search results and mobile application stores, respectively. While we use search engine optimization to help our website rank highly in search results, maintaining or improving our search result rankings is not within our control. Internet search engines frequently update and change their ranking algorithms, referral methodologies, or design layouts, which determine the placement and display of a user’s search results. In some instances, Internet search engines may change these rankings, which may have the effect of promoting their own competing services or the services of one or more of our competitors. Similarly, mobile application stores can change how they display searches and how mobile applications are featured. For instance, editors at the Apple iTunes Store can feature prominently editor-curated mobile applications and cause the mobile application to appear larger than other applications or more visibly on a featured list.

Additionally, our marketing efforts may fail to attract the desired number of customers for a variety of reasons, including the creative treatment for our advertisements may be ineffective or new third-party email delivery policies that make it more difficult for us to execute targeted email campaigns.

We may not realize the anticipated benefits from, and may incur substantial costs related to, our acquisition of RentPath.

We closed our acquisition of RentPath on April 2, 2021. The anticipated benefits of the acquisition may not come to fruition. We may also be required to record impairment charges associated with the acquisition. Integrating RentPath will be challenging and time consuming, and may subject us to additional costs that we have not anticipated in evaluating the transaction.

The growth of RentPath's business depends on its ability to attract property managers' advertising spending.

RentPath's growth depends on advertising revenue generated primarily through property managers. RentPath's ability to attract and retain advertisers may be adversely affected by any of the following factors:

- a prolonged period of high occupancy within rental properties;
- declining quantity and quality of renter leads it provides to property managers;
- its inability to keep pace with changes in technology and features expected by renters when visiting an online rental portal; and
- its failure to offer an attractive return on investment to advertisers

RentPath does not have long-term contracts with many of its advertisers, and these advertisers may choose to end their relationships with RentPath with little or no advance notice. As RentPath's existing subscriptions for advertising terminate, it may not be successful in securing new subscriptions.

If Redfin Mortgage is unable to obtain sufficient financing through warehouse credit facilities to fund its origination of mortgage loans, then we may be unable to grow our mortgage origination business.

Redfin Mortgage relies on borrowings from warehouse credit facilities to fund substantially all of the mortgage loans that it originates. See Note 15 to our consolidated financial statements for the current terms of these facilities. To grow its business, Redfin Mortgage depends, in part, on having sufficient borrowing capacity under its current facilities or obtaining additional borrowing capacity under new facilities. A current facility may become unavailable if Redfin Mortgage fails to comply with the facility's ongoing obligations, including failing to satisfy financial covenants applicable to it. New facilities may be not be available on terms acceptable to us.

Additionally, each of Redfin Mortgage's warehouse facilities is uncommitted, which means that the lender is not obligated to extend a loan even if Redfin Mortgage satisfies all of the borrowing conditions. Furthermore, under Redfin Mortgage's facility with Flagstar, Flagstar may demand repayment of outstanding borrowings at any time, even if Redfin Mortgage has not defaulted under the facility.

If Redfin Mortgage were unable to secure sufficient borrowing capacity or if a lender decides to not extend a loan (or in the case of the Flagstar facility, demand repayment of a loan) even when Redfin Mortgage is in compliance with the facility's term, then Redfin Mortgage may need to rely on our cash on hand to originate mortgage loans. If this cash were unavailable, then Redfin Mortgage may be unable to maintain or increase the amount of mortgage loans that it originates, which will adversely affect its growth.

Item 6. Exhibits.

The exhibits required to be filed or furnished as part of this Quarterly Report are listed below. Notwithstanding any language to the contrary, exhibits 32.1, 32.2, 101, and 104 shall not be deemed to be filed as part of this Quarterly Report for purposes of Section 18 of the Securities Exchange Act of 1934.

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**Exhibit**	**Filing Date**	**Filed or Furnished Herewith**
2.1	Asset Purchase Agreement by and among RentPath Holdings, Inc., Redfin Corporation and the other sellers named therein, dated as of February 19, 2021	8-K	2.1	Feb. 19, 2021	
4.1	Indenture dated as of March 25, 2021, between Redfin Corporation and Wells Fargo Bank, National Association, as Trustee	8-K	4.1	March 25, 2021	
4.2	Form of convertible senior note due 2027 (included in exhibit 4.1)	8-K	4.2	March 25, 2021	
10.1	Form of capped call transaction confirmation entered into on March 22, 2021	8-K	99.1	March 25, 2021	
10.2	Form of capped call transaction confirmation entered into on March 31, 2021	8-K	99.1	April 5, 2021	
31.1	Certification of principal executive officer, pursuant to Rule 13a-14(a)				X
31.2	Certification of principal financial officer, pursuant to Rule 13a-14(a)				X
32.1	Certification of chief executive officer, pursuant to 18 U.S.C. Section 1350				X
32.2	Certification of chief financial officer, pursuant to 18 U.S.C. Section 1350				X
101	Interactive data files				X
104	Cover page interactive data file, submitted using inline XBRL (contained in Exhibit 101)				X

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Redfin Corporation
(Registrant)

May 5, 2021	/s/ Glenn Kelman
(Date)	Glenn Kelman President and Chief Executive Officer *(Duly Authorized Officer)*
May 5, 2021	/s/ Chris Nielsen
(Date)	Chris Nielsen Chief Financial Officer *(Principal Financial Officer)*

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Glenn Kelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Redfin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2021

/s/ Glenn Kelman
Glenn Kelman
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Chris Nielsen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Redfin Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 5, 2021

/s/ Chris Nielsen
Chris Nielsen
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

I, Glenn Kelman, Chief Executive Officer of Redfin Corporation (the “Company”), certify pursuant to 18 U.S.C. Section 1350 that, to my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2021

/s/ Glenn Kelman
Glenn Kelman
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

I, Chris Nielsen, Chief Financial Officer of Redfin Corporation (the “Company”), certify pursuant to 18 U.S.C. Section 1350 that, to my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2021

/s/ Chris Nielsen

Chris Nielsen

Chief Financial Officer