The Real Estate Tech Insights Report

2023

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The industry is moving slowly, but it's never moved this fast. Everything is the same, yet everything is changing.

We’re living in a world of contradictions. The real estate industry is in the midst of massive change, yet the fundamentals are barely changing at all.

This report clearly unpacks the changes of 2023—the fast movers, the themes driving change, and the insights needed to make well-informed decisions going forward.

Mike DelPrete
October 2023

Photo: AJ Canaria

My New Podcast

Conversations with industry leaders about the businesses and technologies changing real estate.

Available on

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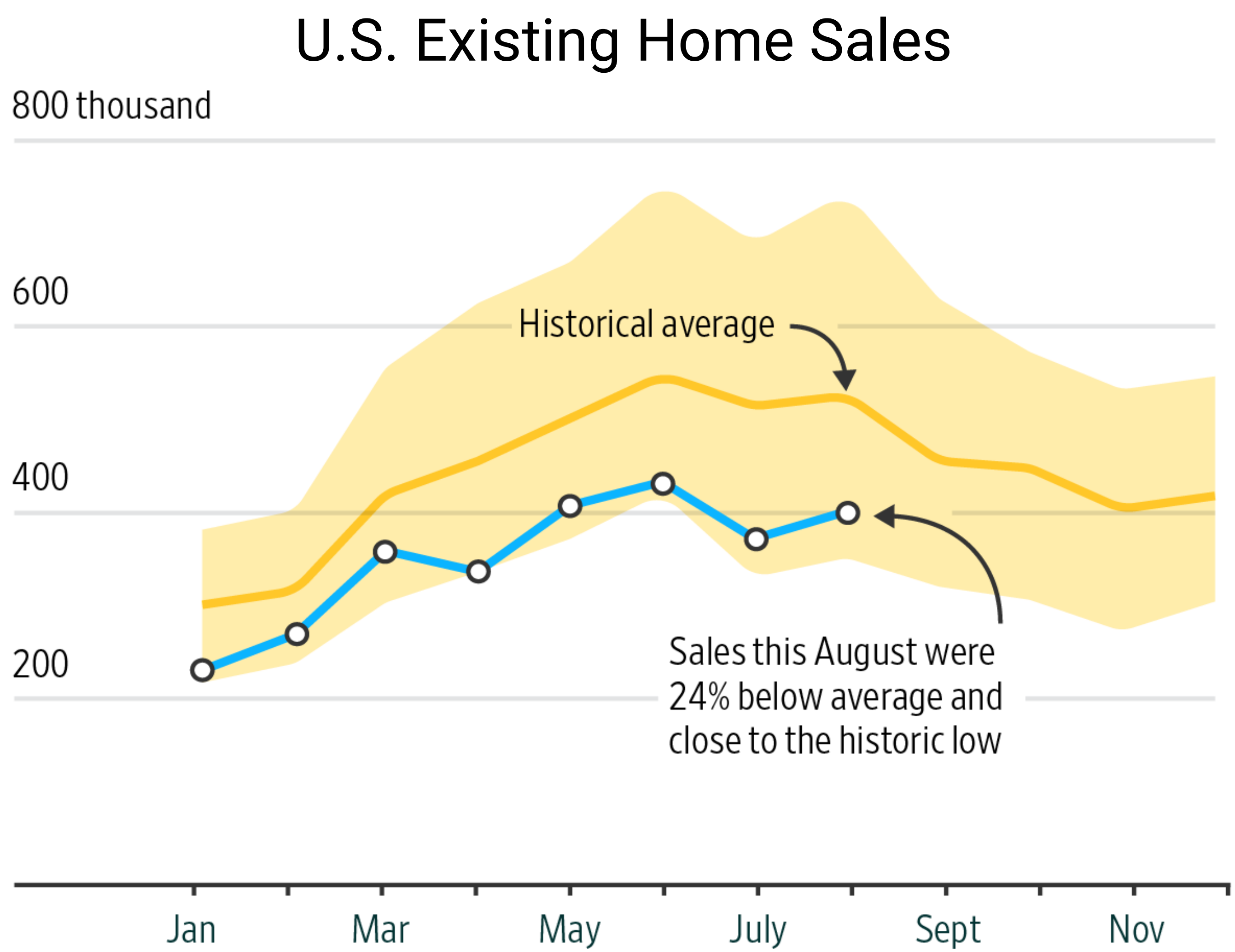
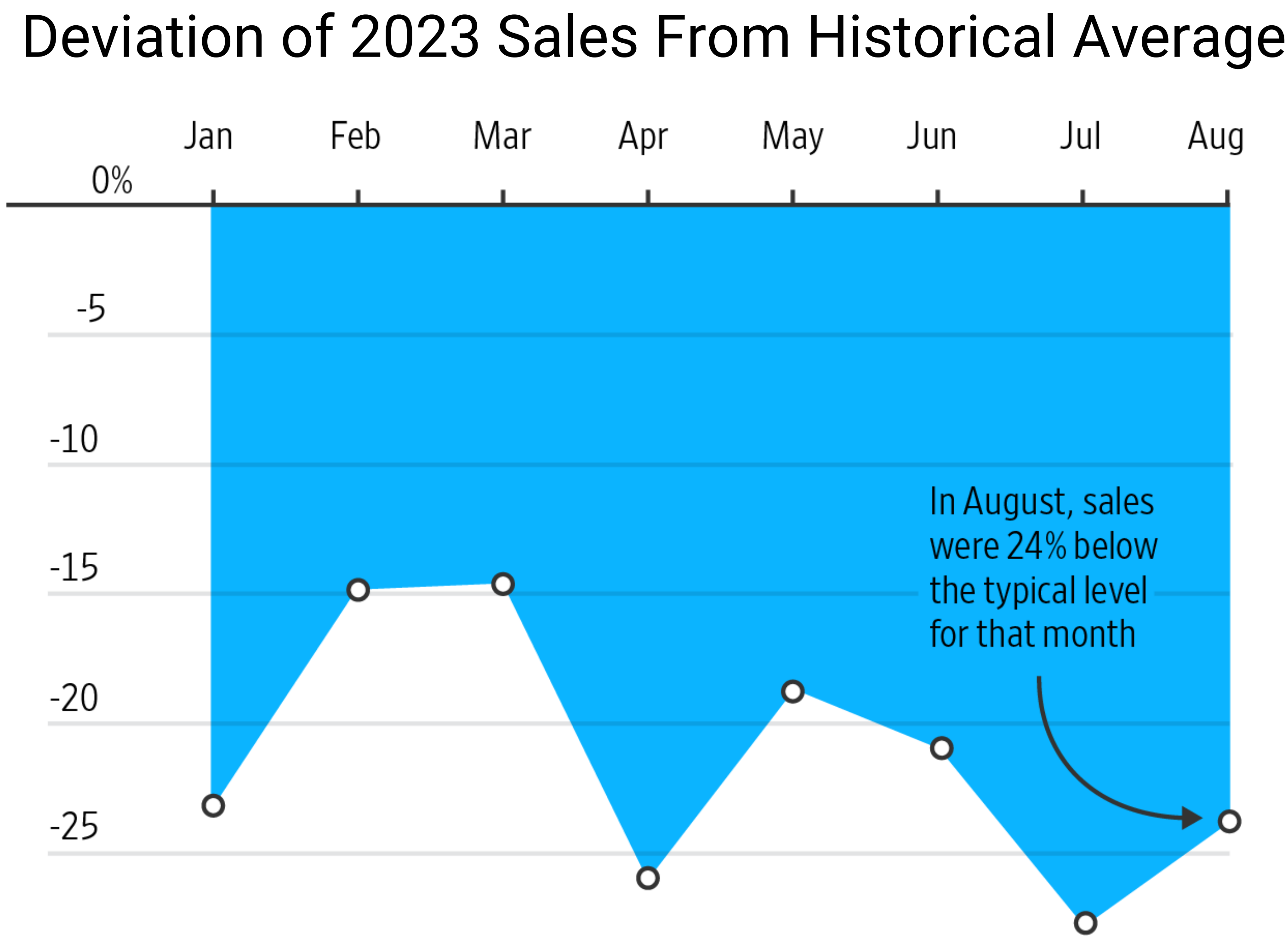
Market Overview

Existing home sales in the U.S. are sluggish so far in 2023, tracking well below historical averages.



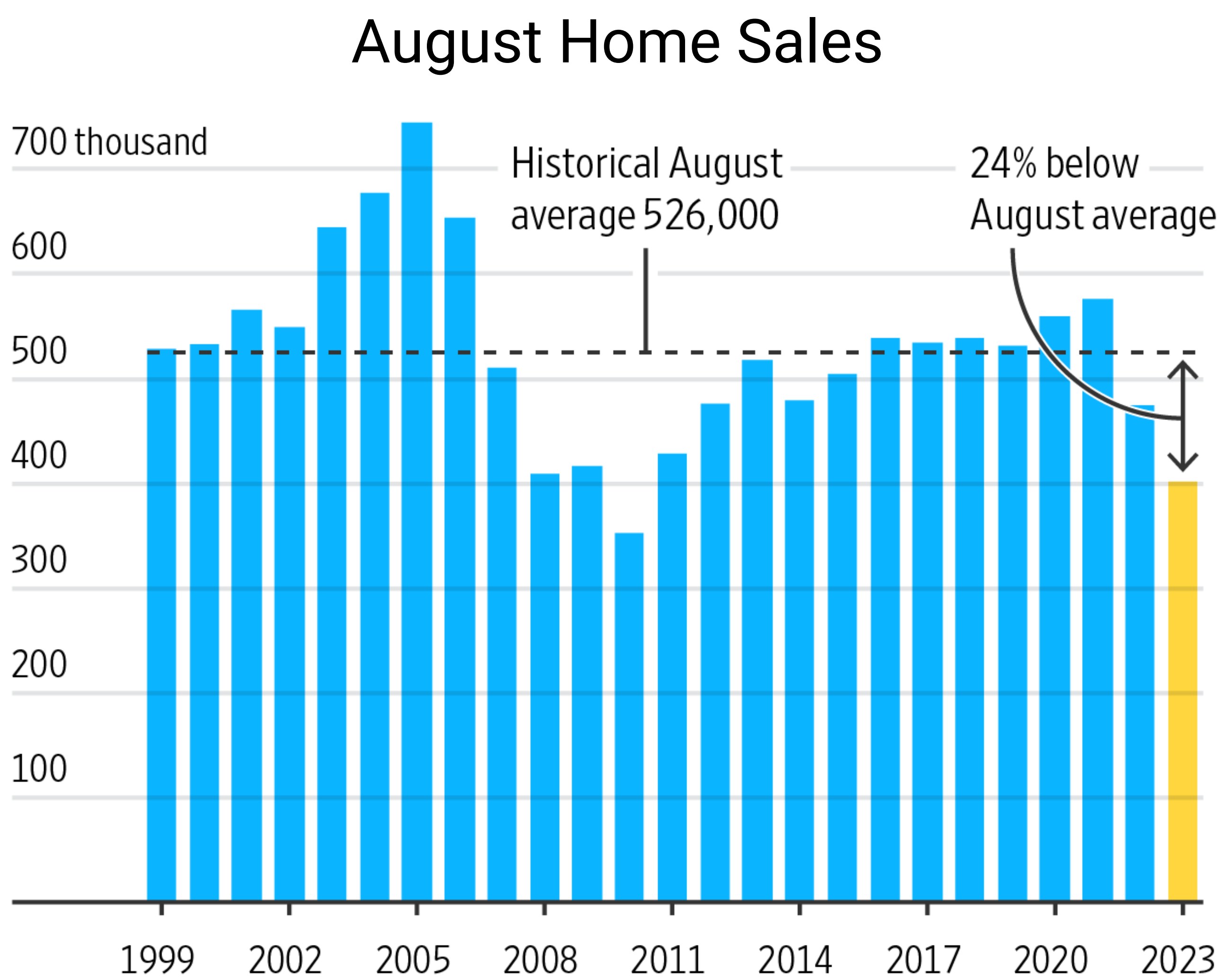
Source: National Association of Realtors. Image credit: Author & Aziz Sunderji @ www.home-economics.us

Throughout 2023, sales have fallen increasingly short of typical volumes.



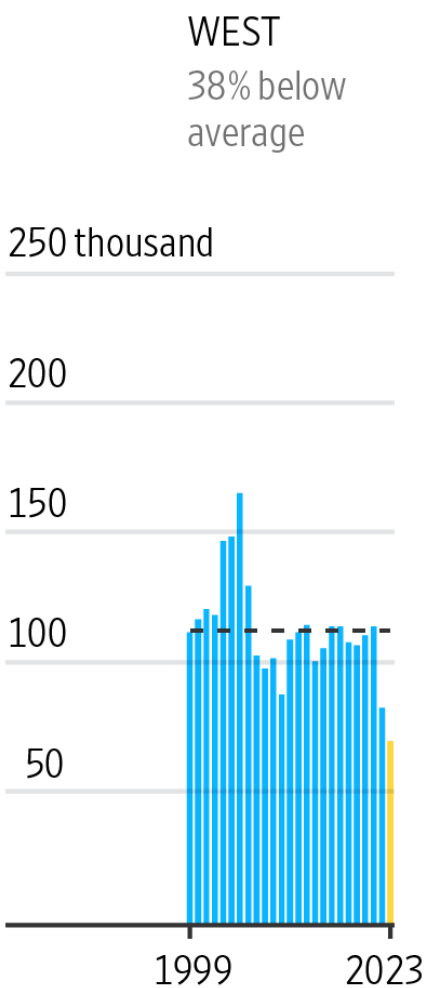
Source: National Association of Realtors. Image credit: Author & Aziz Sunderji @ www.home-economics.us

And same-month sales in August 2023 were the lowest since 2010.



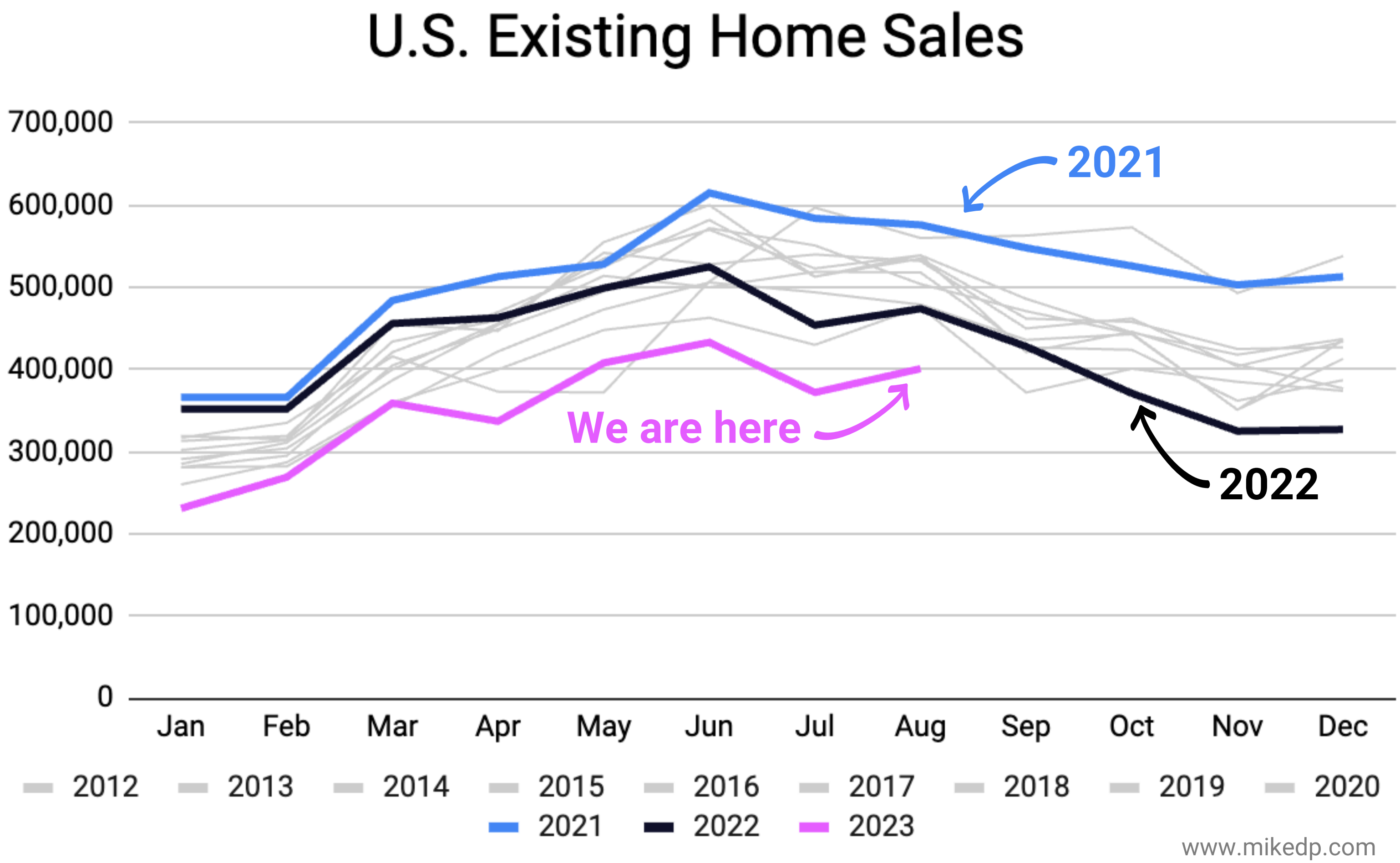
Source: National Association of Realtors. Image credit: Author & Aziz Sunderji @ www.home-economics.us

Nationally, compared to prior Augusts, sales fell in every region – especially the West and Northeast.



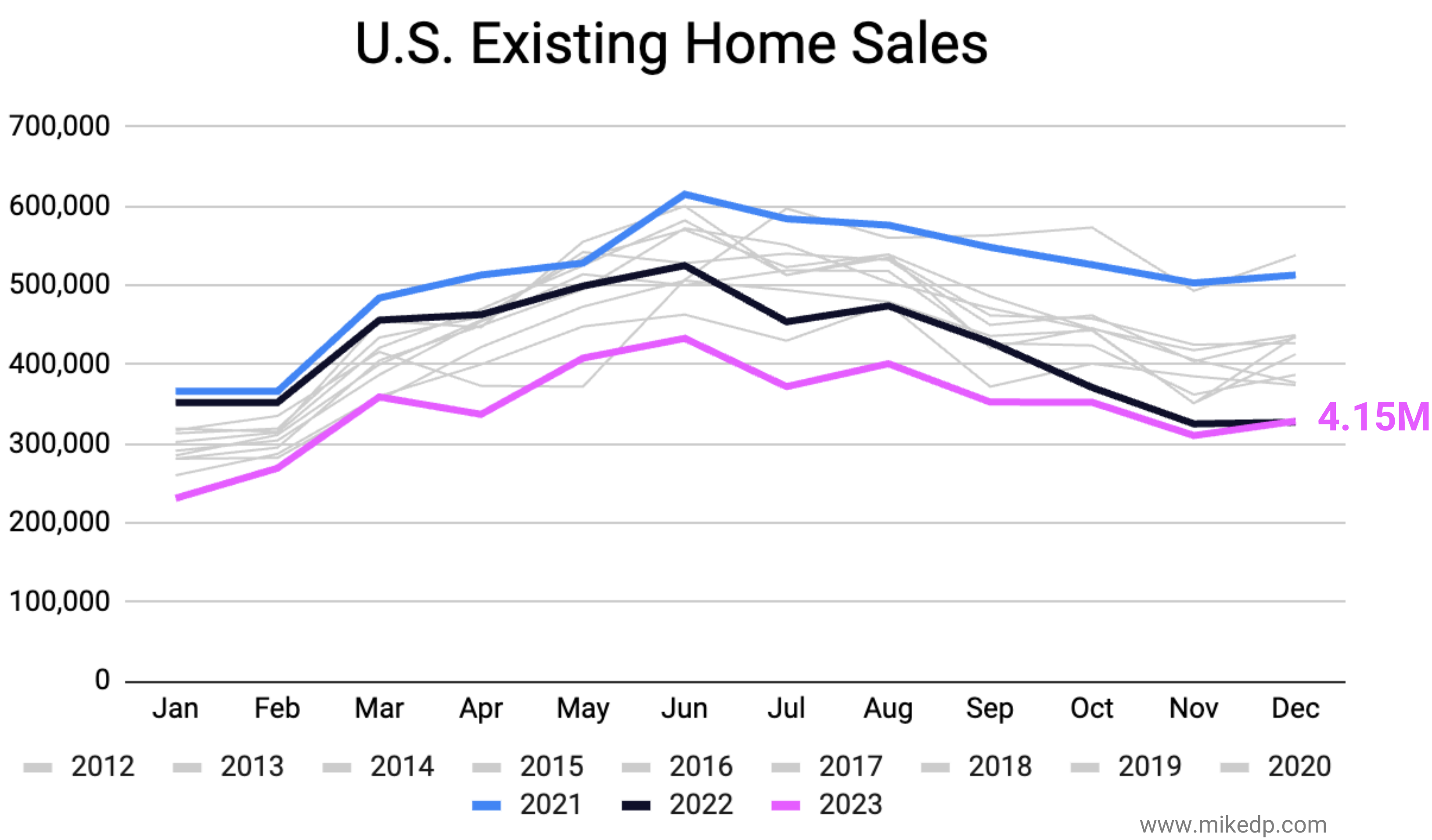
Source: National Association of Realtors. Image credit: Author & Aziz Sunderji @ www.home-economics.us

2023 is tracking well behind the boom years of 2021 and the first half of 2022.



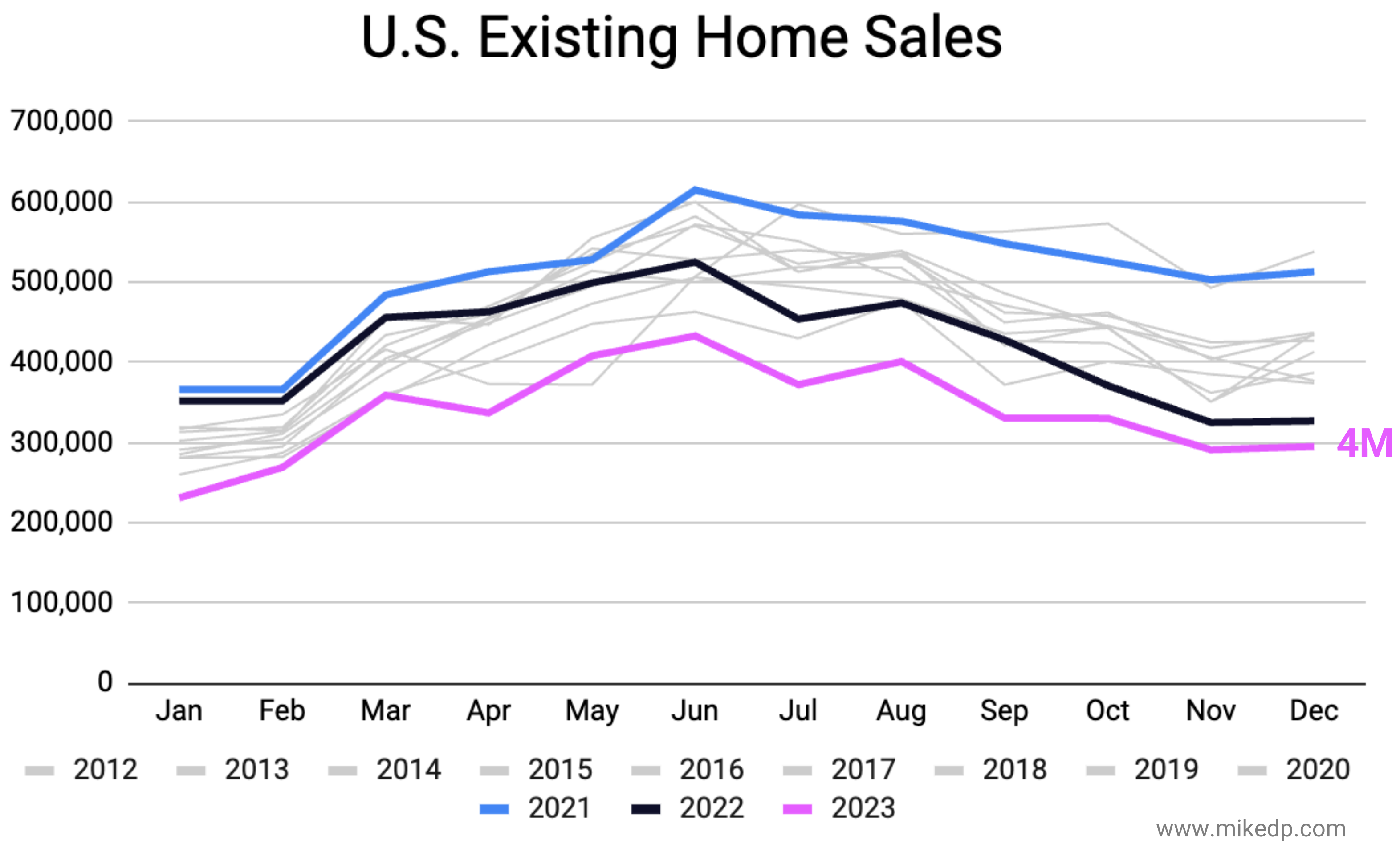
Source: National Association of Realtors.

If the current trend continues, the U.S. market is on track for 4.15 million transactions for the year.



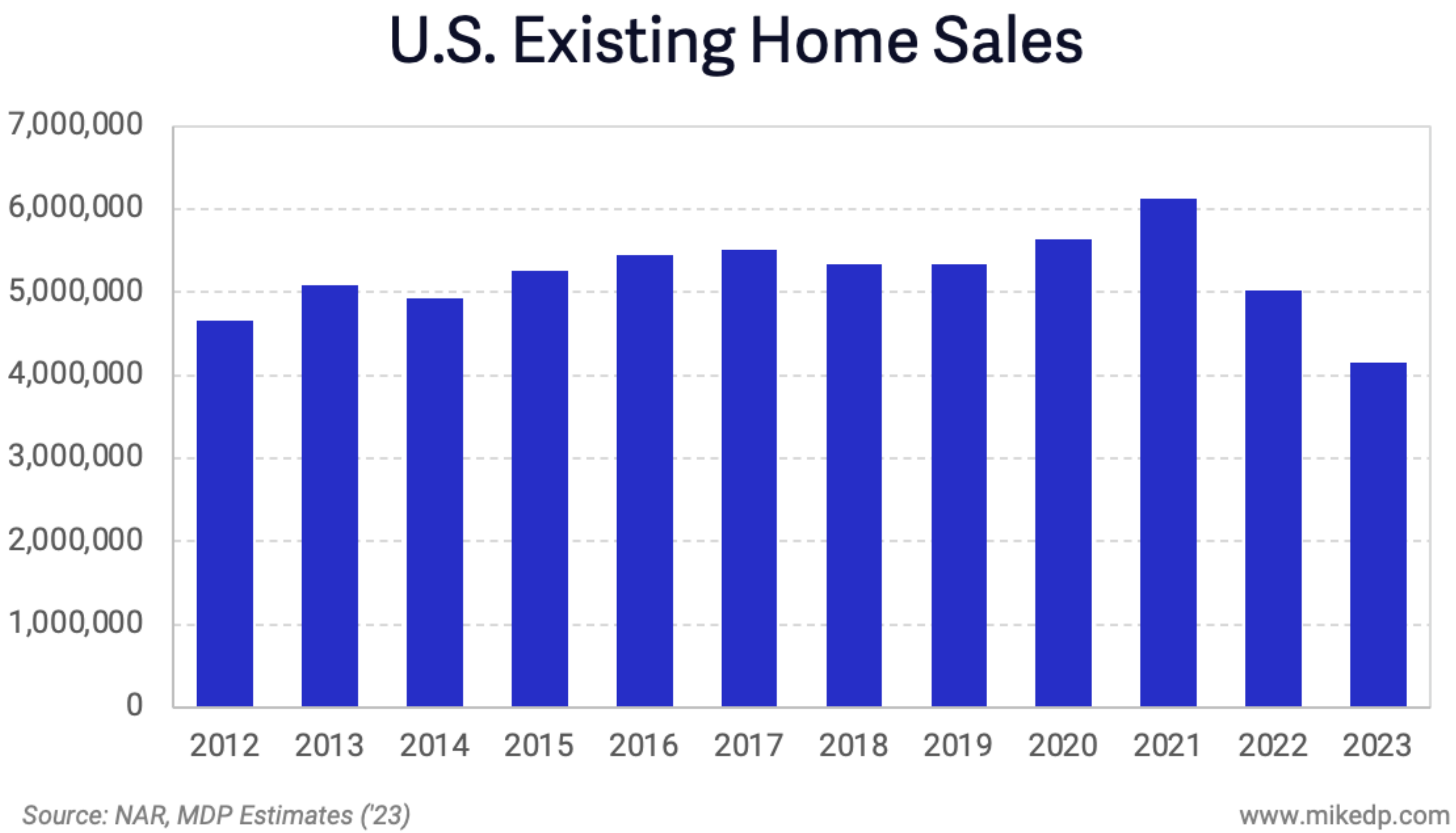
Source: National Association of Realtors.

But the market could continue to soften.



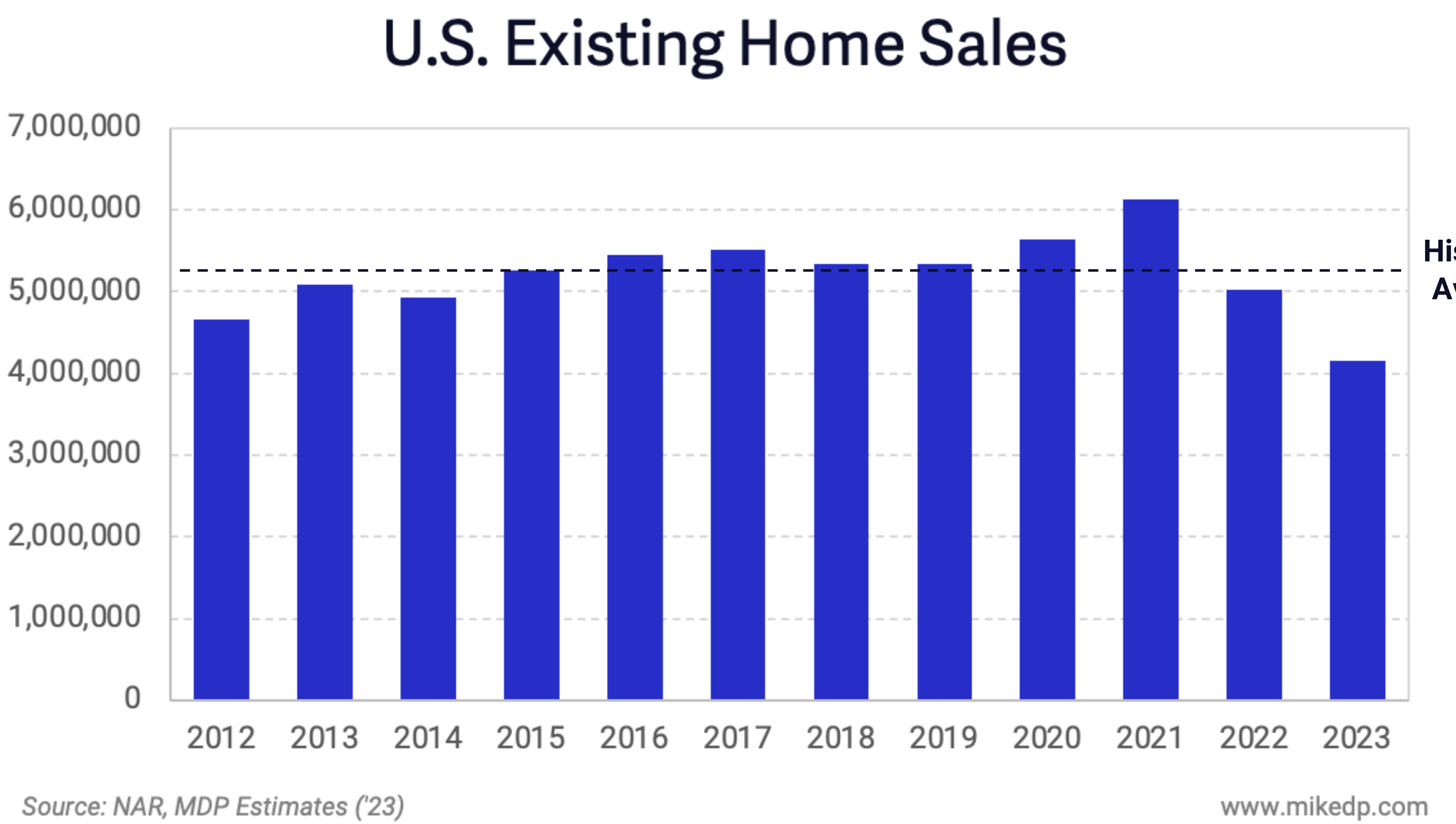
Source: National Association of Realtors.

4.15 million transactions would be down from over 6 million in 2021 and 5 million in 2022.



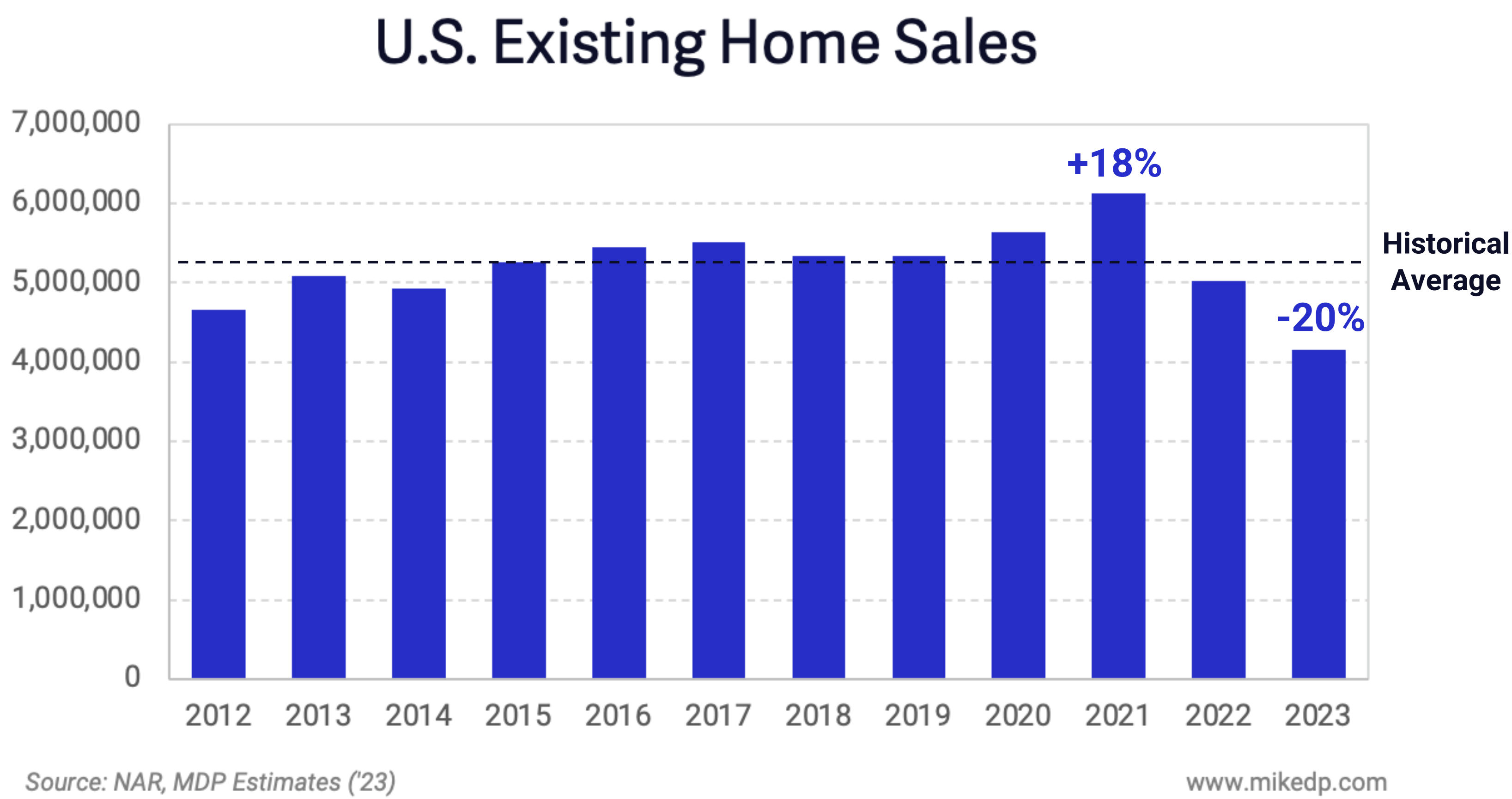
Note: Historical average excludes outlier years 2020–2022.

And down about 1 million transactions from the historical average.



Note: Historical average excludes outlier years 2020–2022.

2021 and 2023 are the big outliers, up 18% and down 20% (so far) from the historical average.



Note: Historical average excludes outlier years 2020–2022.

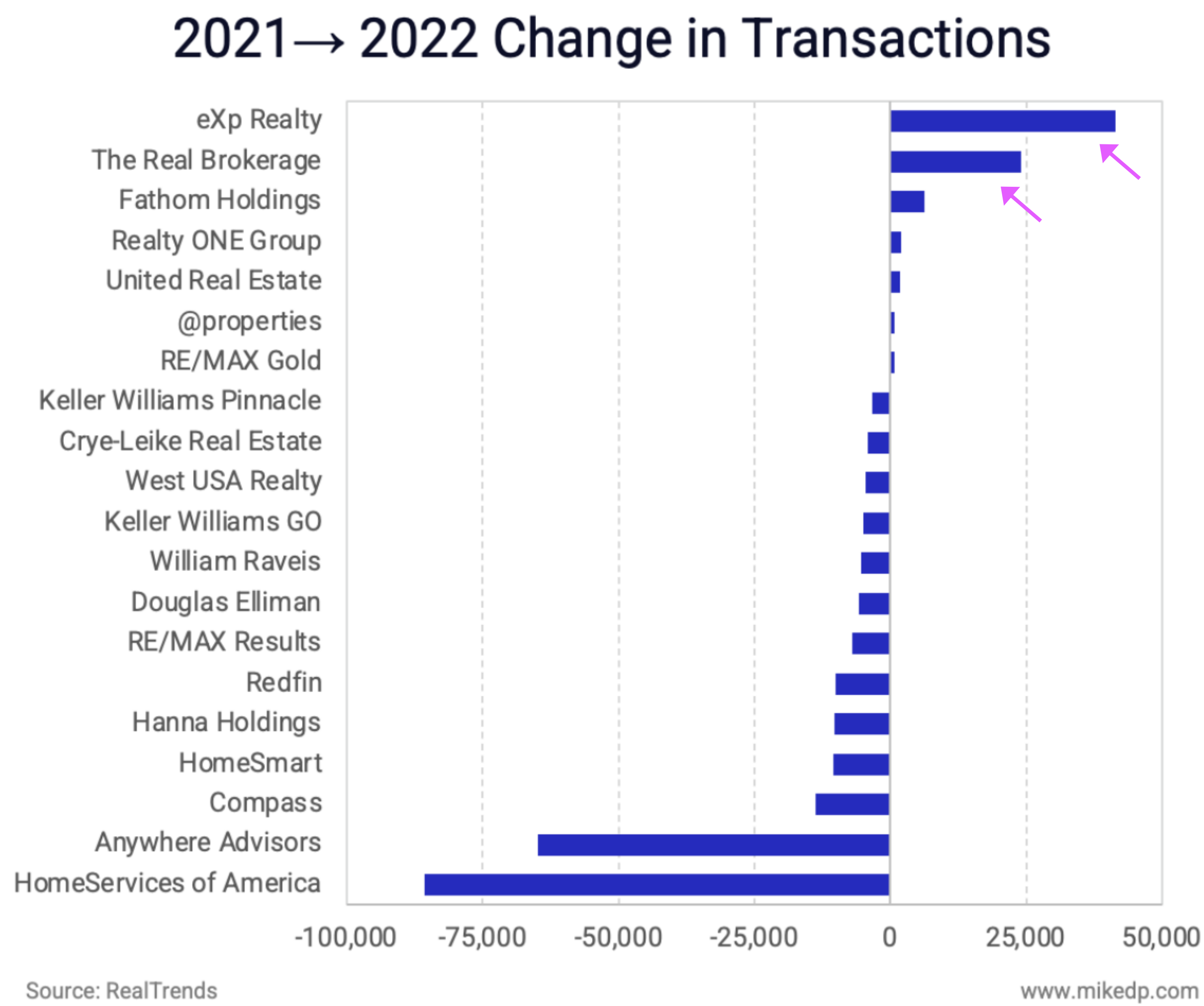
But even with 4.15 million transactions in 2023, the estimated commission pool remains large.

Source: Author’s estimates.

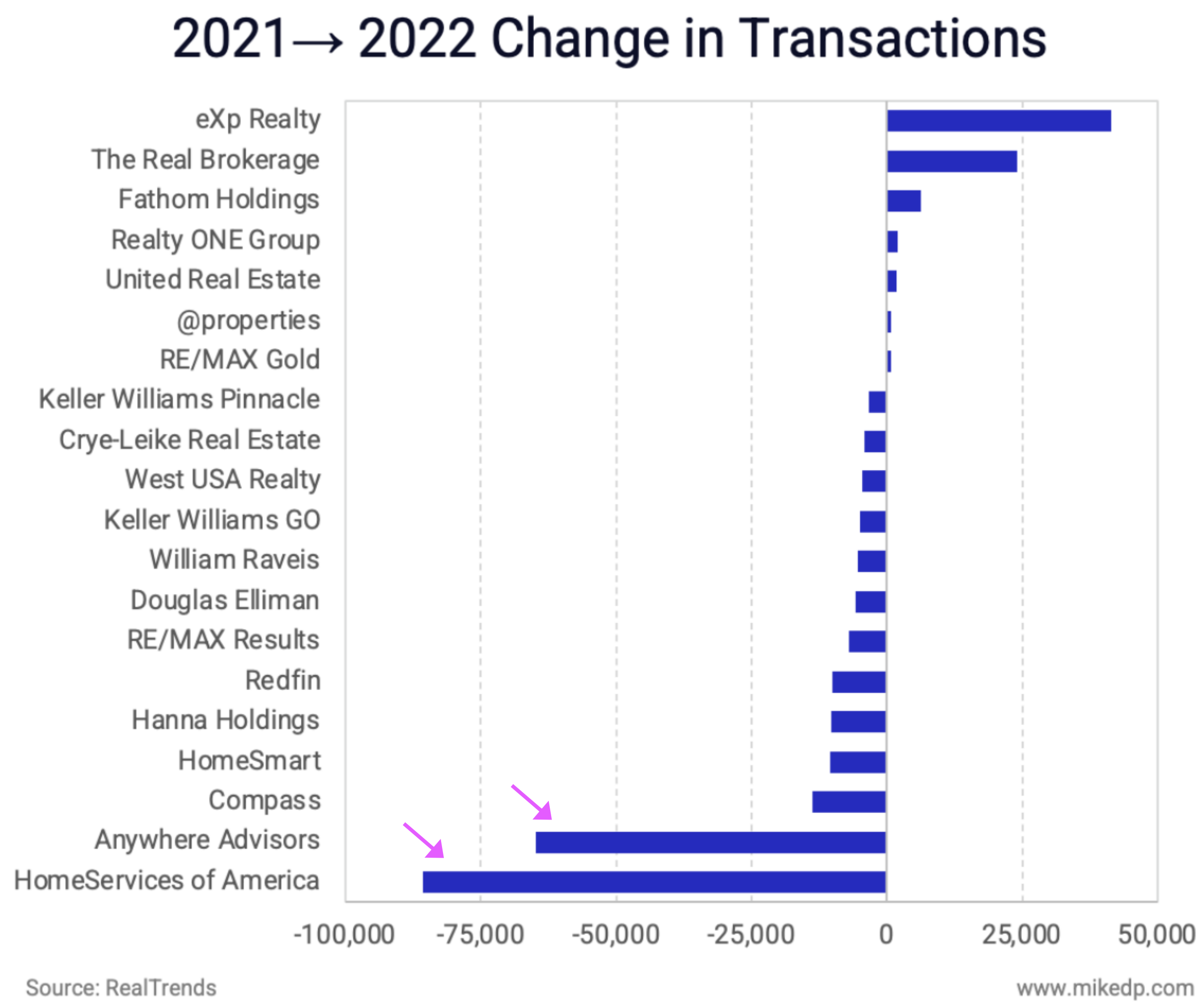
Brokerage Growth

In 2022, the top 20 brokerages by transaction volume were led by disruptors and incumbents alike.

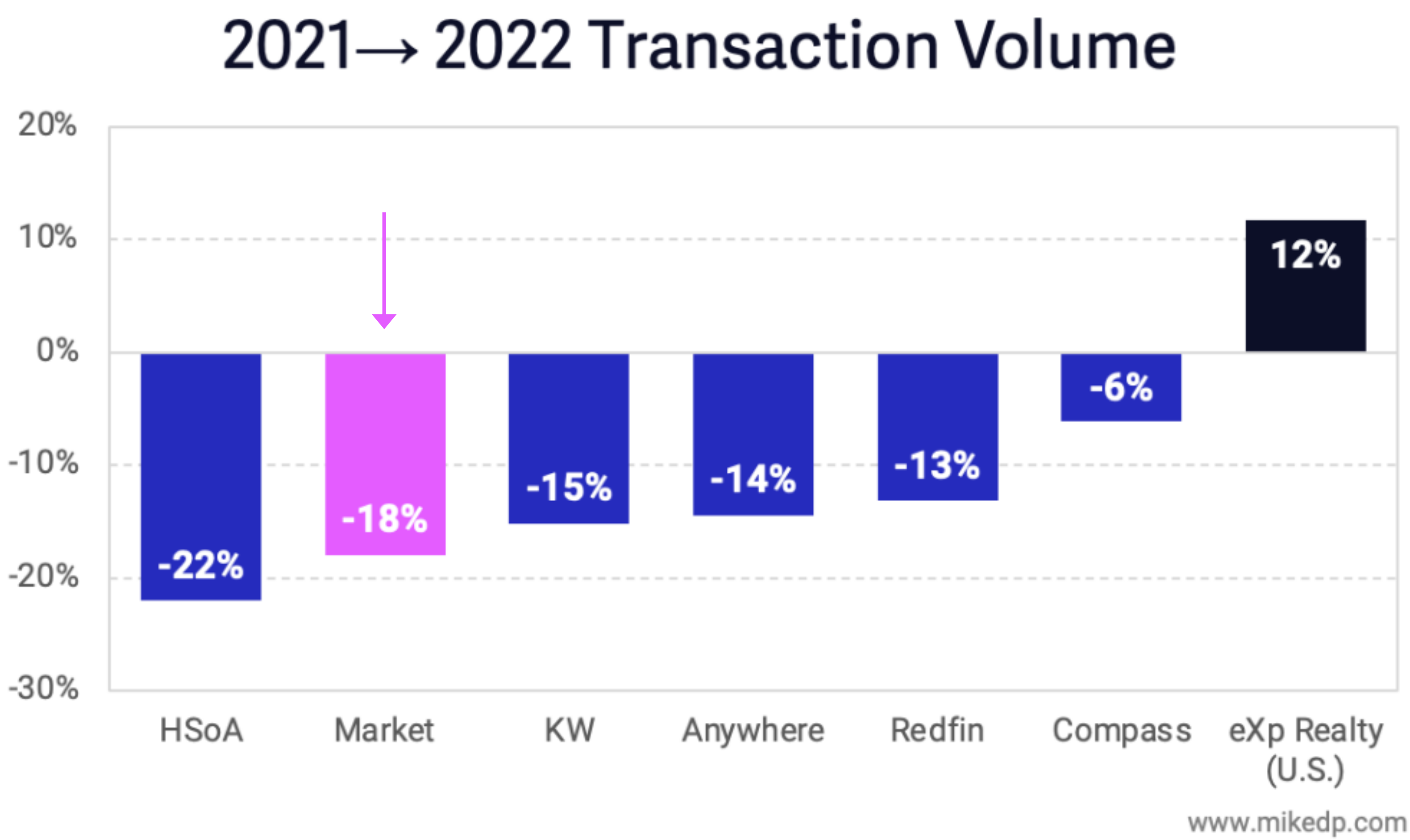
The biggest winners were eXp Realty and Real Brokerage, which added 65,000 transactions.



While industry incumbents Anywhere and HSoA lost a combined 150,000 transactions.

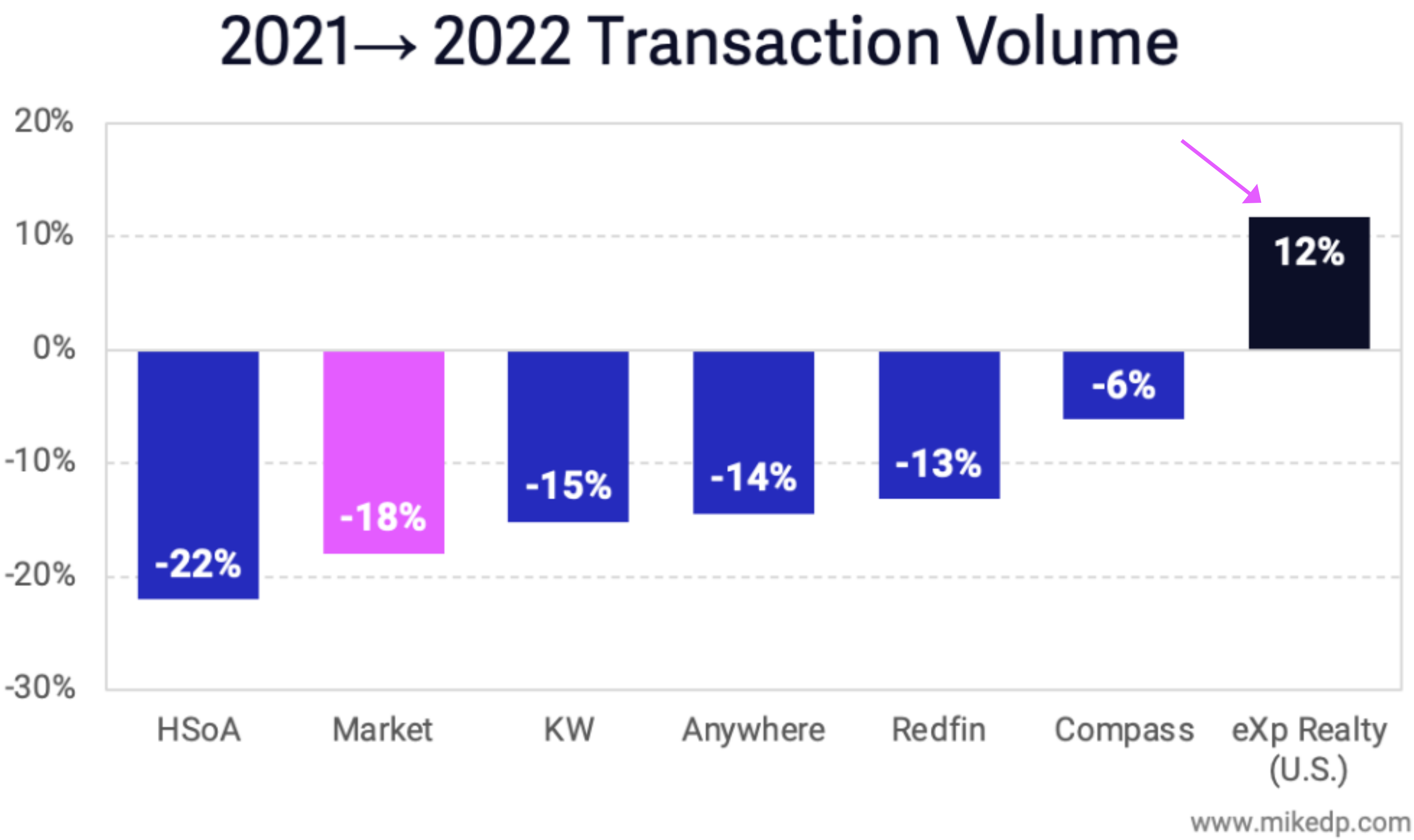


The 2022 market declined 18% – most brokers saw a corresponding drop in transaction volume.



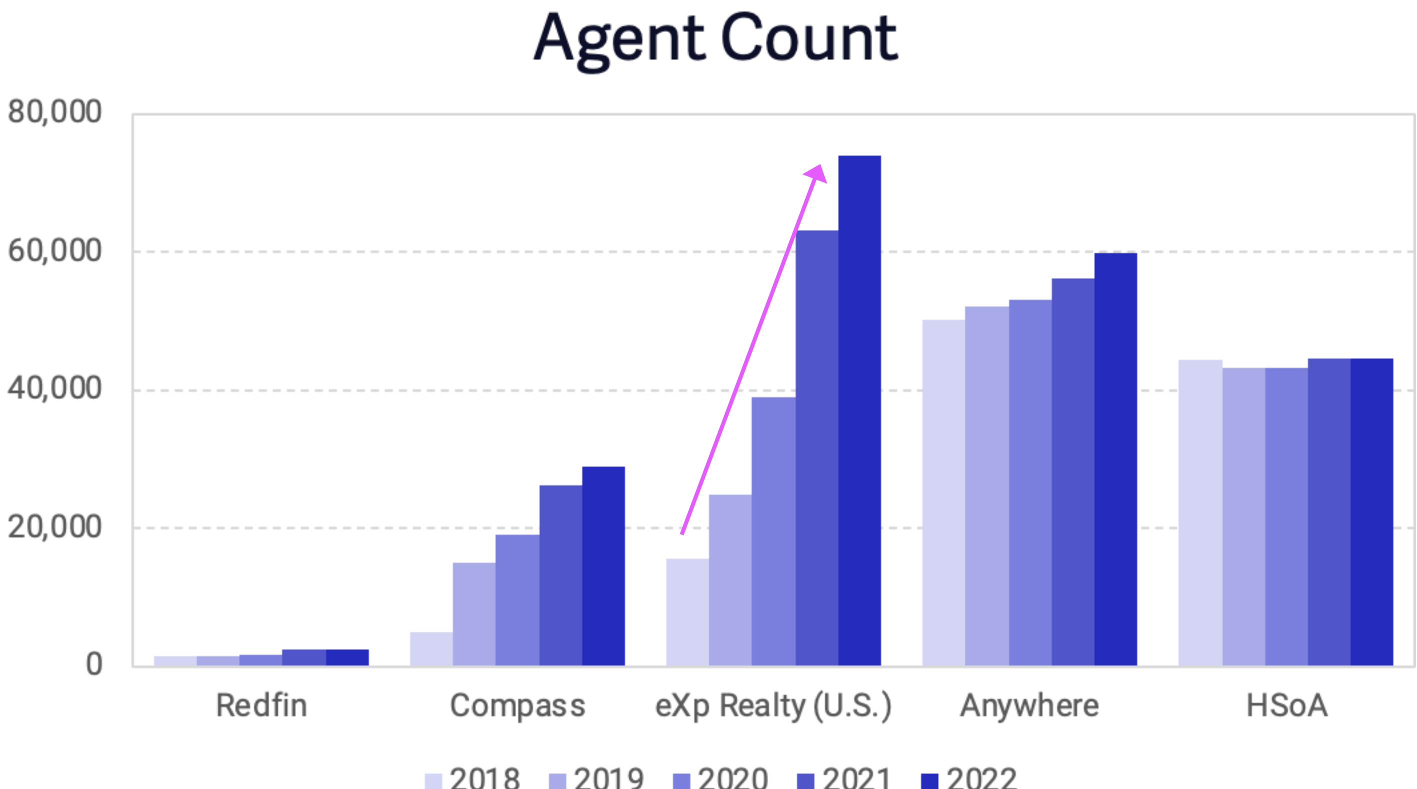
Source: RealTrends, NAR, and author's calculations.

The exception is eXp Realty, which managed to grow transaction volumes in a slowing market.



Source: RealTrends, NAR, and author's calculations.

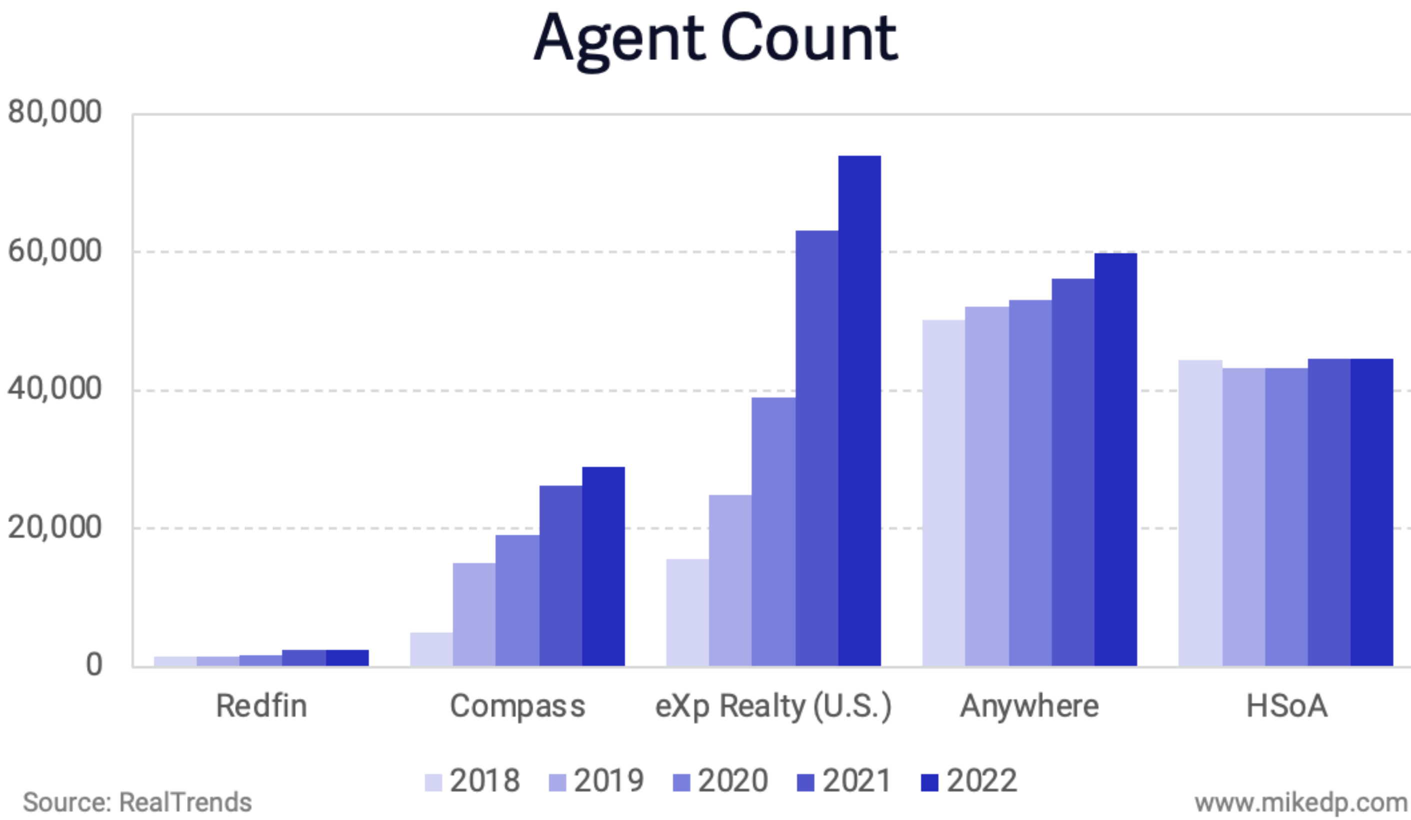
Why? eXp's growing agent count. Agents sell houses.



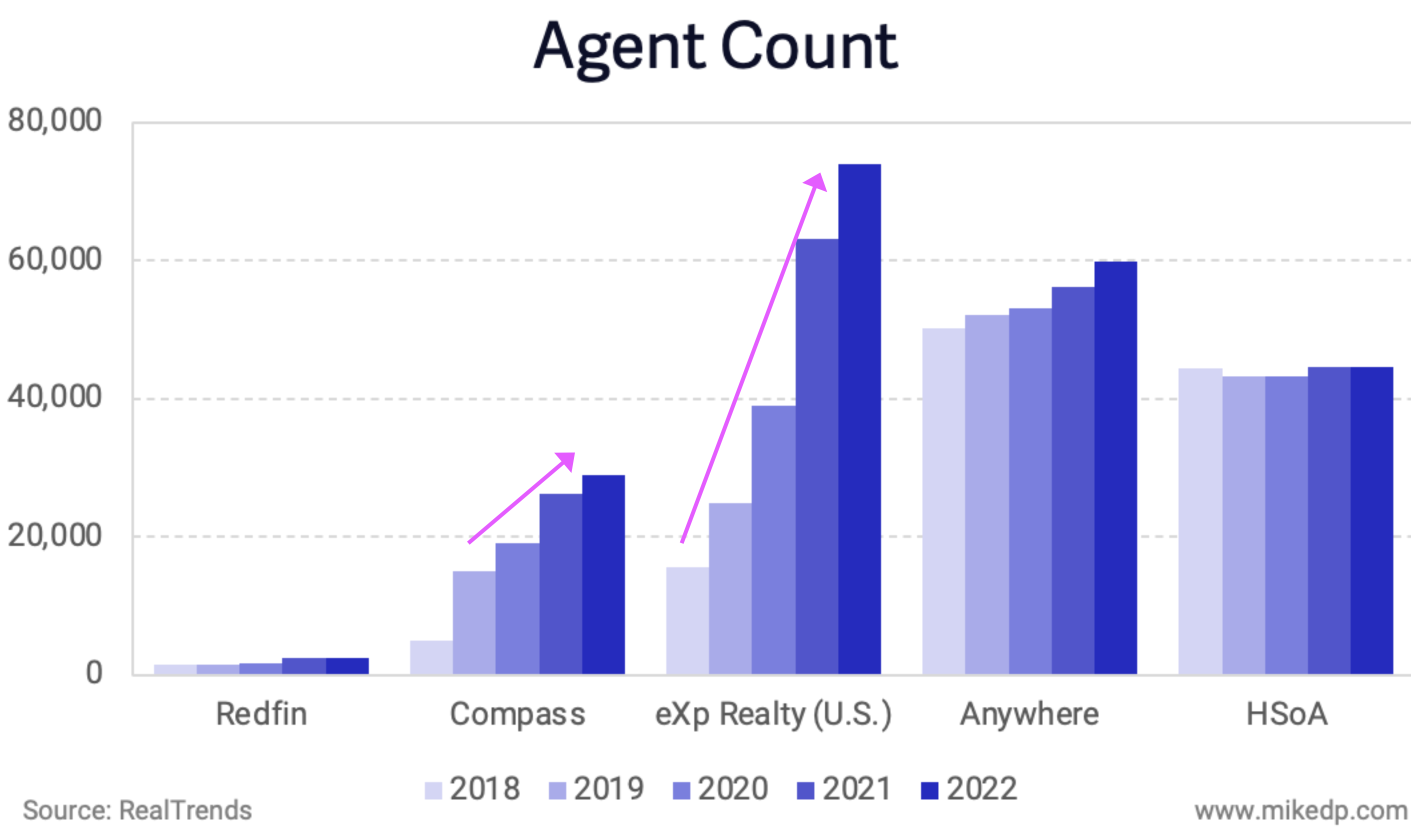
Source: RealTrends

www.mikedp.com

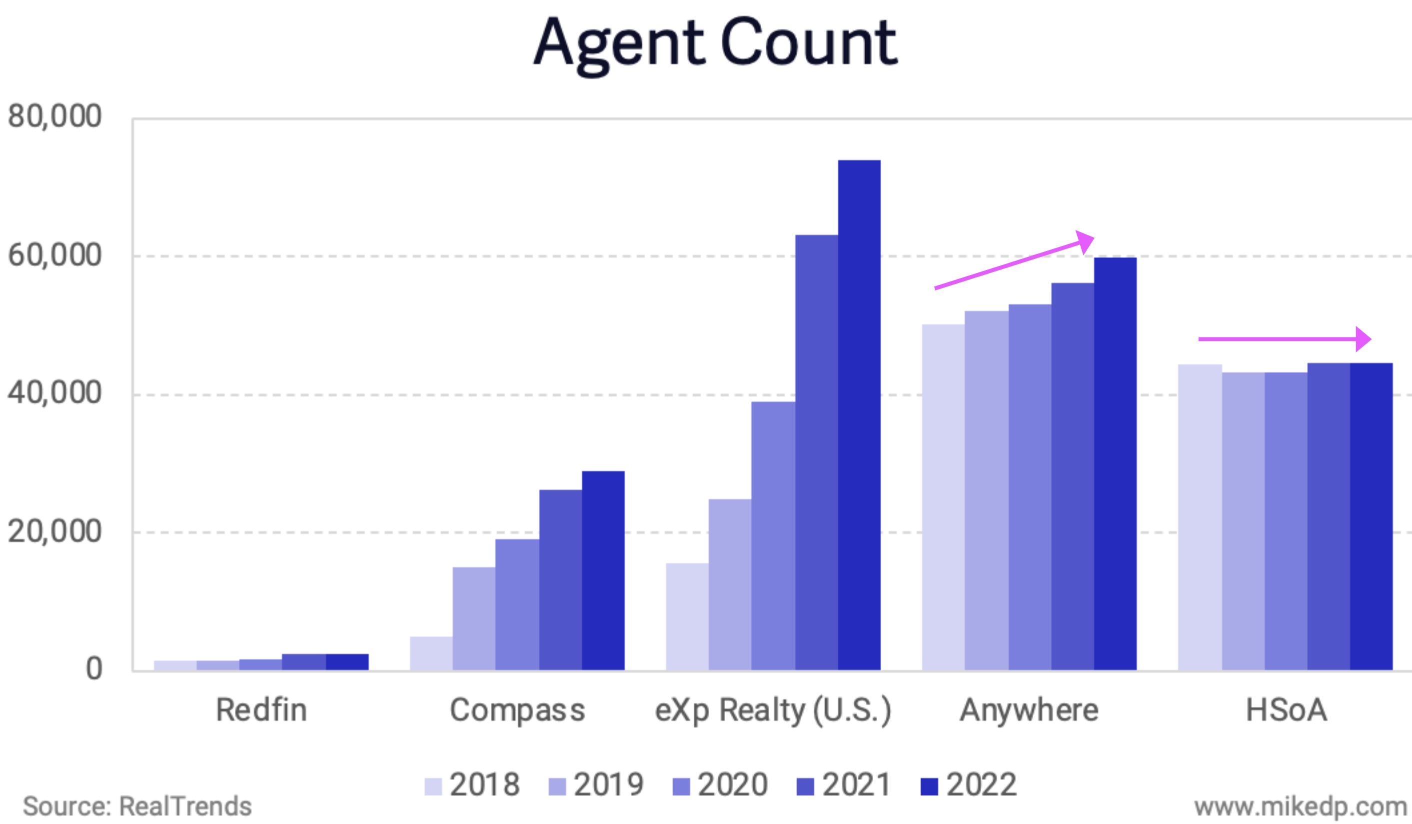
Agent count continues to drive transaction volumes across all types of brokerages.



Compass and eXp Realty are the clear historical standouts, both powerful recruiting machines.

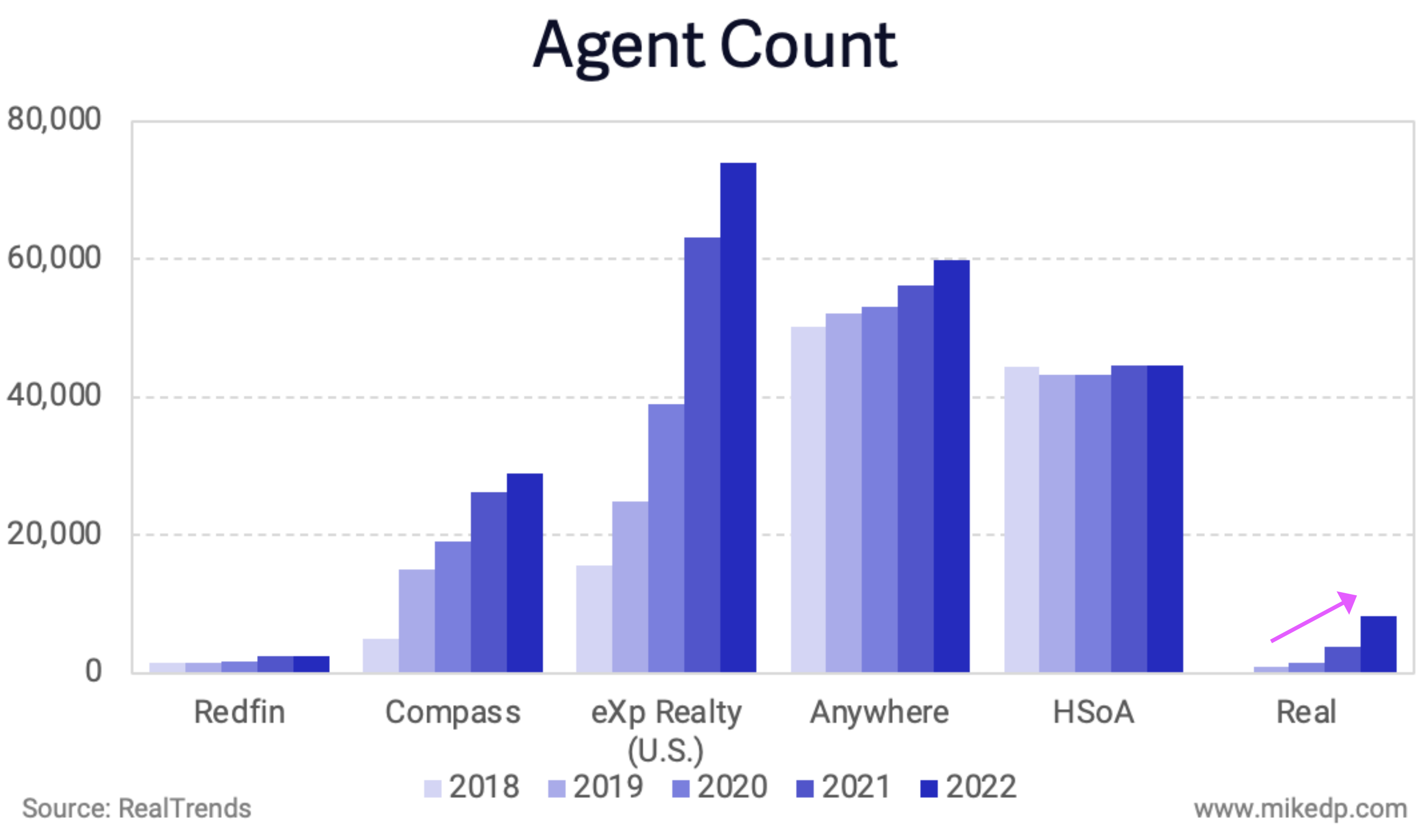


Among the big incumbents, Anywhere has slowly grown its agent count while HSoA has remained flat.



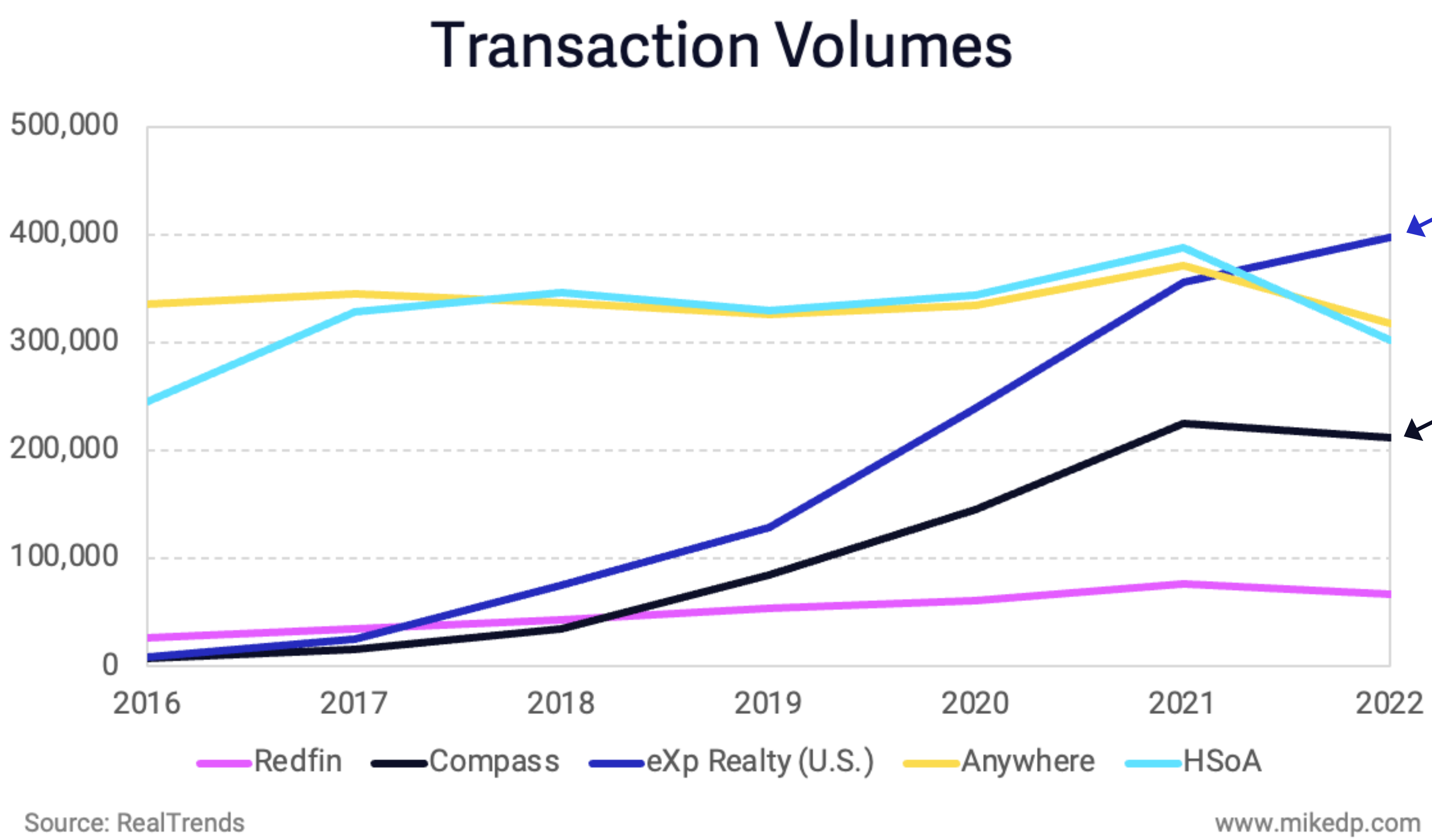
Note: HSoA is HomeServices of America.

Adding Real to the mix shows an exponential growth curve – starting small but growing in significance.

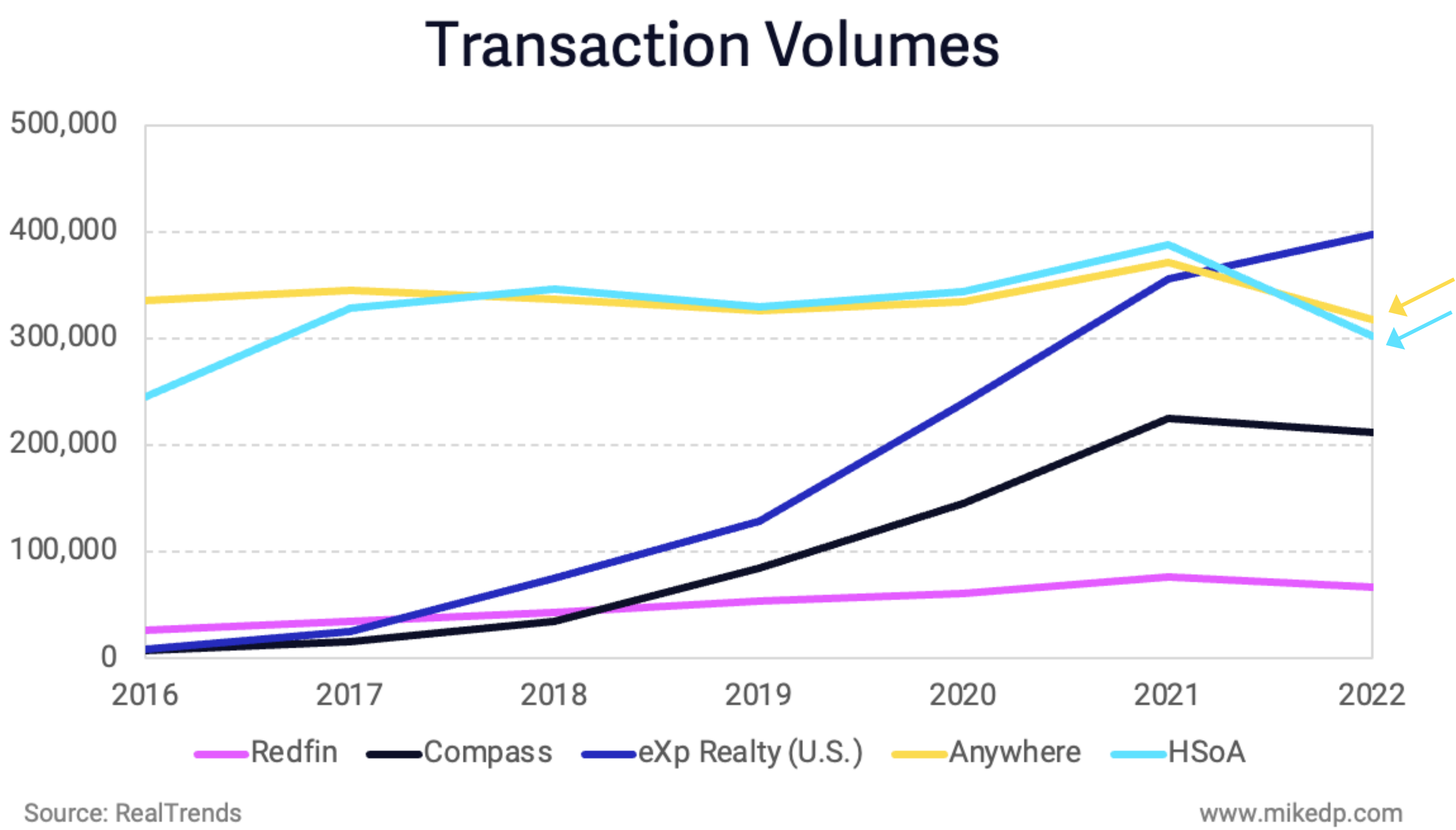


Note: Real is The Real Brokerage, REAX (NASDAQ).

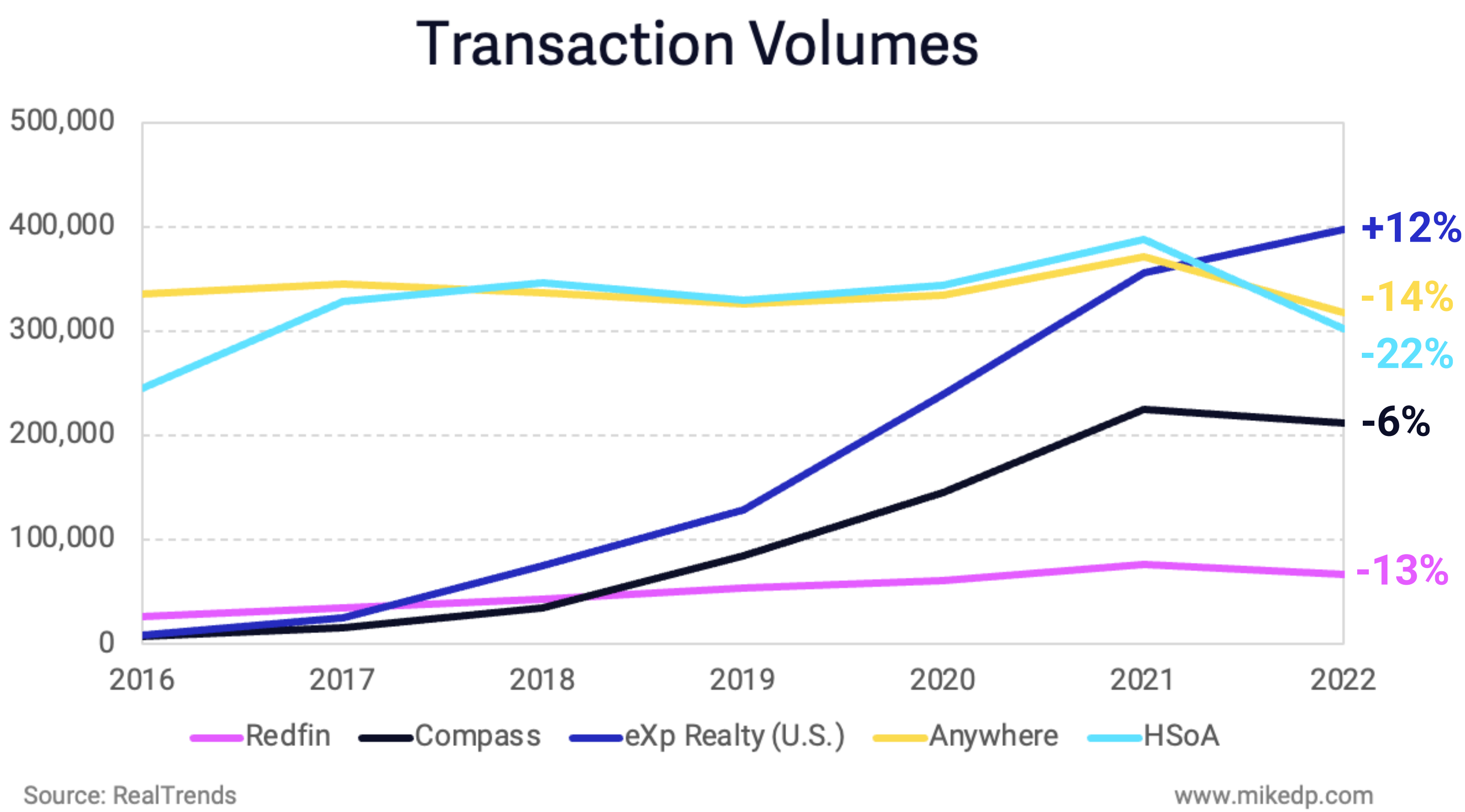
eXp Realty and Compass have seen exponential growth in transaction volumes over the past six years.



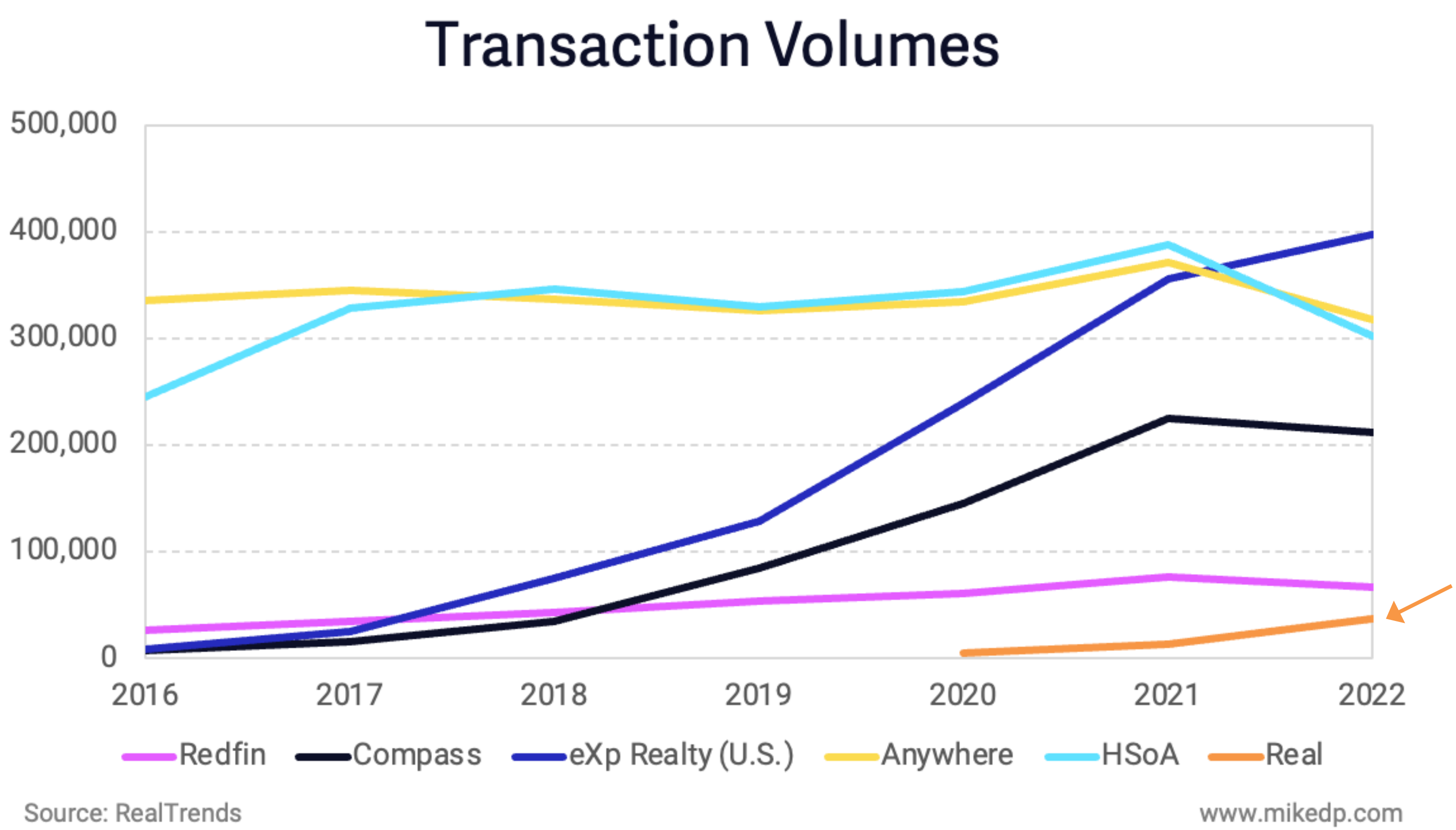
While the large incumbents have remained flat and declined significantly in 2022's down market.



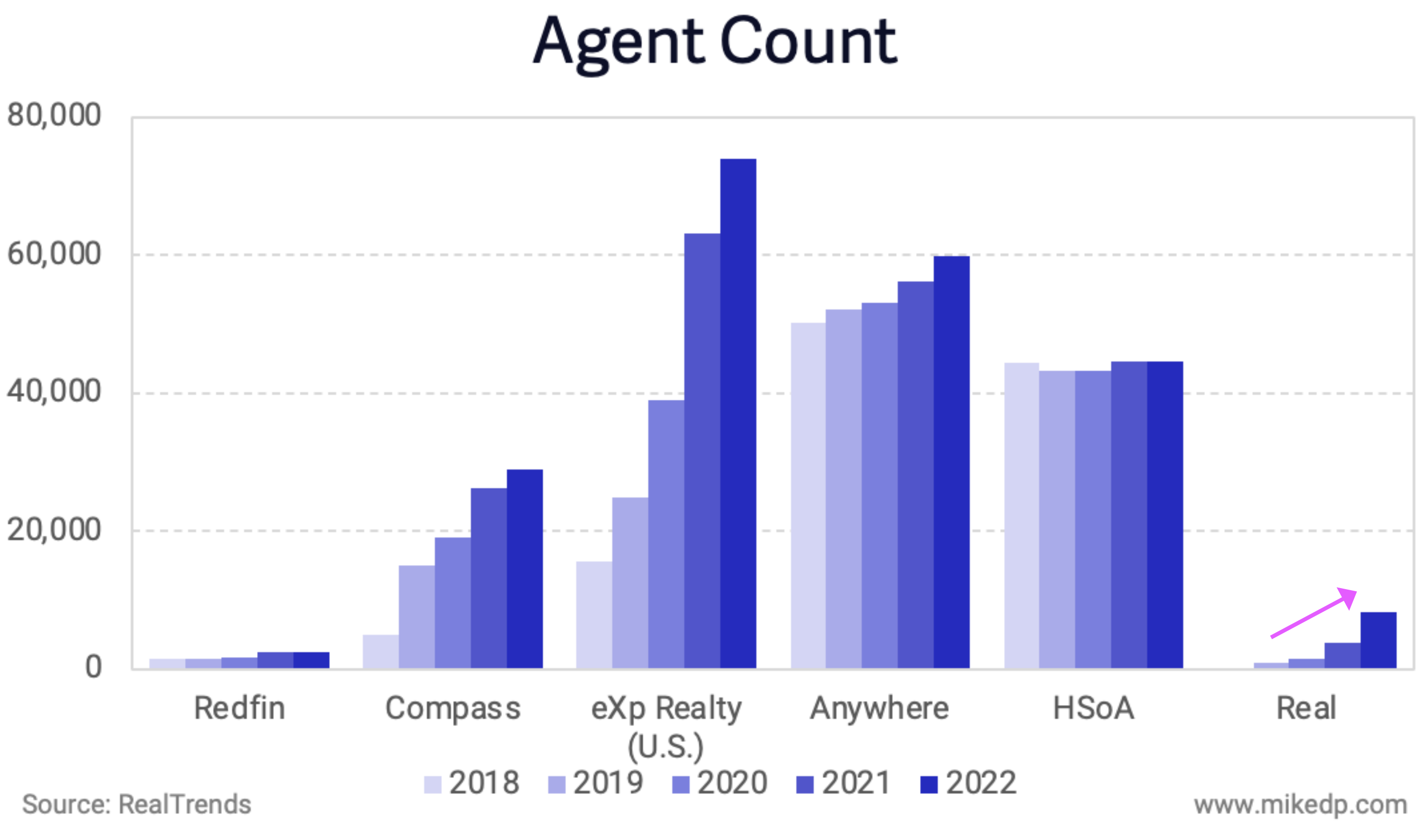
In a declining market (2022), eXp stands above the rest, while the incumbents were the bigger losers.



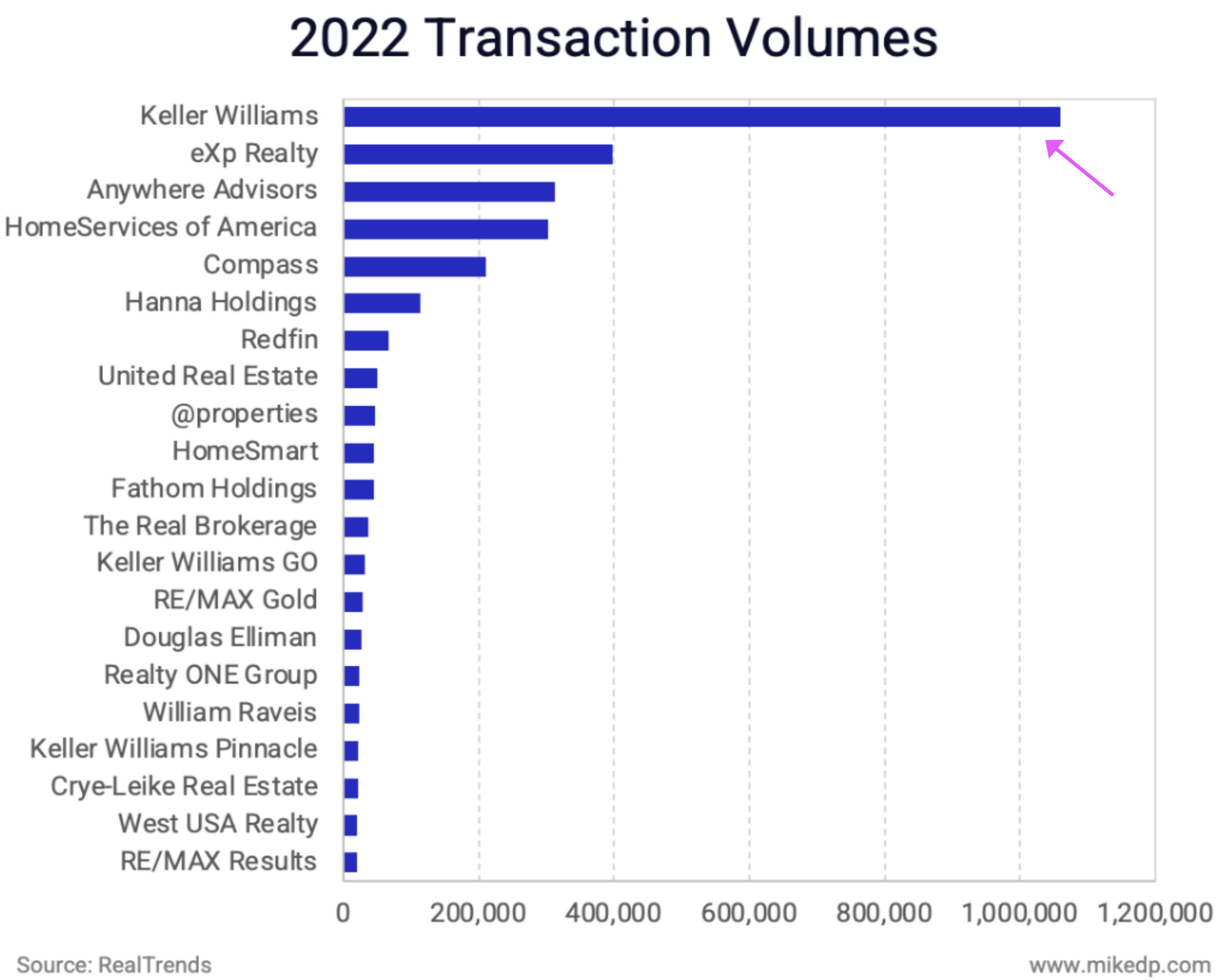
Real’s emerging growth is difficult to ignore, growing transactions over 180% in a down market.



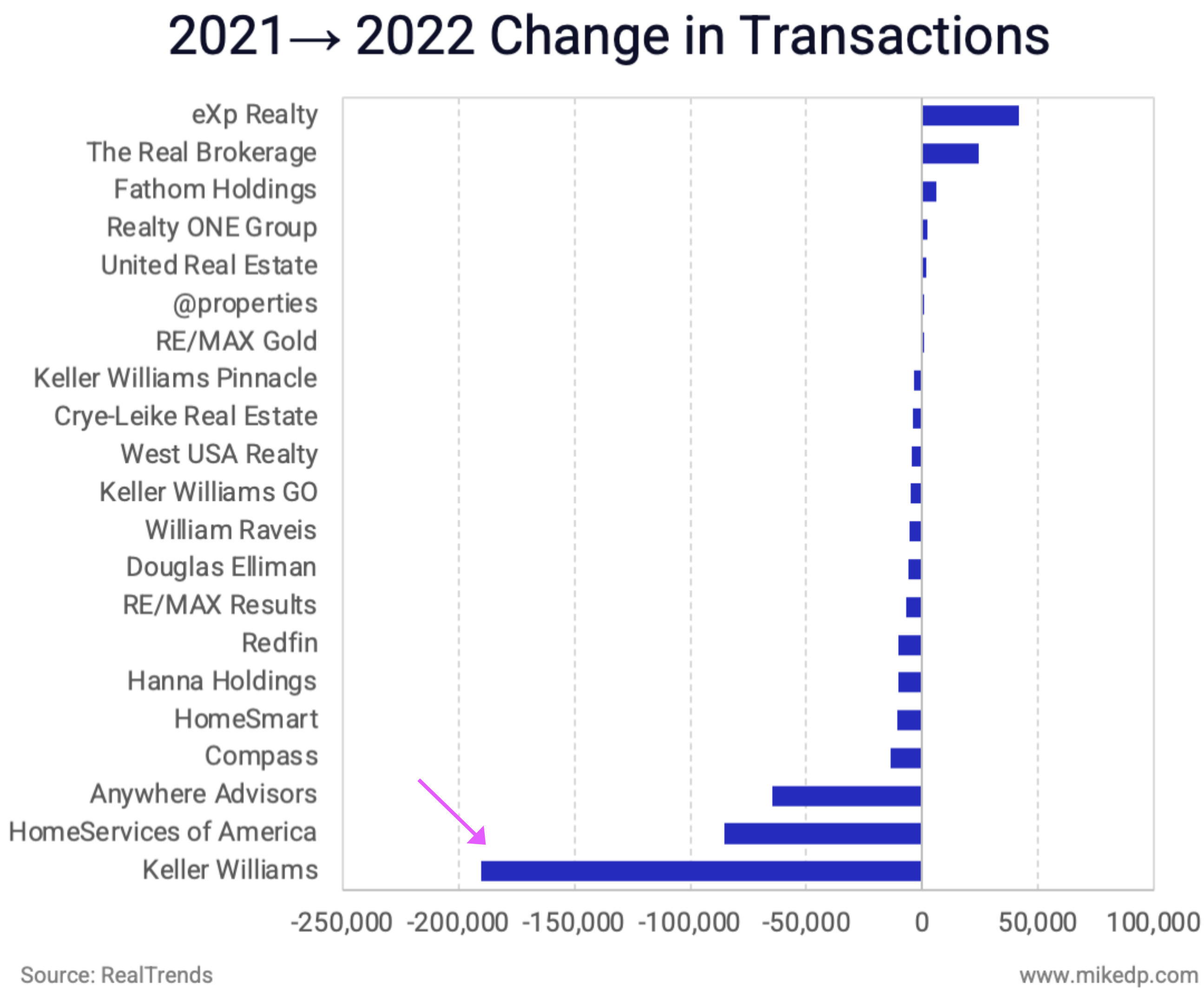
Like eXp, Real's growth can be attributed to strong and accelerating agent recruitment.



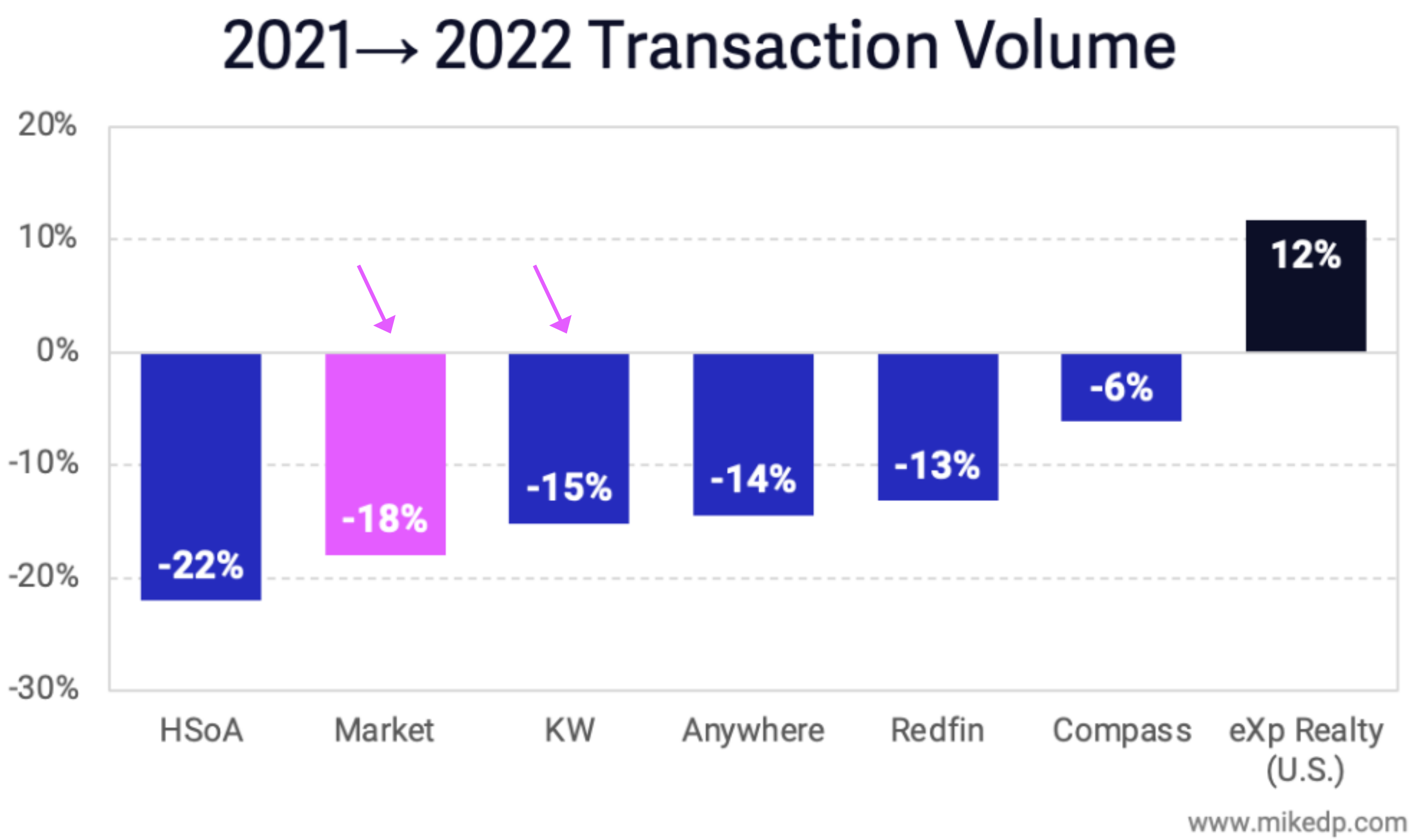
For perspective, Keller Williams and its hundreds of U.S. franchisees tops the list of transaction volume.



Keller Williams lost 190,000 transactions in 2022 – more than Anywhere, HSoA, and Compass combined.

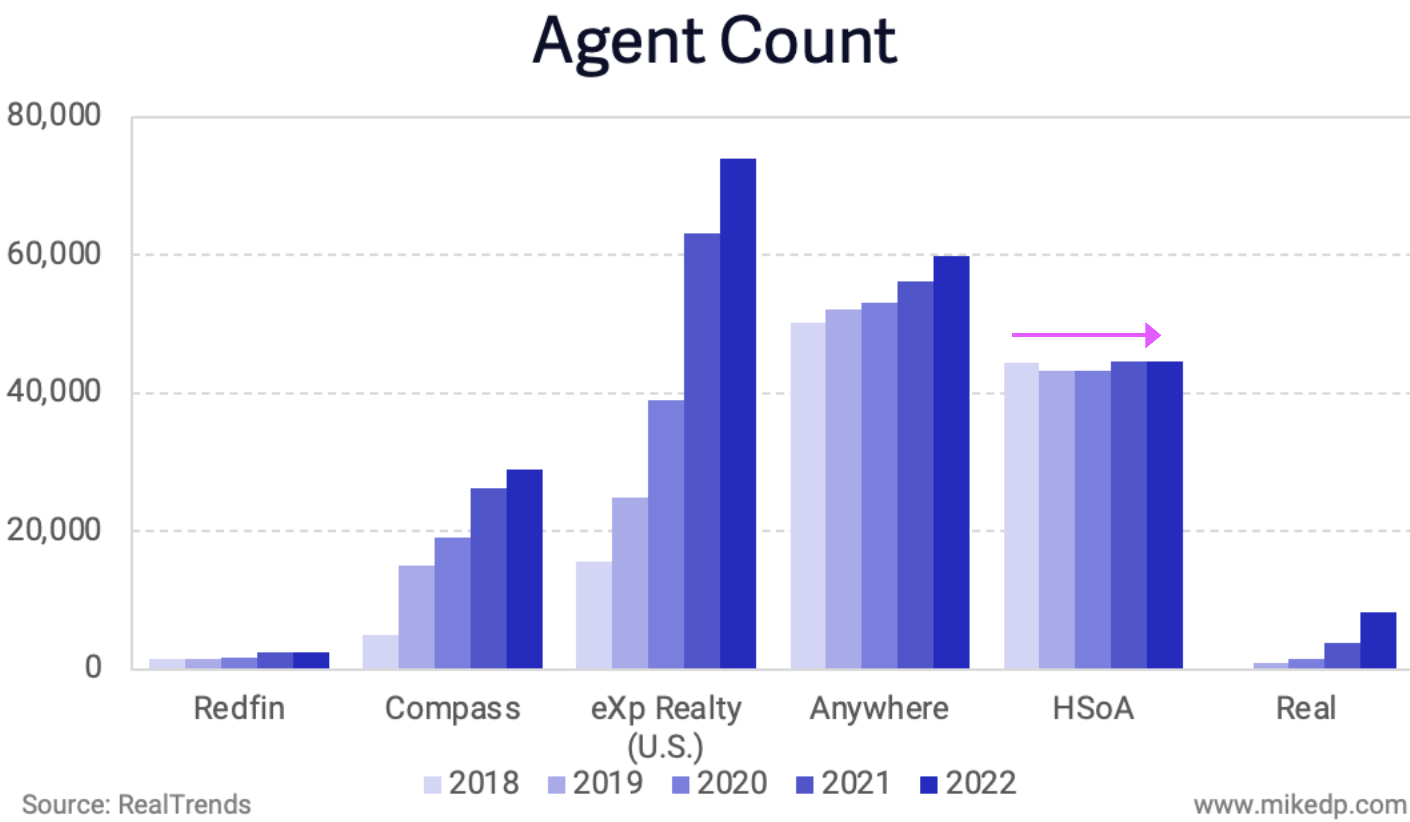


But even such a large decline (15%) outperformed the market on a relative basis.

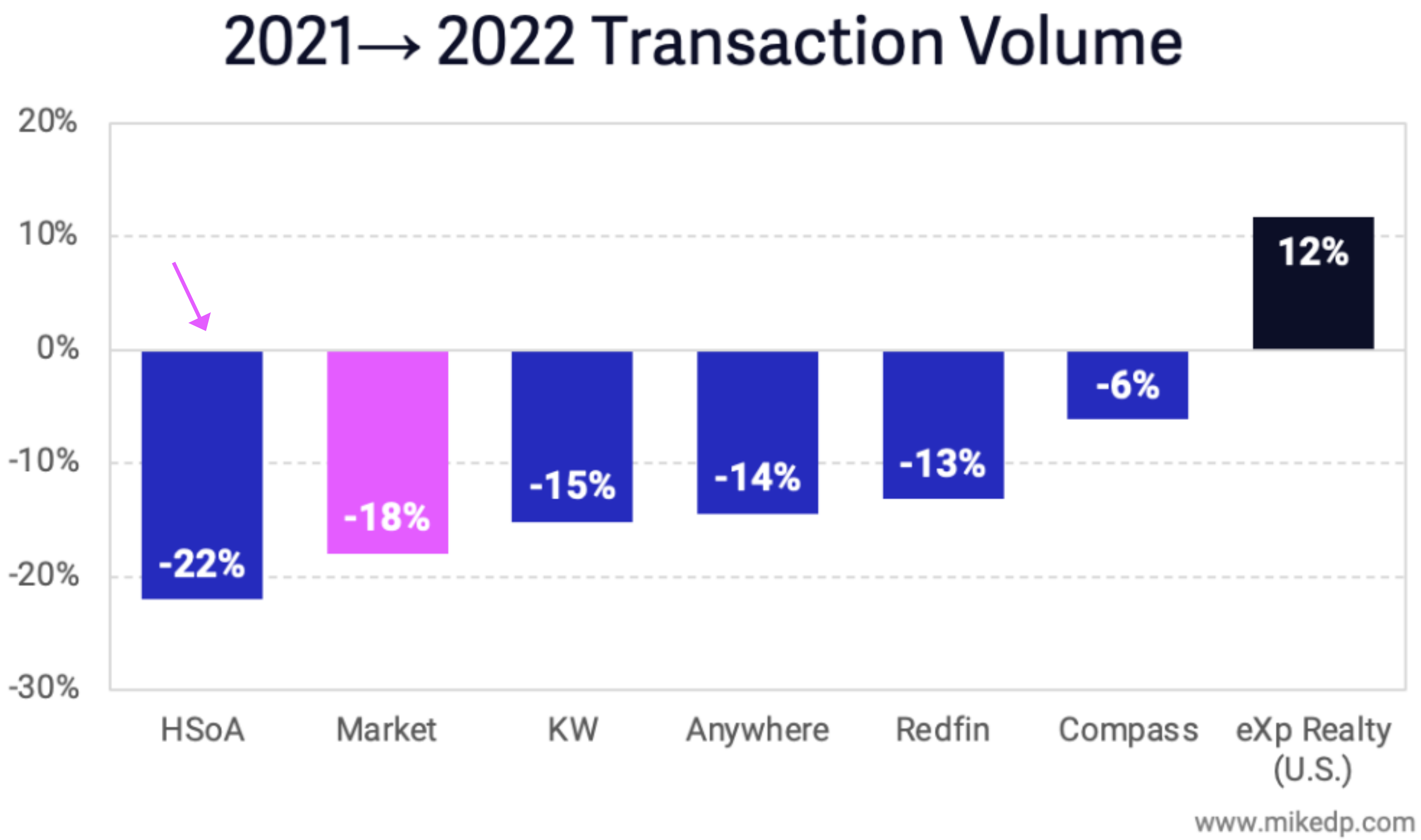


Source: RealTrends, NAR, and author's calculations.

On the other hand, HomeServices of America, with relatively flat agent count…

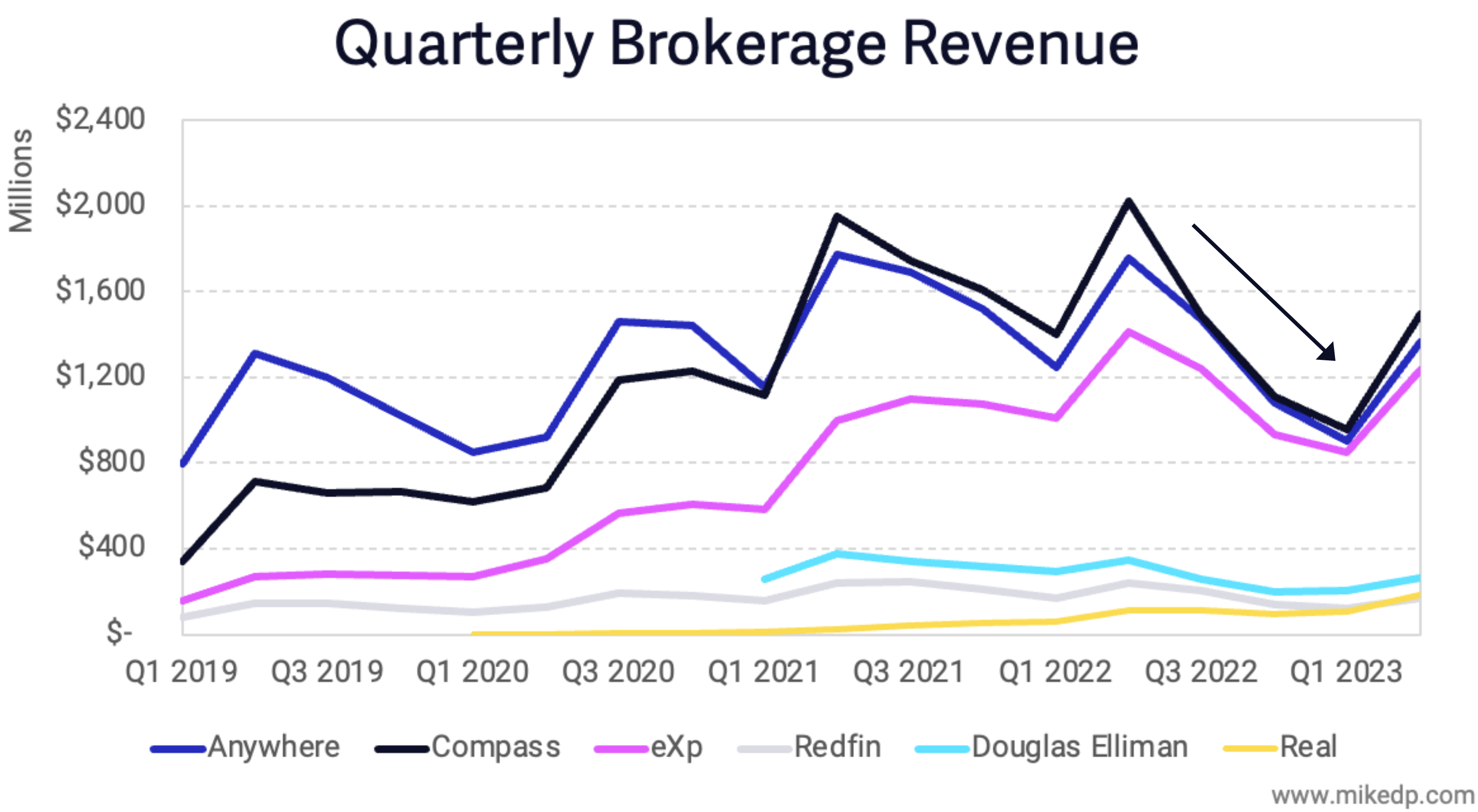


…under-performed the market by a noticeable margin in 2022.



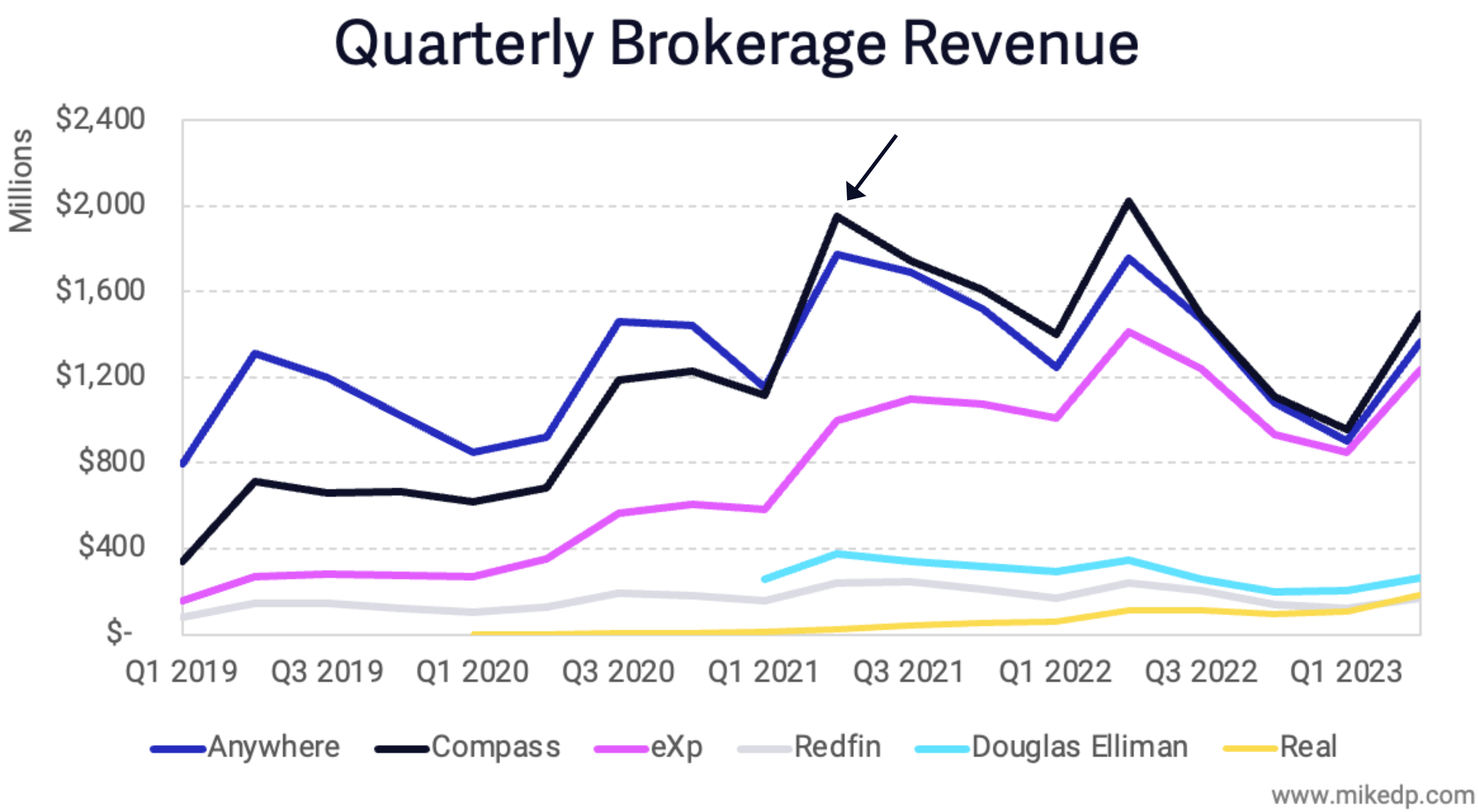
Source: RealTrends, NAR, and author's calculations.

Fewer transactions leads to a decline in brokerage revenue.



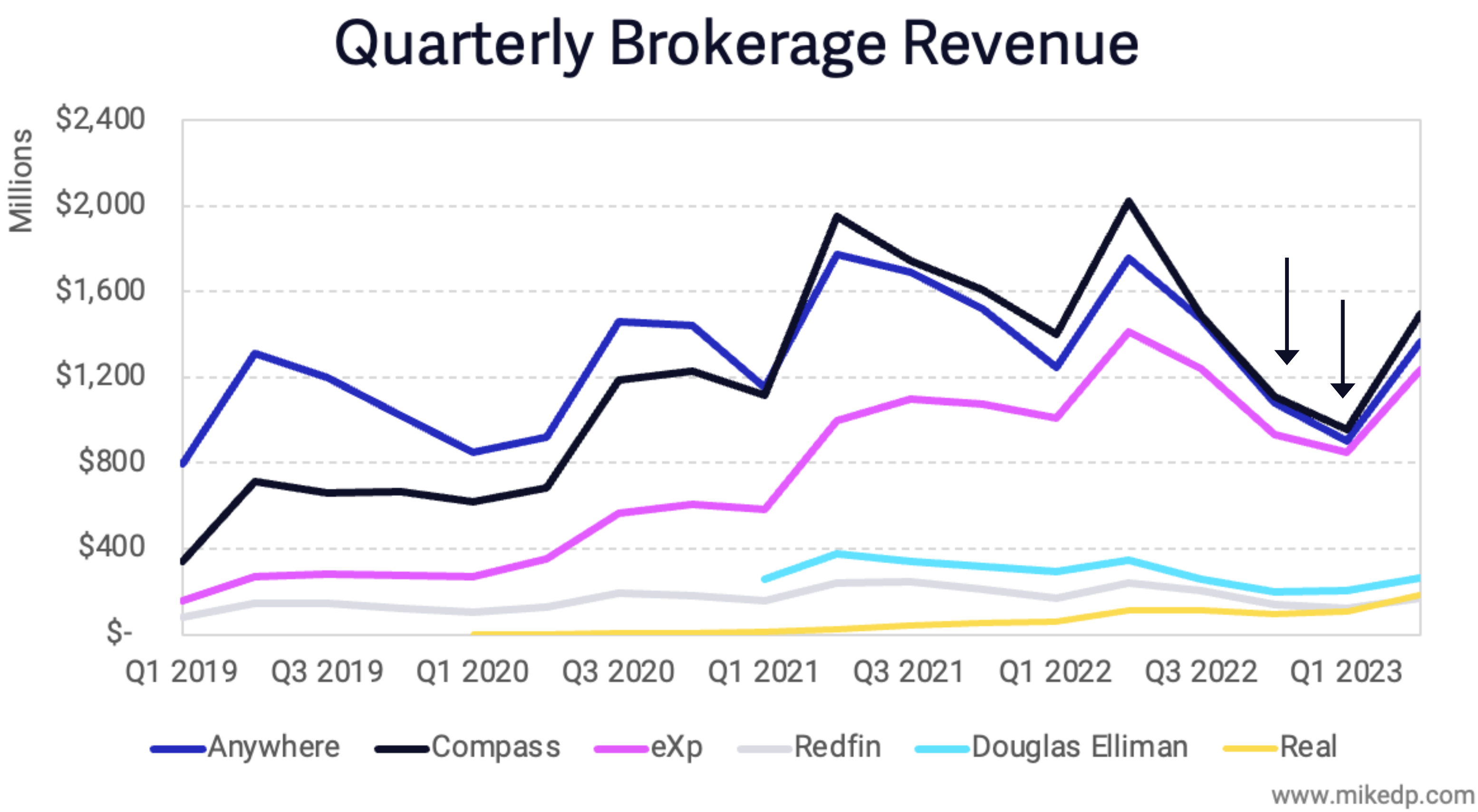
Source: Public filings.

Over time, Compass has overtaken Anywhere in generating the most brokerage revenue.



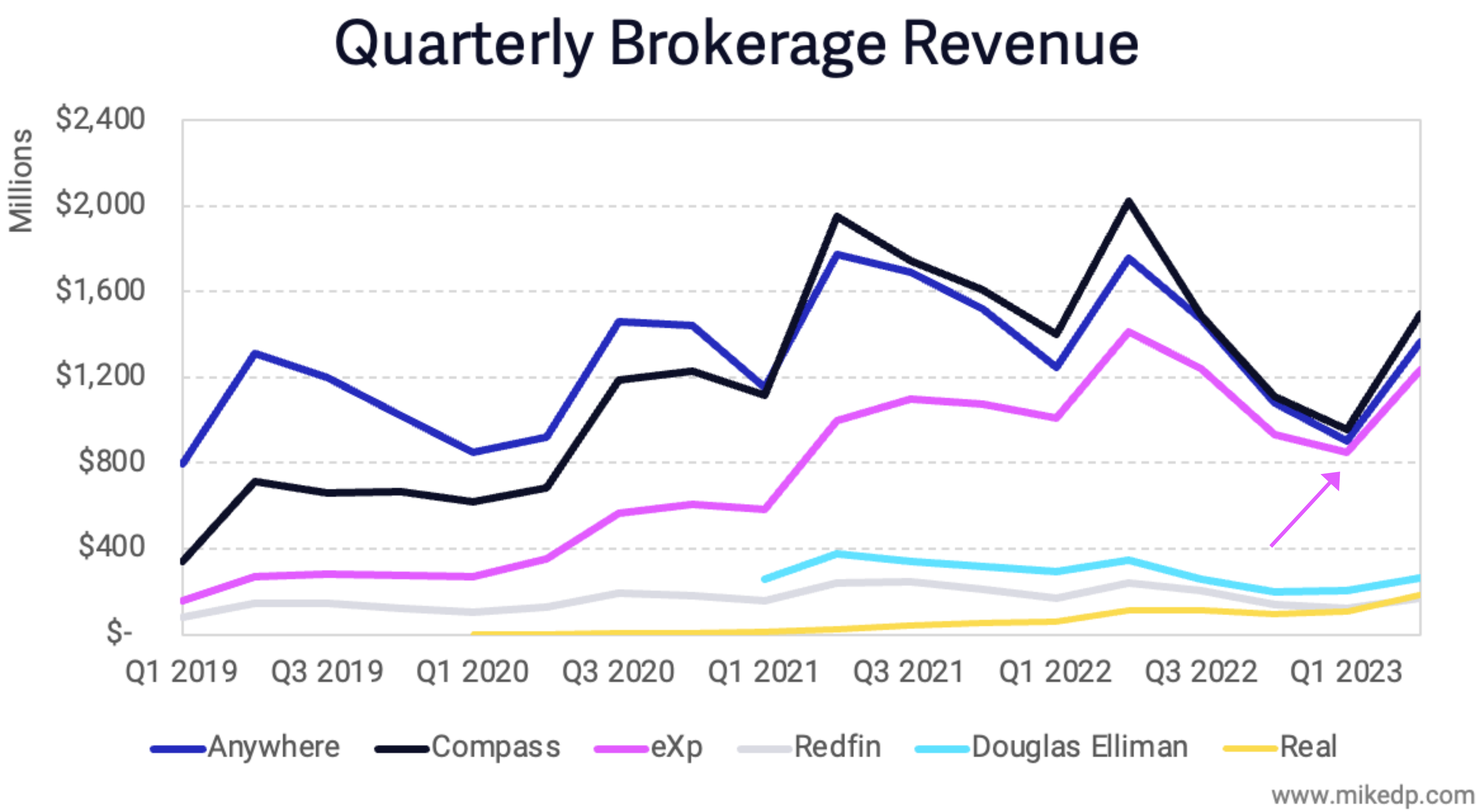
Source: Public filings.

Across the board, revenues took a big hit in Q4 '22 and Q1 '23 with the softening market.



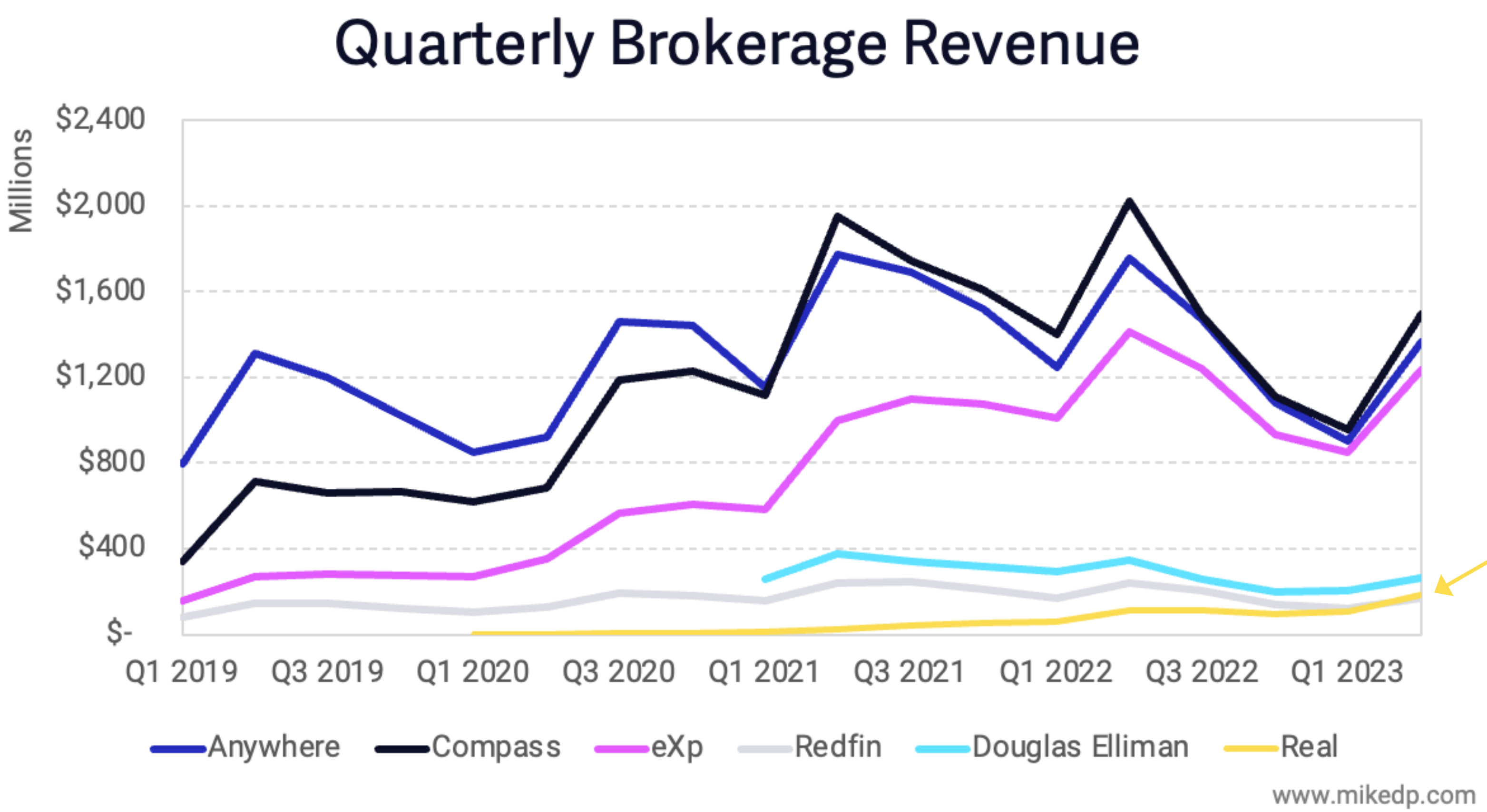
Source: Public filings.

It has also put eXp Realty very close to a revenue leadership position.



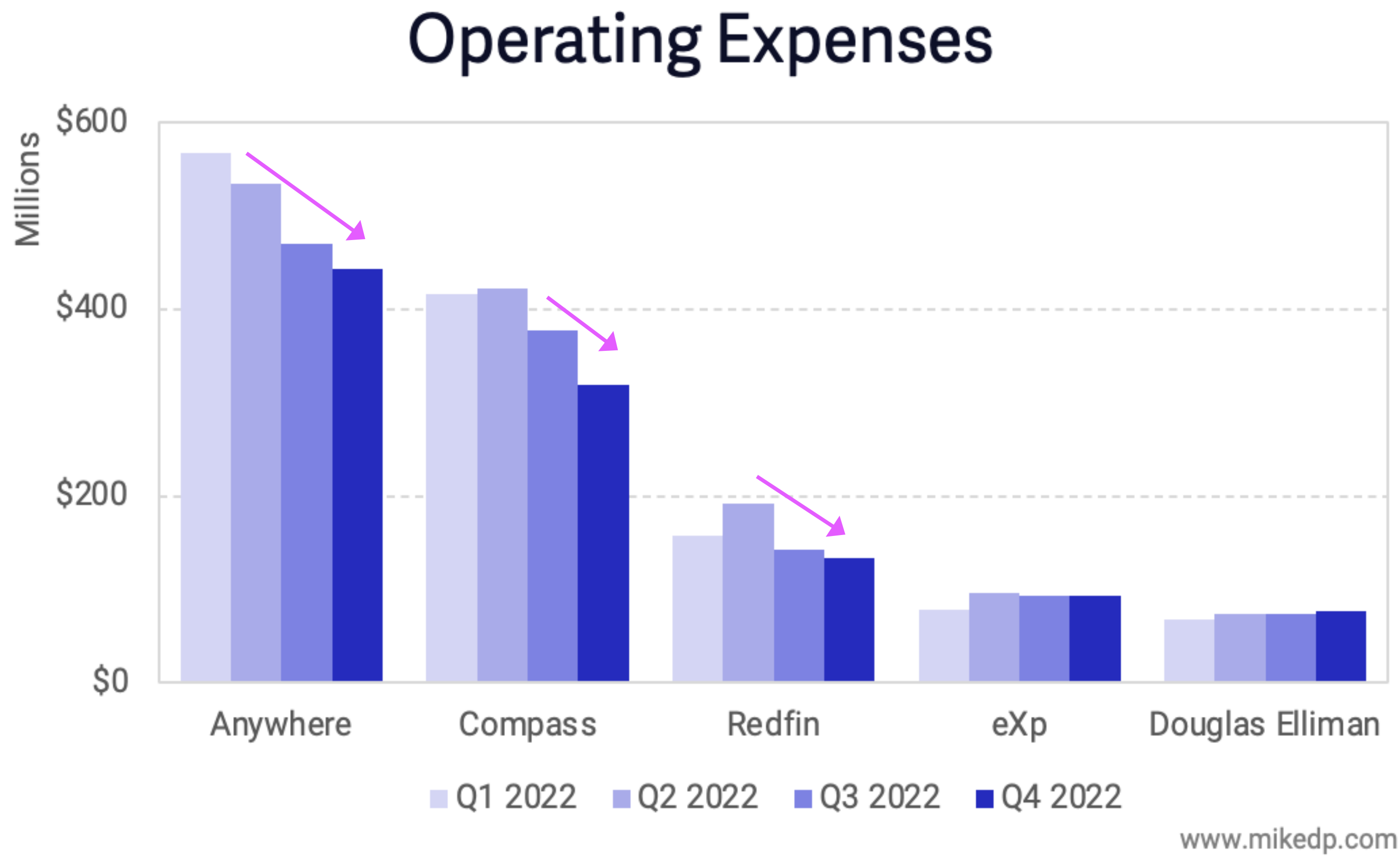
Source: Public filings.

The Real Brokerage has entered the scene with comparatively small, but relevant, revenue growth.



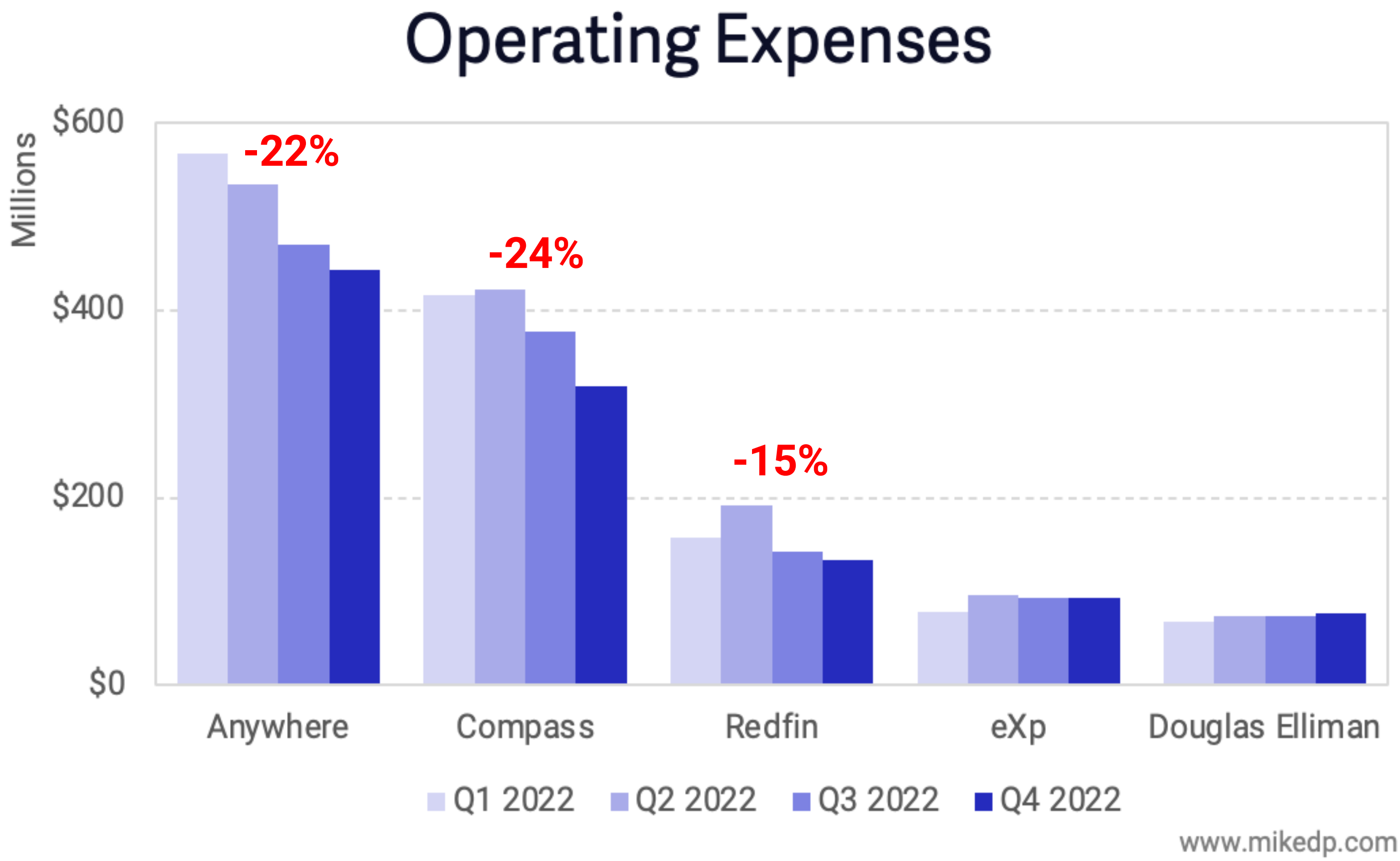
Source: Public filings.

This drop in revenue forced brokerages to cut their operating expenses throughout 2022.



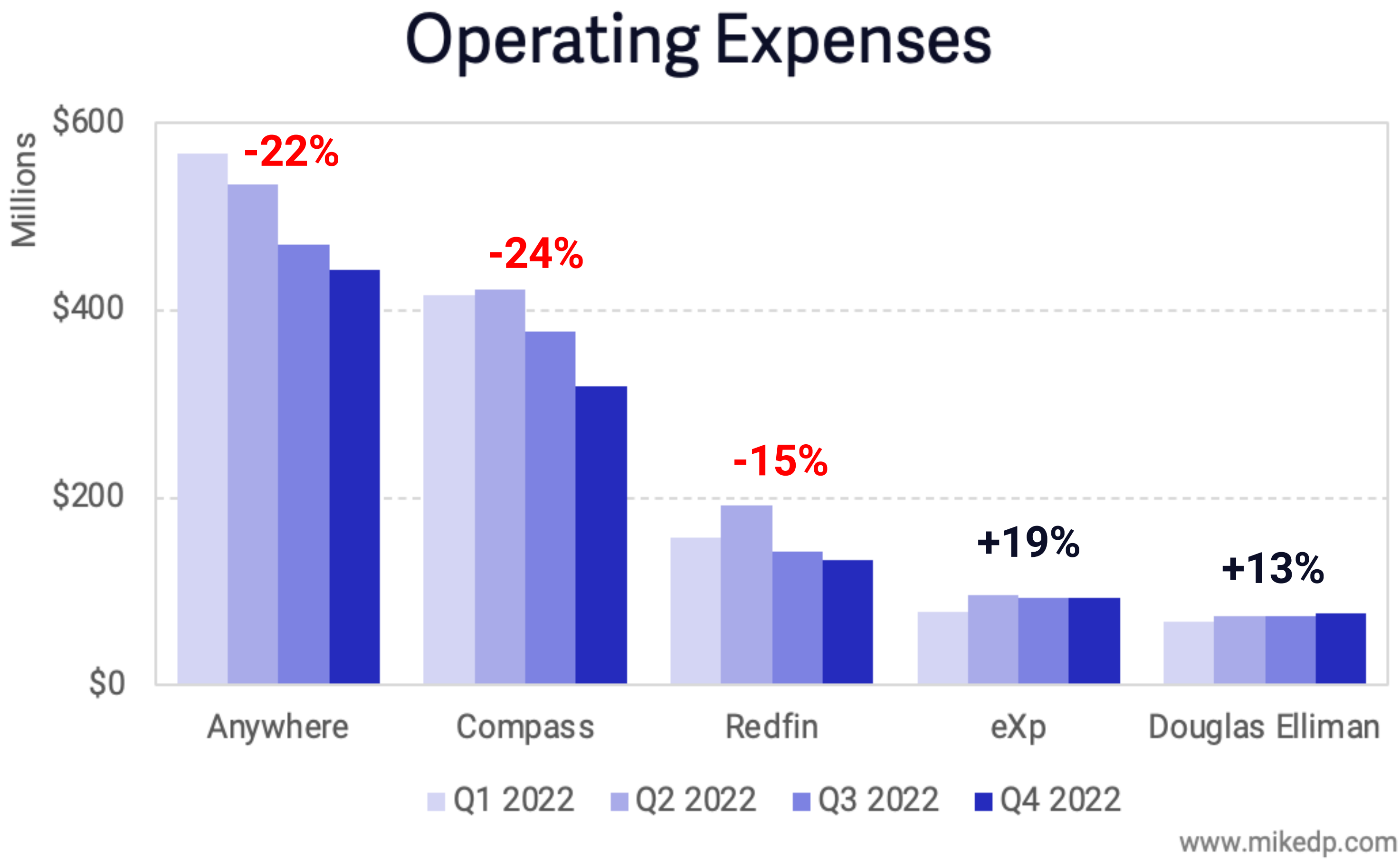
Source: Public filings.

The brokerages with the highest operating expenses made the biggest cuts.



Source: Public filings.

While others, like eXp and Douglas Elliman, increased their investment in the business.



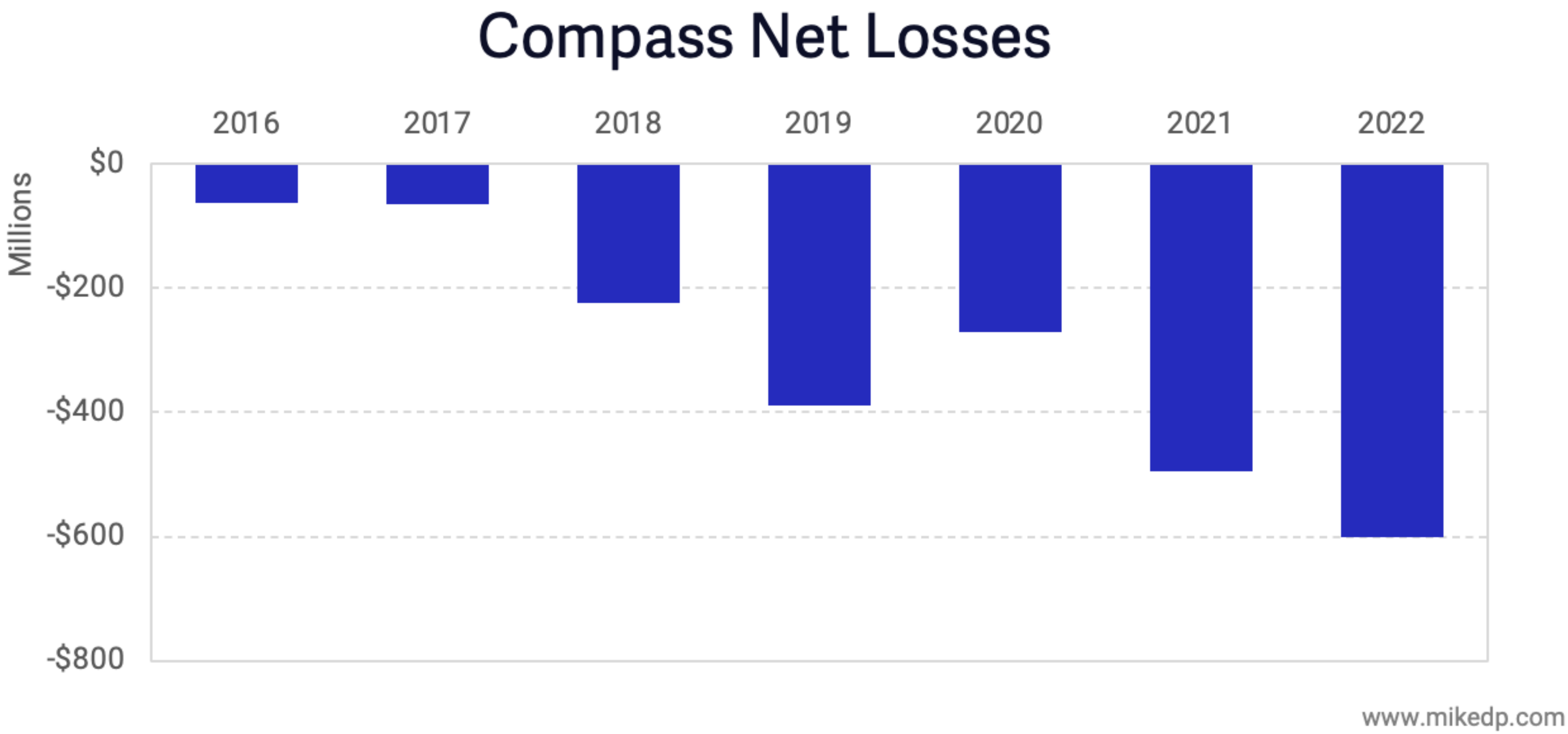
Source: Public filings.

A receding tide reveals; the down market highlights winners and losers in the brokerage space.

- There are marked differences in growth rates across different brokerages and brokerage business models.
- Brokerage growth (and revenue) is still very much tied to agent count – agents sell houses.
- While all companies have had to trim expenses in 2022, the legacy brands – the brokerages with the highest operating expenses – were forced to cut the deepest.

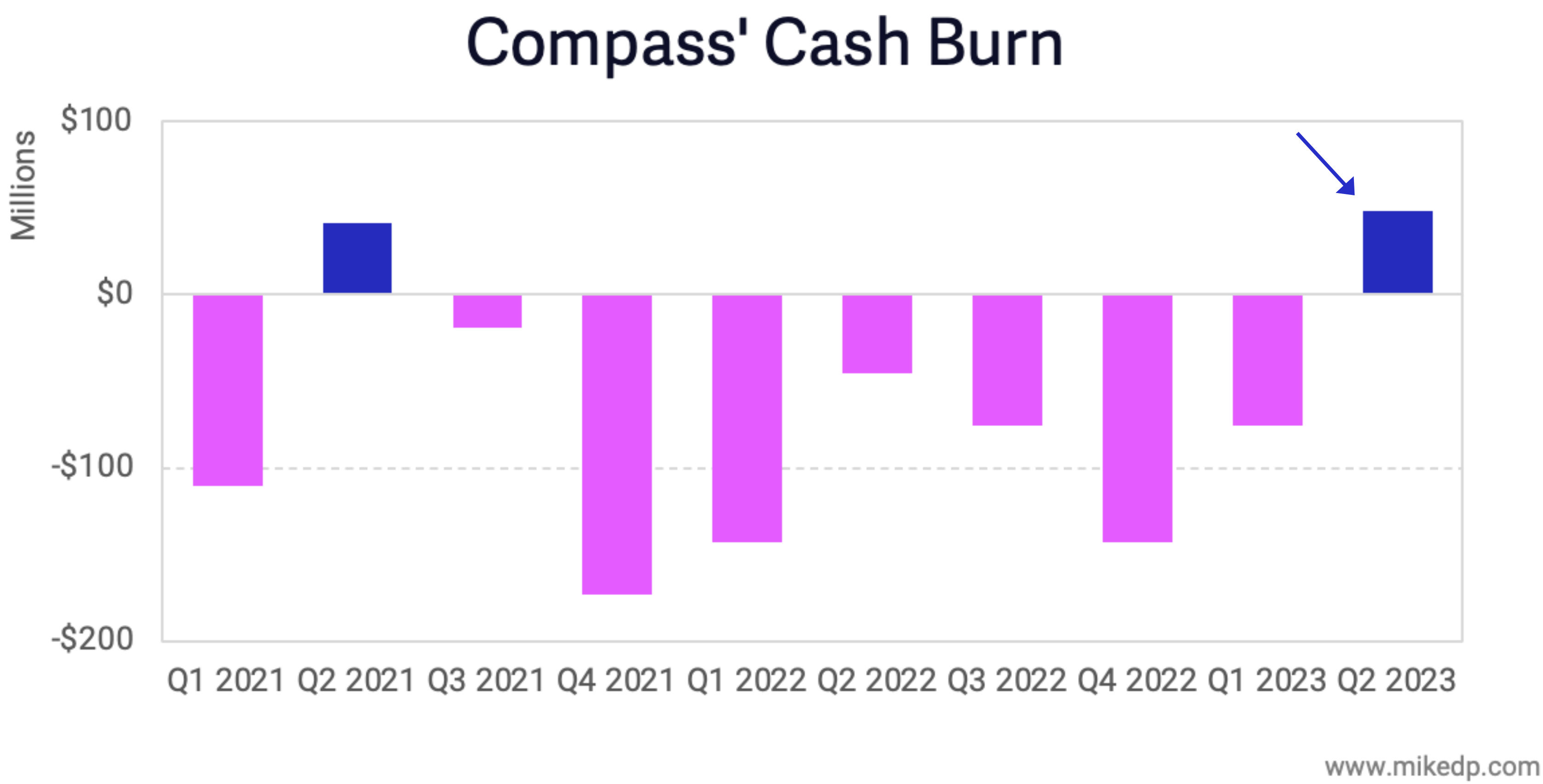
Compass 2.0

After over $2 billion in losses, Compass has a clearly articulated goal of breakeven in 2023.



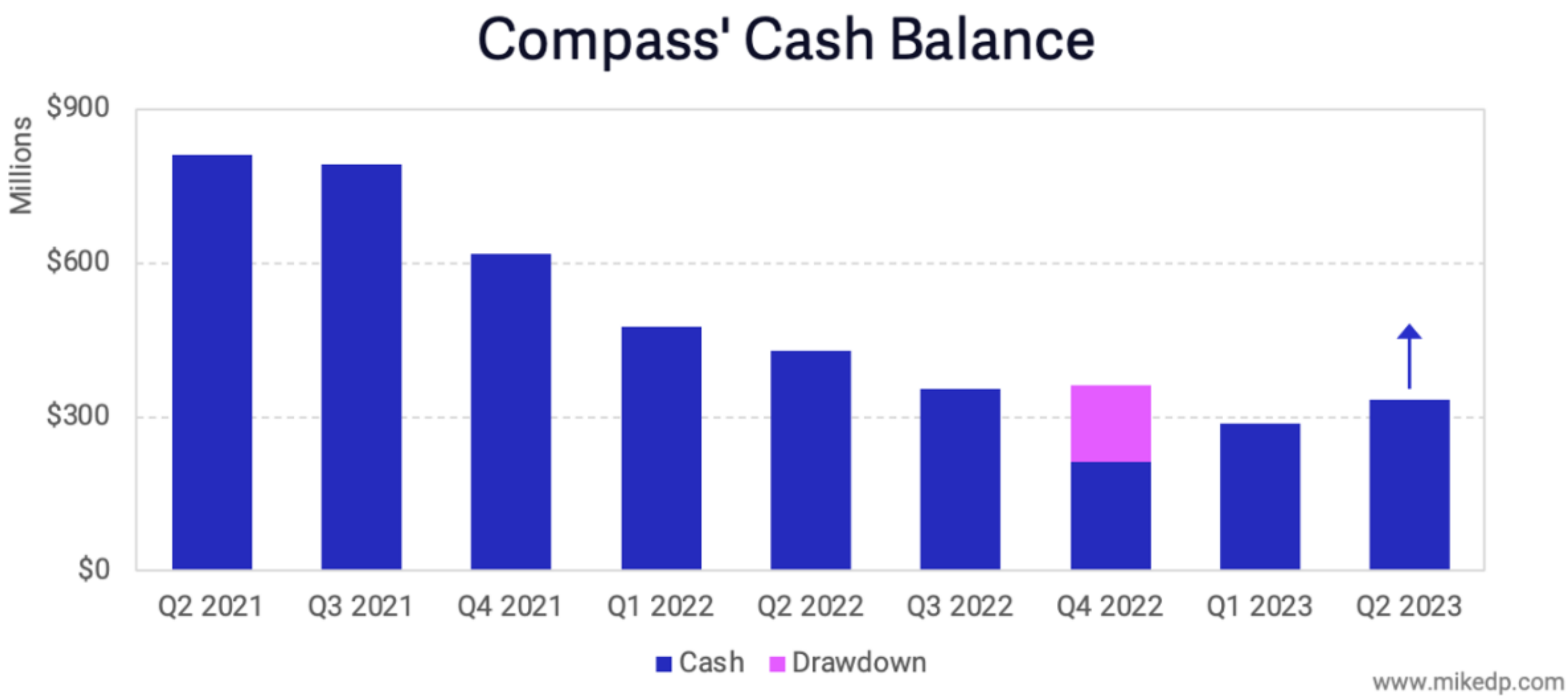
Source: Public filings.

And after years of high cash burn, Compass was cash flow positive in Q2 2023.



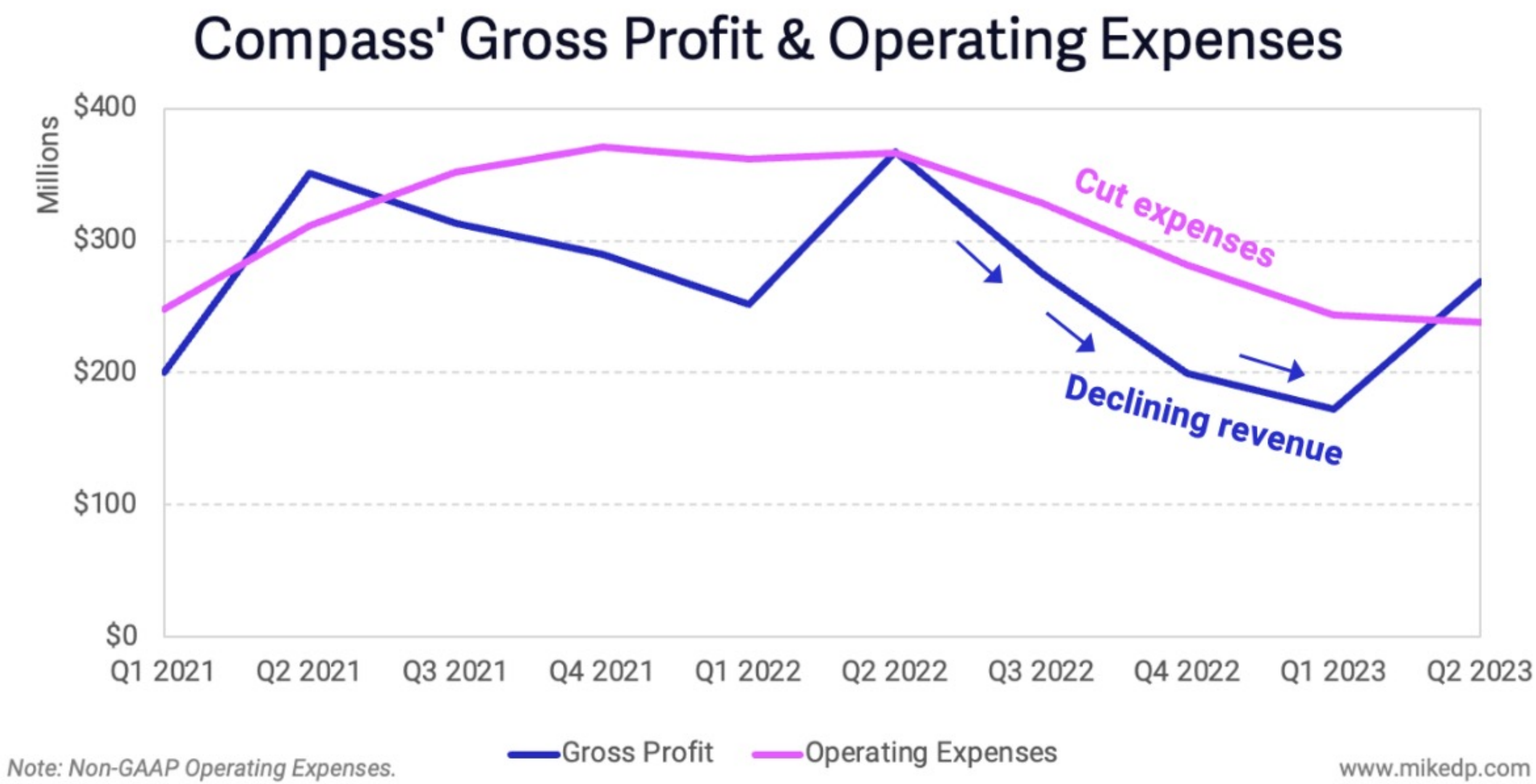
Source: Public filings.

Which reversed, at least temporarily, the trend of a declining cash balance.



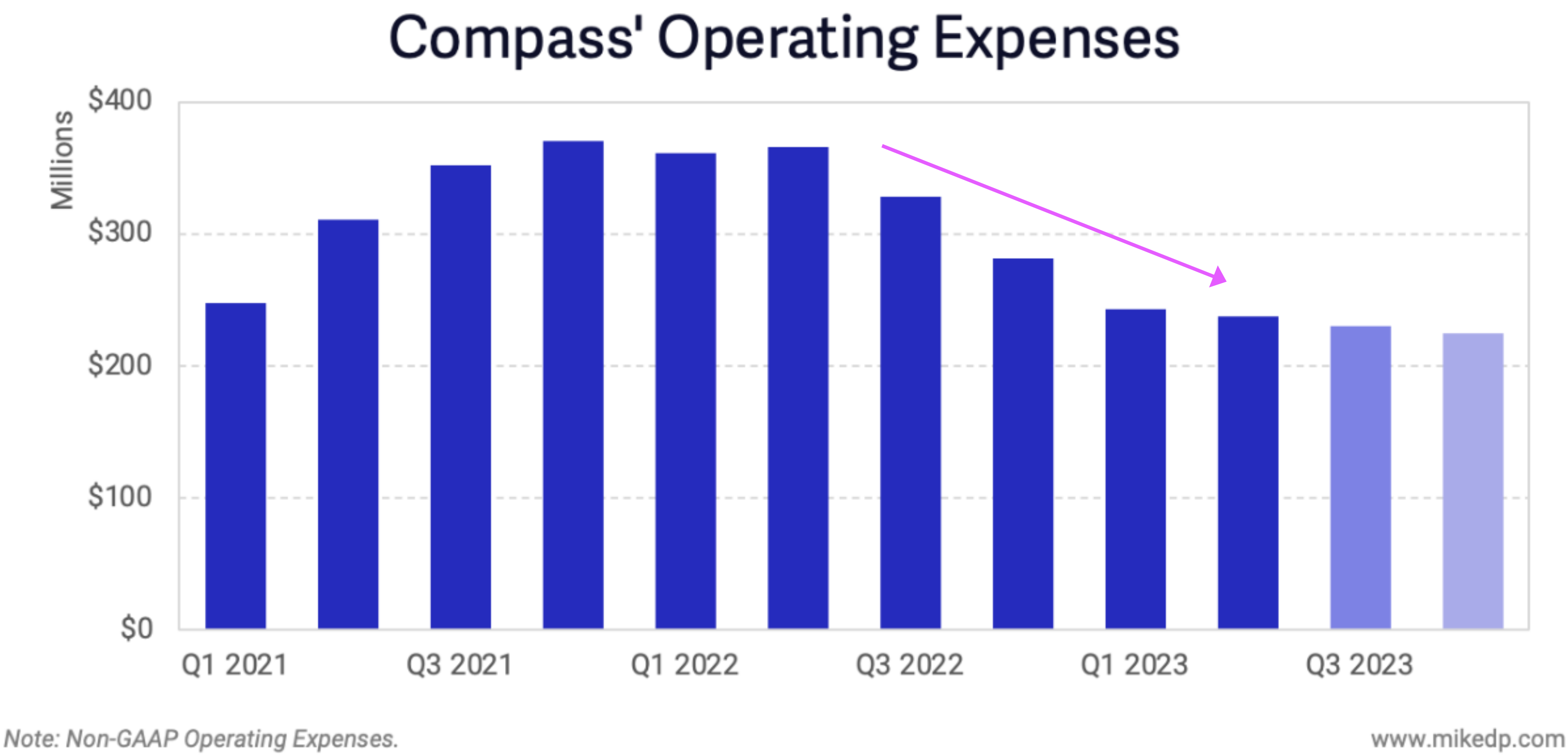
Source: Public filings.

With revenue dropping, cost control was Compass' only realistic option to get cash flow positive.



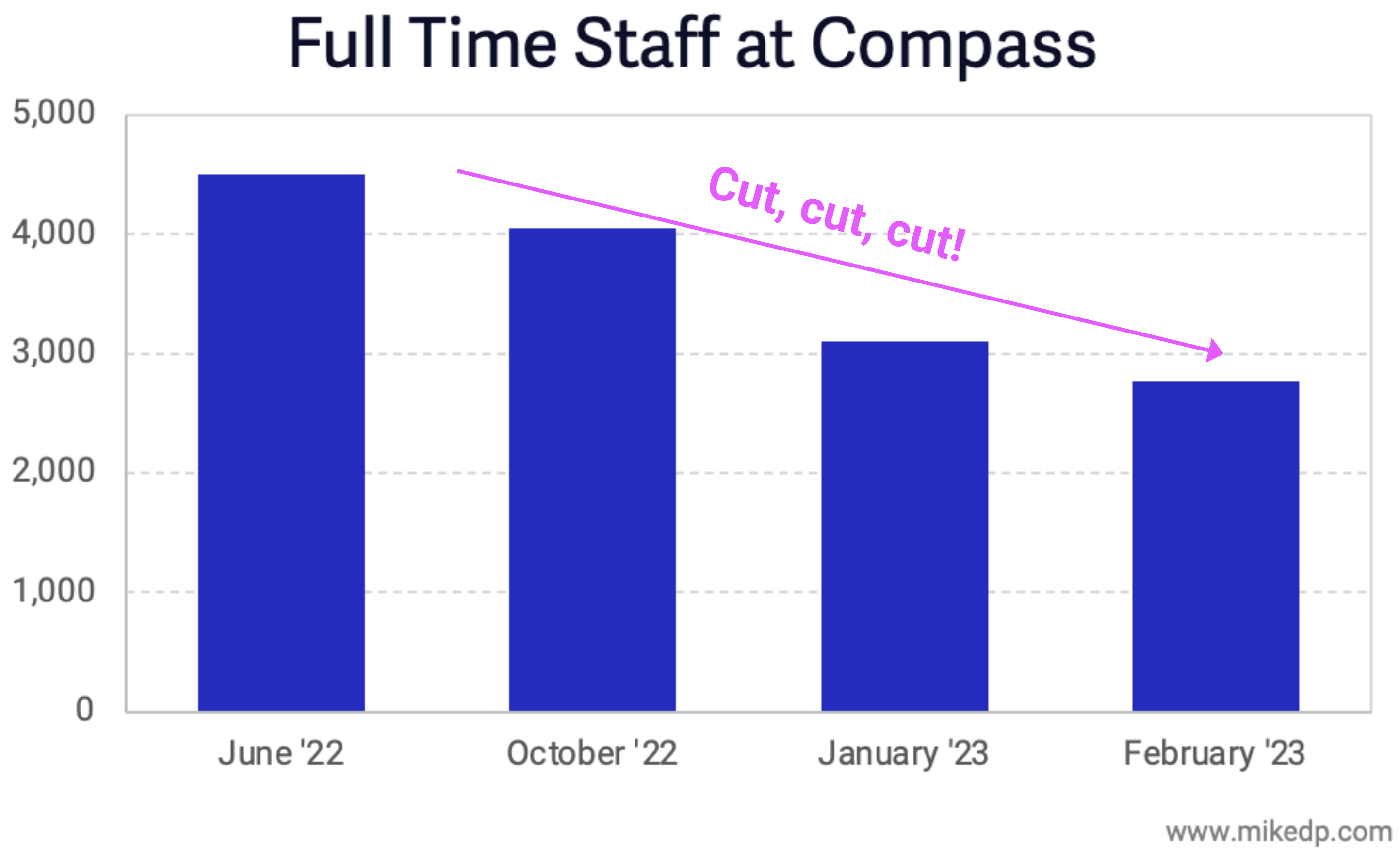
Source: Public filings.

Compass cut its operating expenses by 35 percent, or around $500 million, annually.



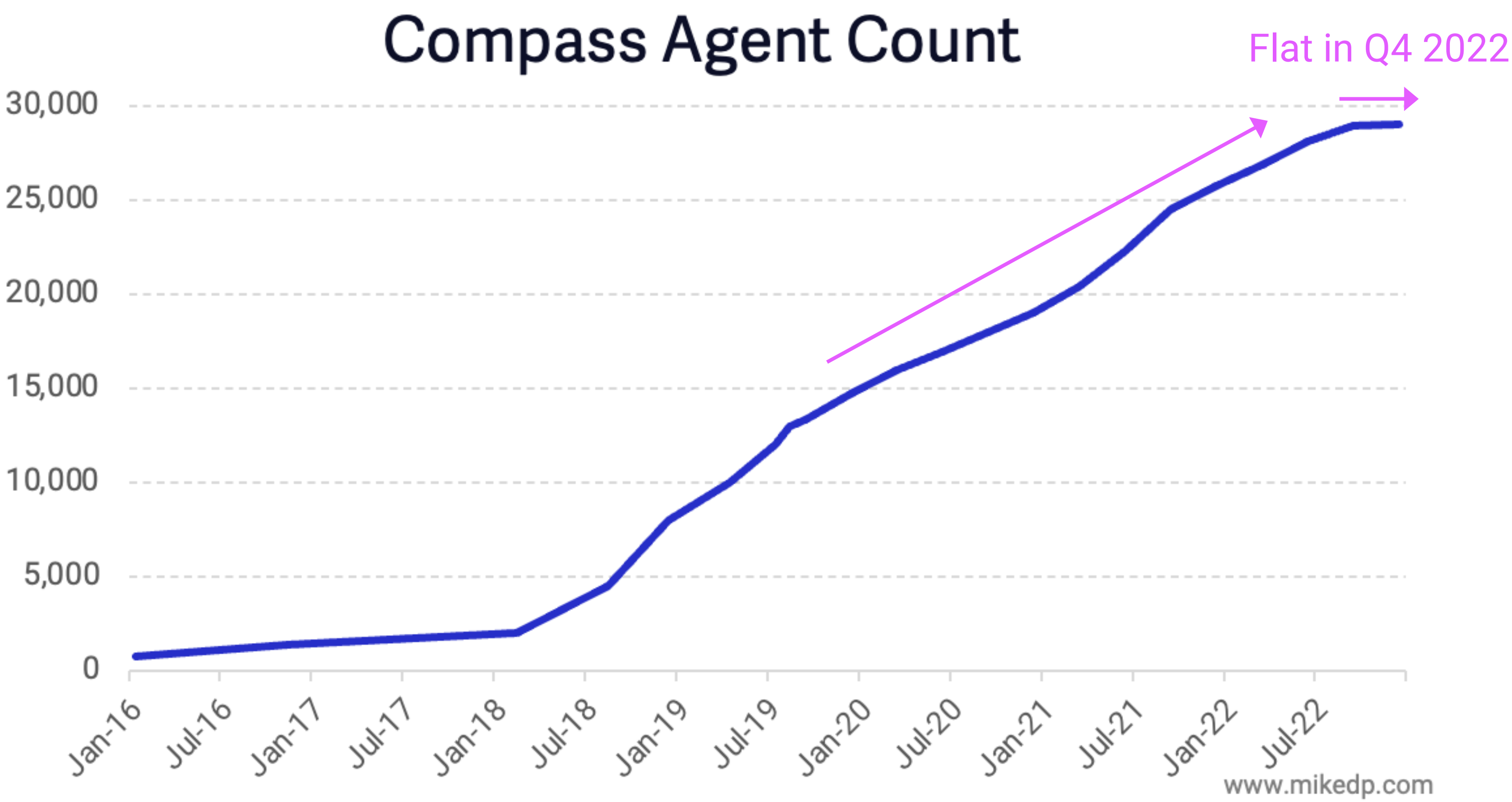
Source: Public filings.

To date, Compass has cut around 40 percent, or 1,700 positions, from its headcount.



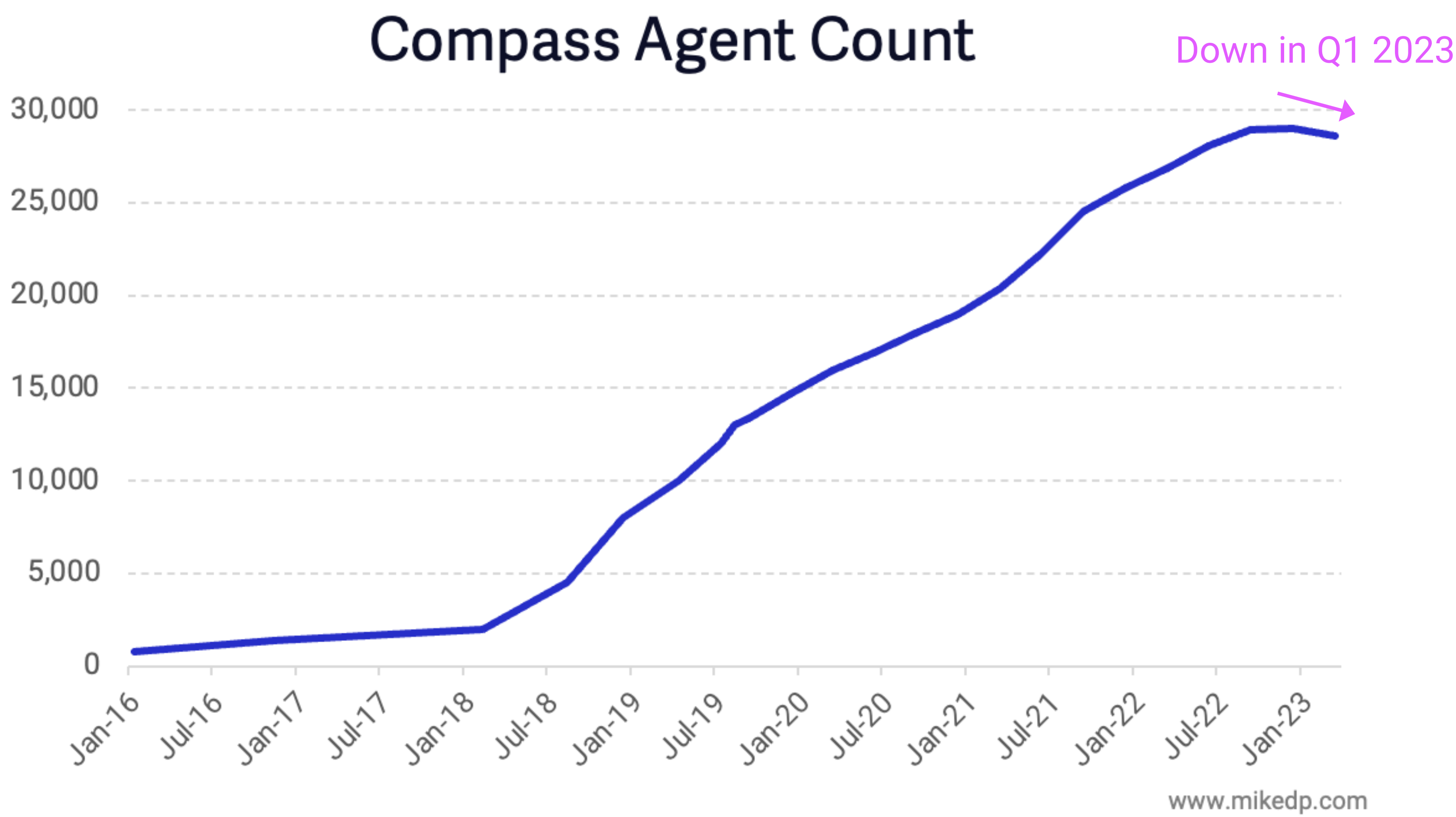
Source: Author’s estimates from public disclosures.

As it cuts, Compass needs to retain its agents, and its agent count went flat for the first time in Q4 2022.



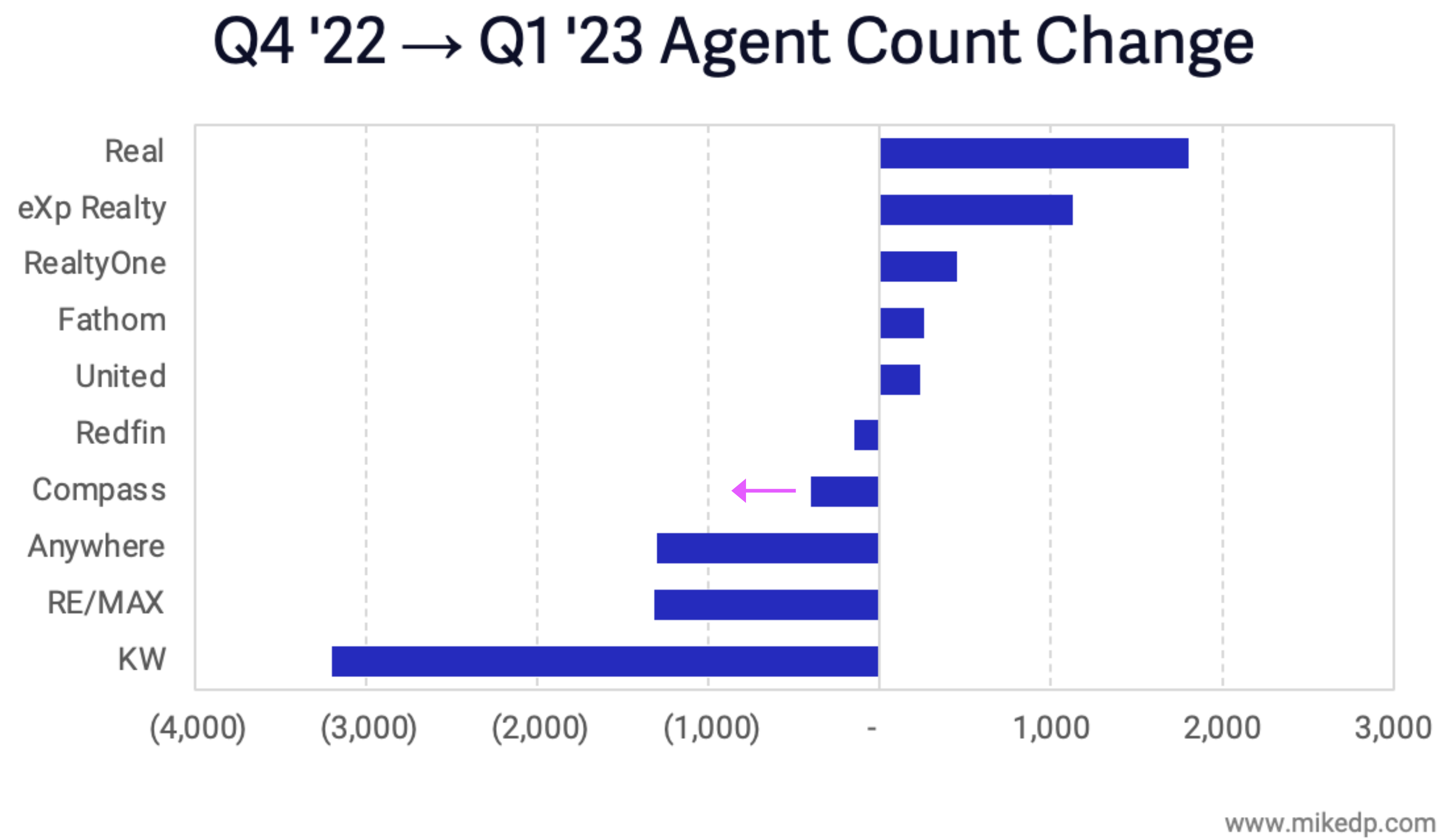
Source: Author's calculations based on public disclosures.

And like many other brokerages (mainly legacy brands), Compass' agent count declined in Q1 2023.



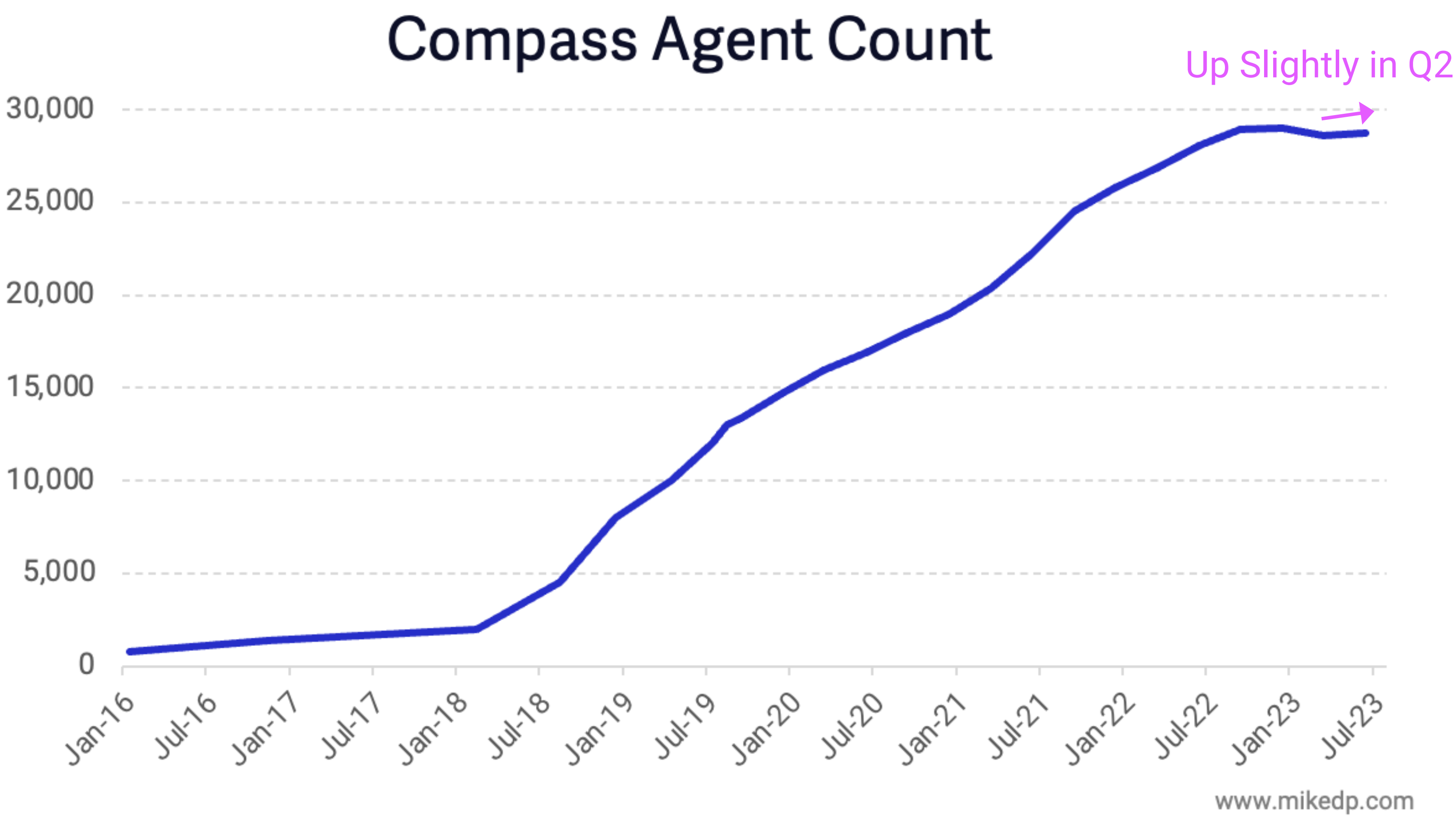
Source: Author's calculations based on public disclosures.

For context, not *all* brokerages lost agents during the same period.



Source: Public filings and information shared directly from private companies.

But agent count is growing again in Q2, a positive sign for the business in an especially tough market.



Source: Author's calculations based on public disclosures.

Part of Compass' plan is to pay less of its revenue out to its agents – a fact it highlights in investor releases.

COMPASS

Compass, Inc. Reports First Quarter 2023 Results

New York, NY - May 9, 2023 - Compass, Inc. (NYSE: COMP) ("Compass" or "the Company"), the largest[1] tech-enabled real estate brokerage, announced its financial results for the first quarter ended March 31, 2023.

"We had a strong first quarter of 2023 that was highlighted by exceeding both our guidance and consensus on Revenue and Adjusted EBITDA," said Robert Reffkin, Founder and Chief Executive Officer of Compass. "Over the past few quarters, our agents and employees have successfully navigated the sharpest decline in residential real estate transactions in U.S. history. During this time, we increased our market share in the fourth quarter of 2022, and we've done so again in the first quarter of 2023. Our non-GAAP Commissions expense as a percentage of revenue improved by approximately 27 basis points from the first quarter of last year to 81.4% when excluding the impact of the Agent Equity Program. We continue to benefit from taking decisive action with our expense reduction initiatives starting in early 2022. We are on schedule to achieve positive free cash flow in 2023, starting with Q2."

Source: Compass Q1 2023 Results.

This achievement, which is good for investors, is prominently placed in Compass' financial highlights.

1Q 2023 Highlights

FINANCIAL[1]

$957.2M | -31%

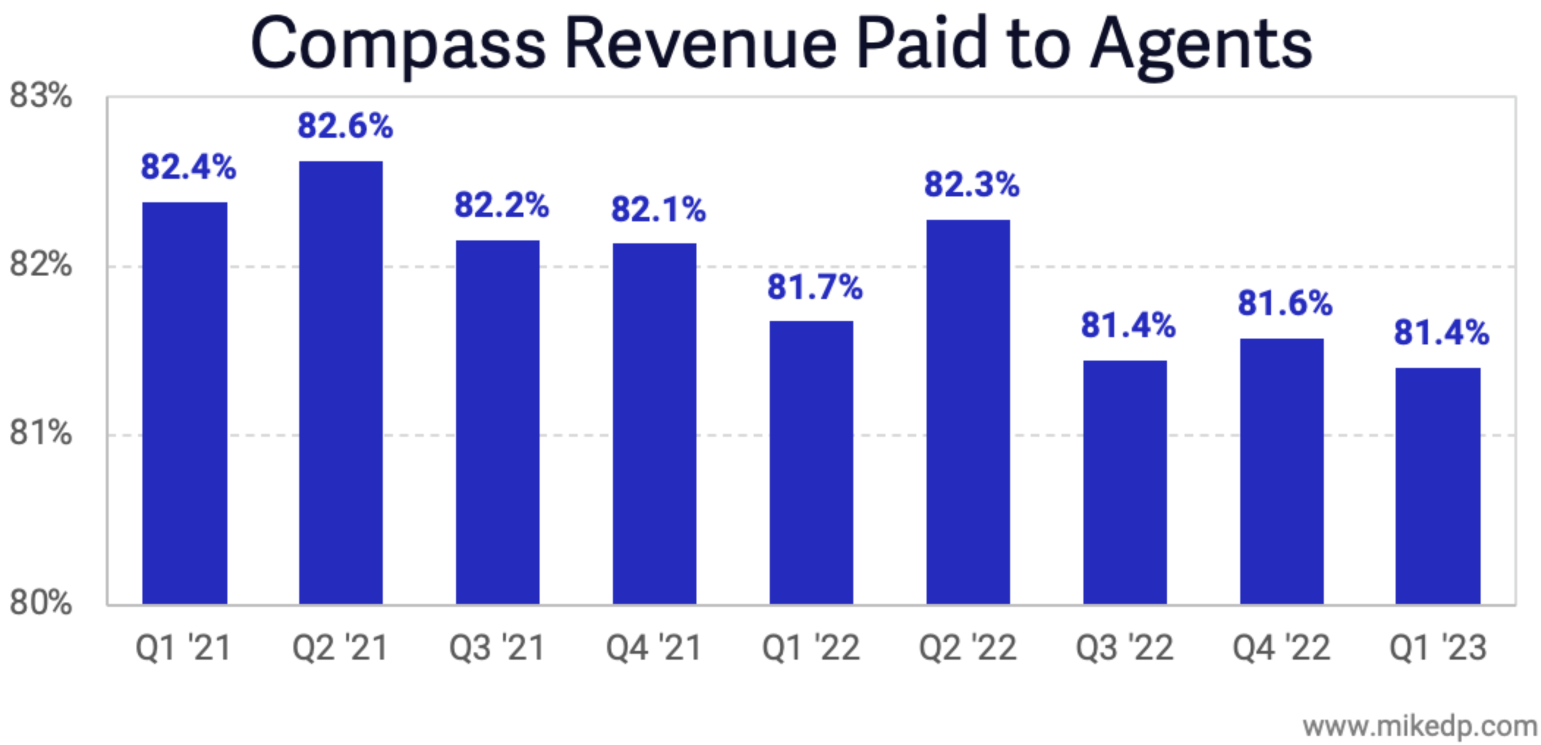
1Q 2023 Revenue & Y-o-Y Change

18.6% | Improved 27 BPS[3]

1Q 2023 Revenue less Non-GAAP Commissions & Other Related Expense Excluding Impact of the Agent Equity Program as a % of Revenue & Y-o-Y Change

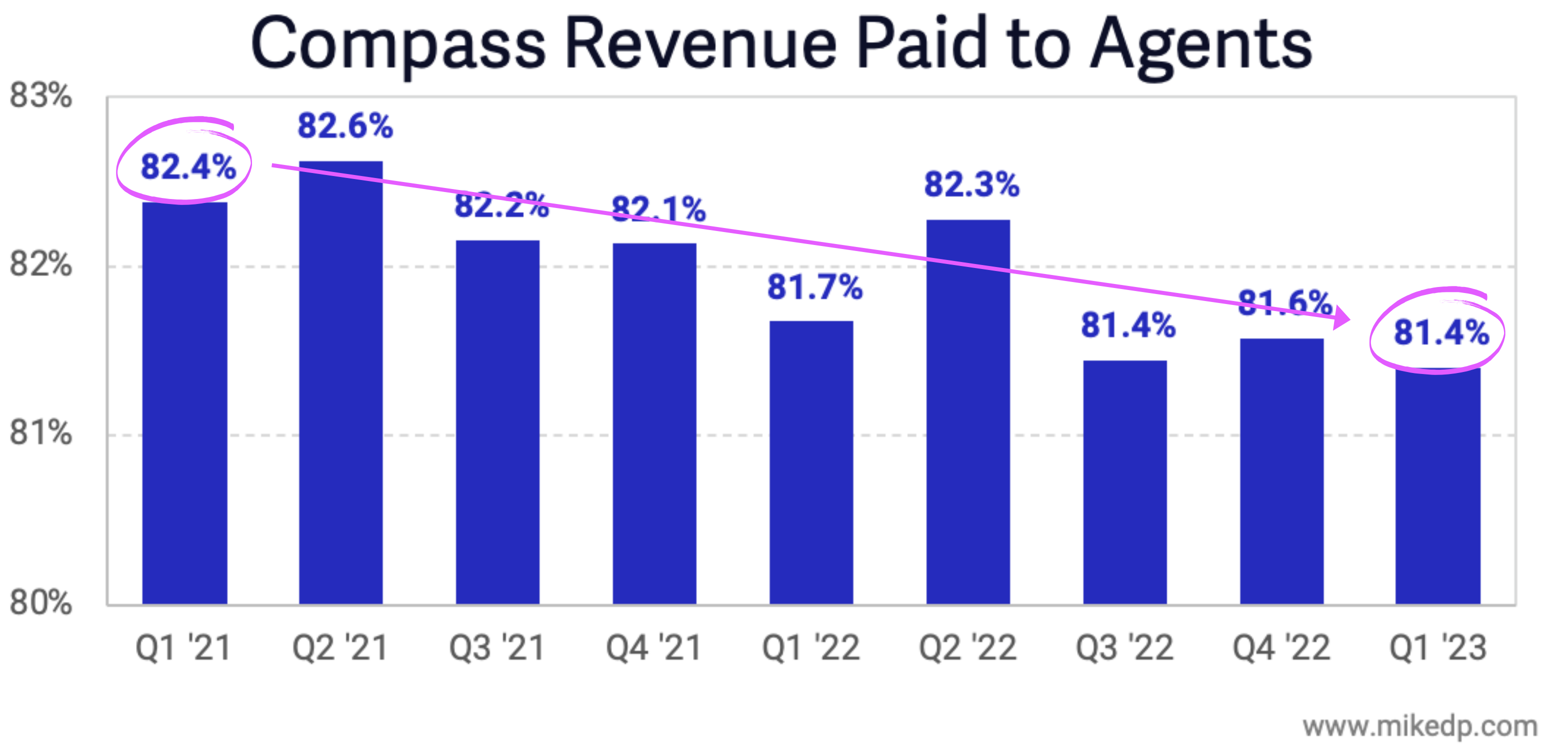
Source: Compass Q1 2023 Results.

But what's good for investors comes at the expense of agents, who are seeing less of their commissions.



Source: Author's calculations based on public disclosures.

The percentage of revenue paid out to agents has slowly drifted down over the past two years.



Source: Author's calculations based on public disclosures.

Compass is roughly on track to achieve breakeven, assuming the U.S. market hits 4.5M transactions.

Compass: 2023 Breakeven Analysis

	Current Plan	Bear Case
U.S. Transactions	4.5 million	4 million
Compass Market Share	4.2%	4.2%
Compass Revenue	$5.38 billion	$4.78 billion
Compass OpEx	$950 million	$850 million
Breakeven	✓	✓

Source: Author’s calculations and assumptions.

But a further softening of the market would require further cuts.

Compass: 2023 Breakeven Analysis

	Current Plan	Bear Case
U.S. Transactions	4.5 million	4 million
Compass Market Share	4.2%	4.2%
Compass Revenue	$5.38 billion	$4.78 billion
Compass OpEx	$950 million	$850 million
Breakeven	✓	✓

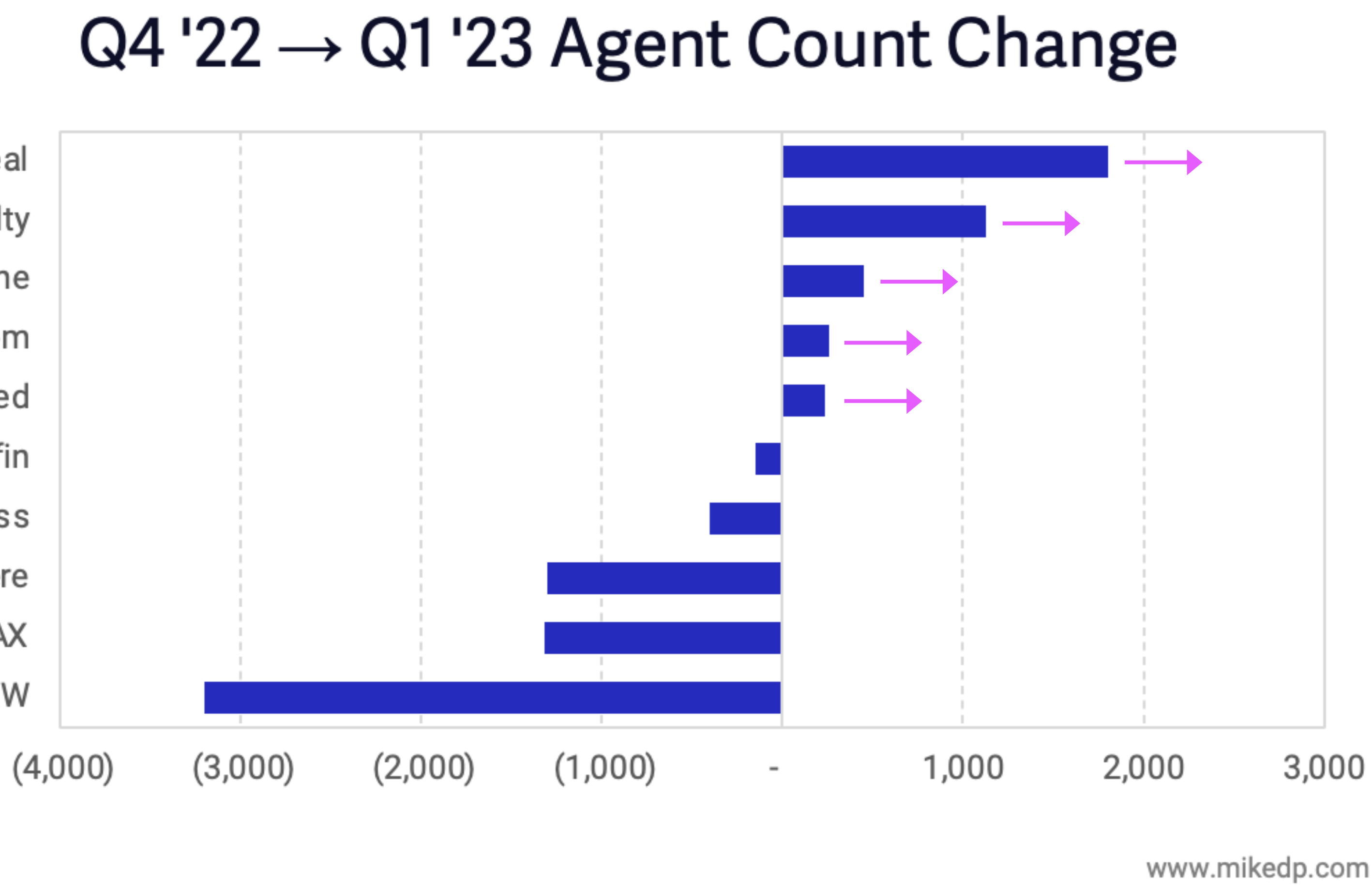
Source: Author's calculations and assumptions.

Compass’ turnaround is an instructive case study in managing a business through a turbulent market.

- Like many businesses, the company was caught flat-footed last year when the market changed, but it executed a necessary turnaround to sustainability.
- Compass isn’t entirely out of the woods yet: Q2 is the high-water mark for revenue; from here seasonality kicks in with progressively lower revenue for the next nine months.
- The broader lesson is around adaptability – it matters less how you got to where you are, and more how quickly you can adapt to a rapidly changing environment.

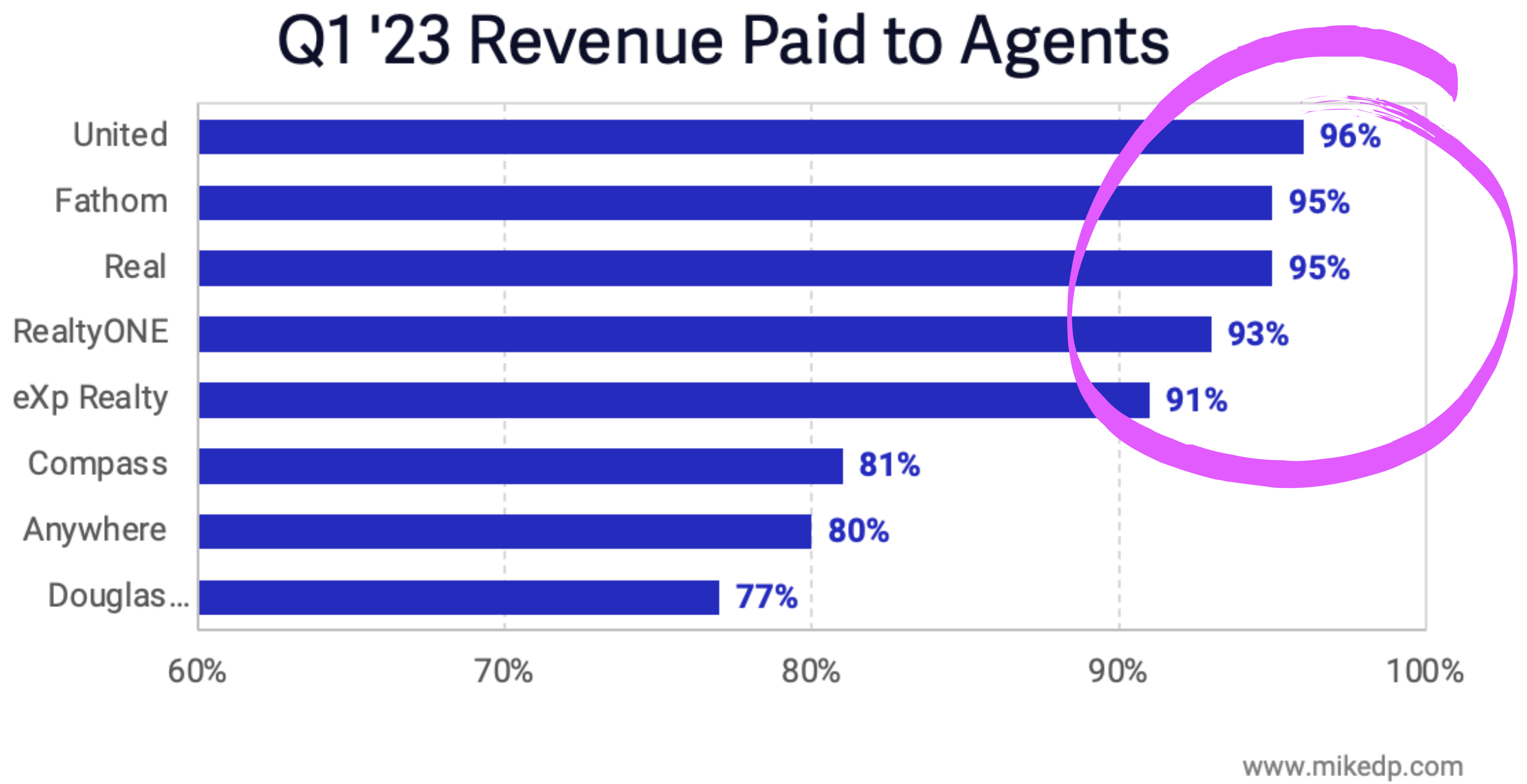
Brokerage Bifurcation

The five largest brokerages that grew their agent count in Q1 2023 were all low-fee models.



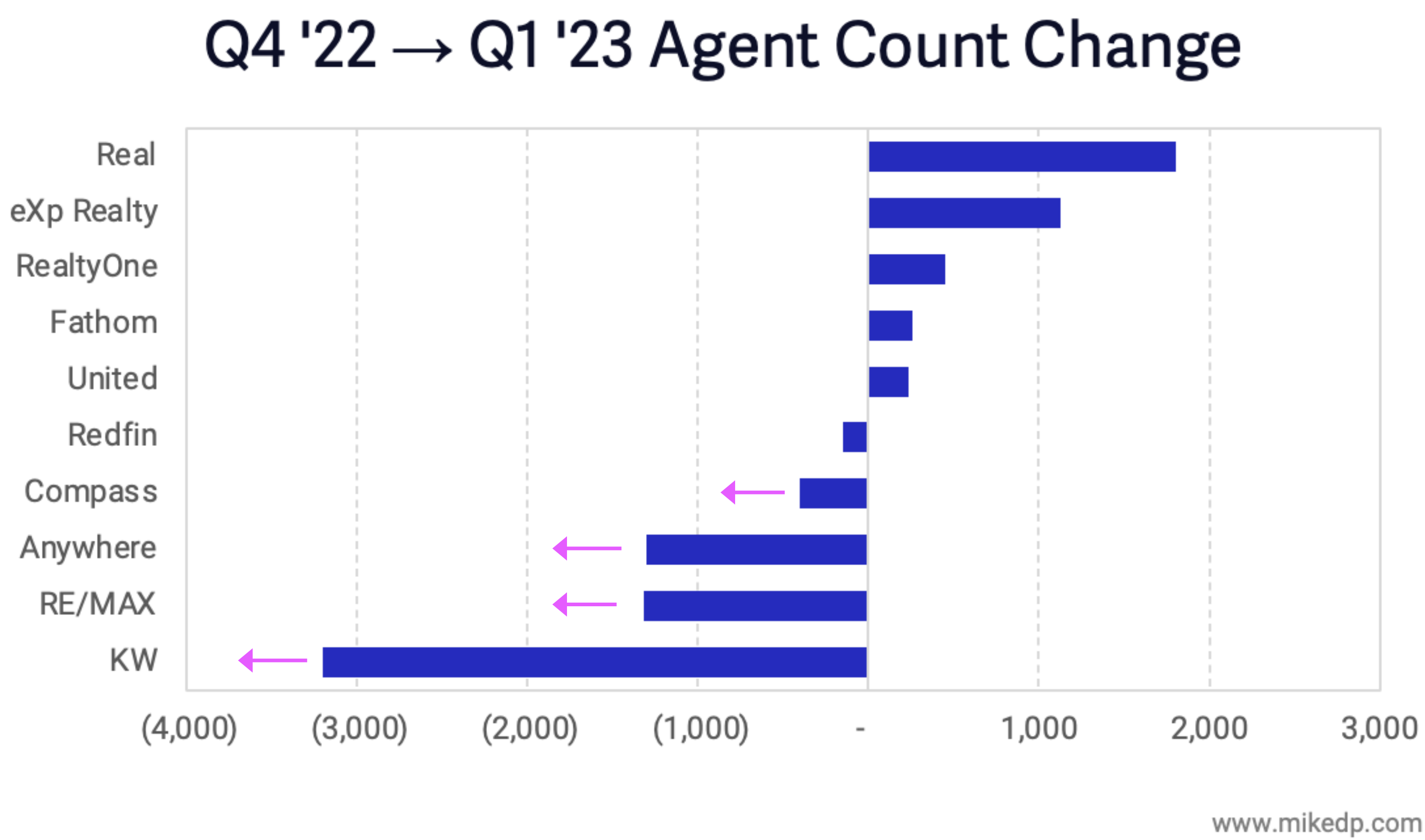
Source: Public filings and information shared directly from private companies.

These are broker models that pay the highest percentage of their revenue out to their agents.



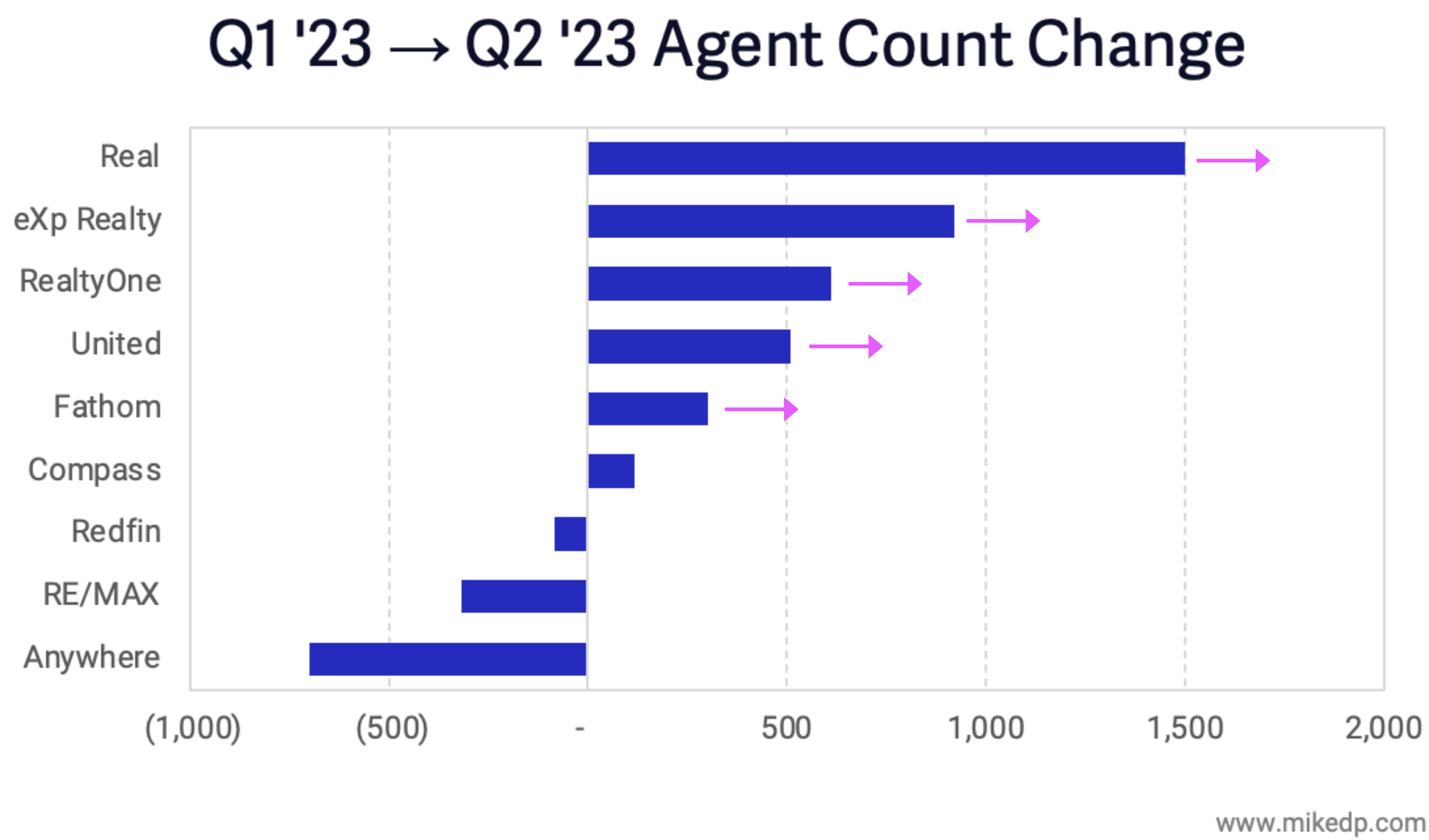
Source: Author's calculations from public filings and information shared directly from private companies.

In the same period, the big legacy brokerages and franchises all lost agents.



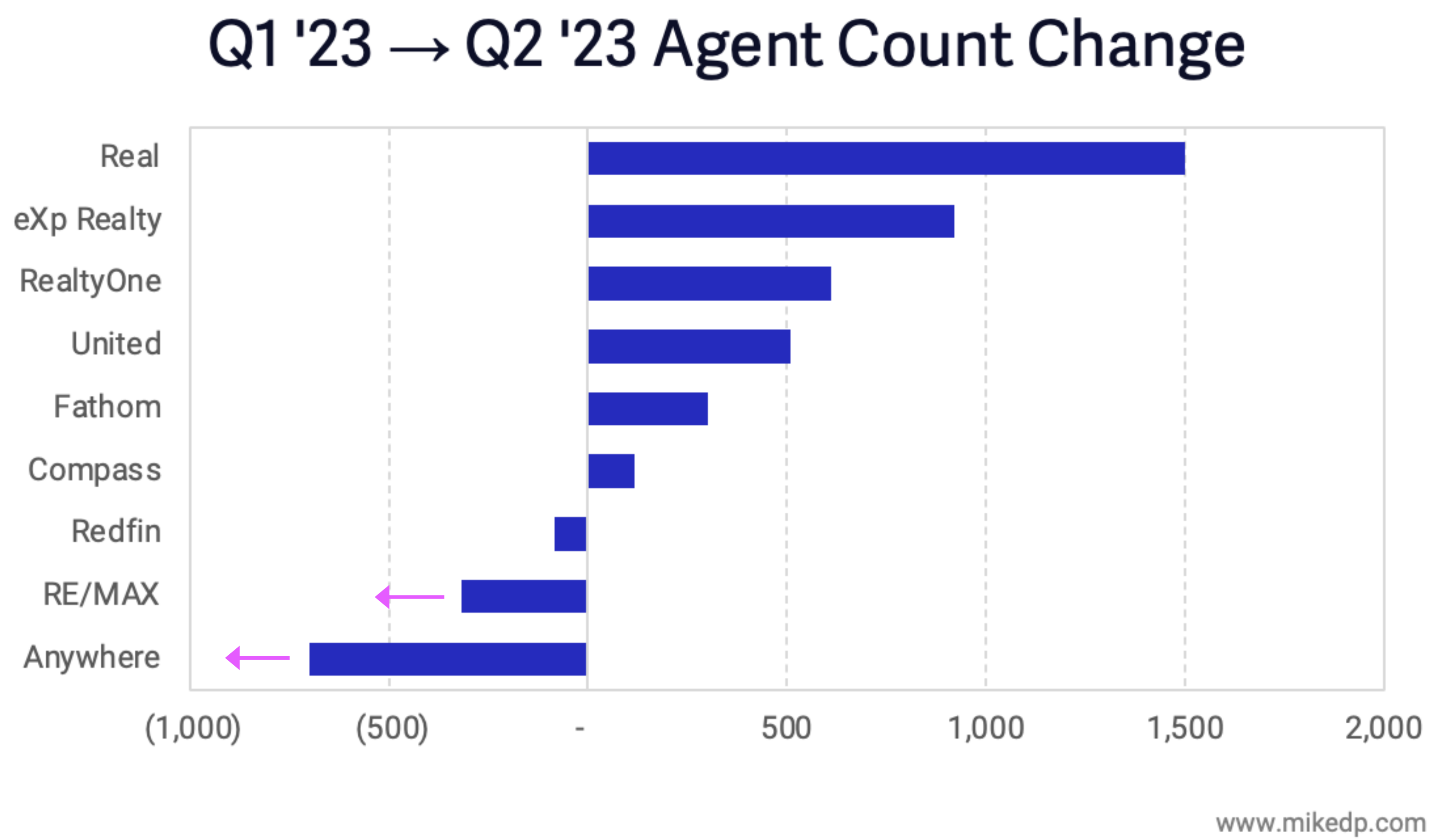
Source: Public filings and information shared directly from private companies.

The trend continued into Q2 with the same five, low-fee brokerages growing agent count…



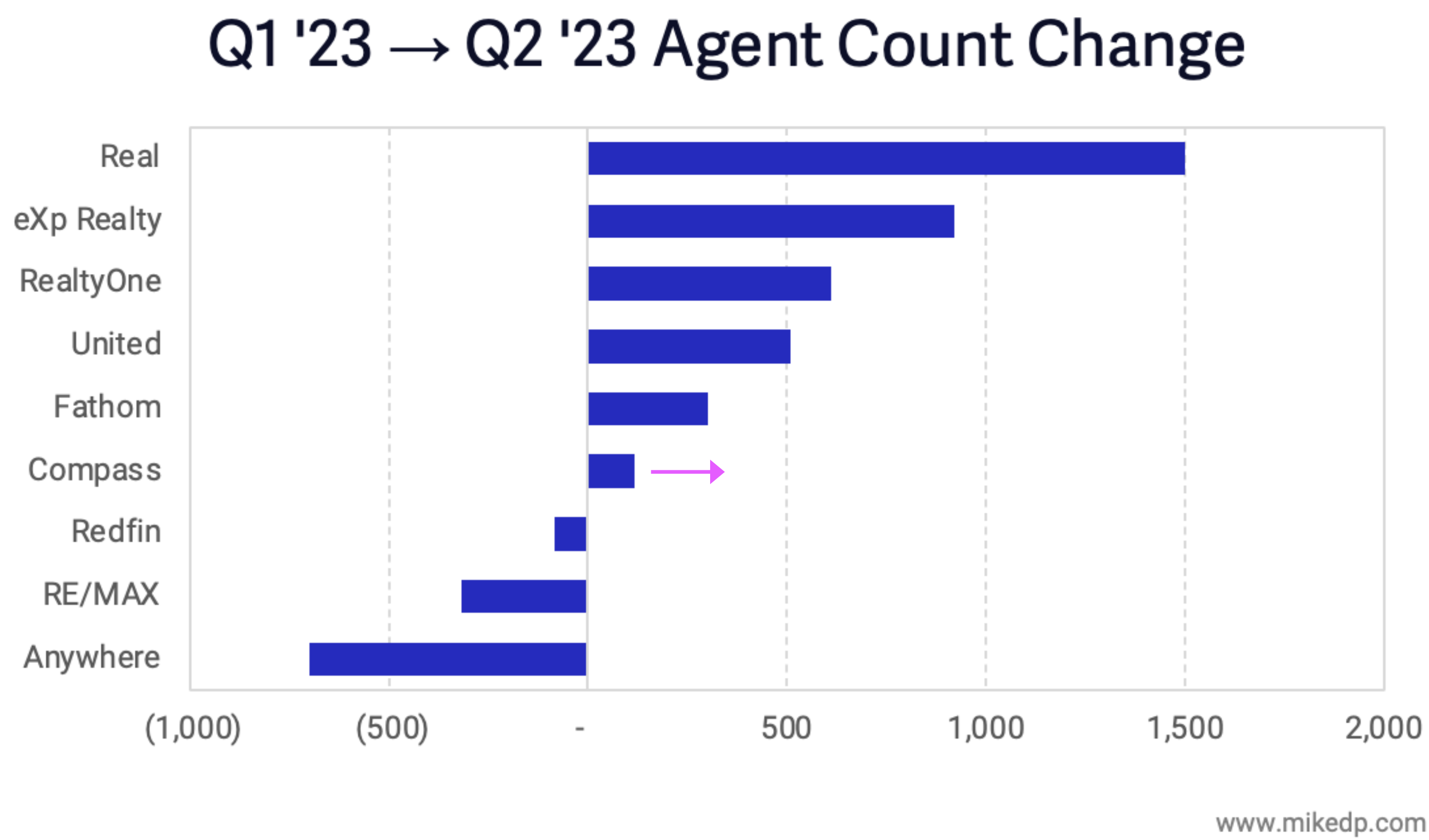
Source: Public filings and information shared directly from private companies.

…and the big legacy brands continuing to lose agents.



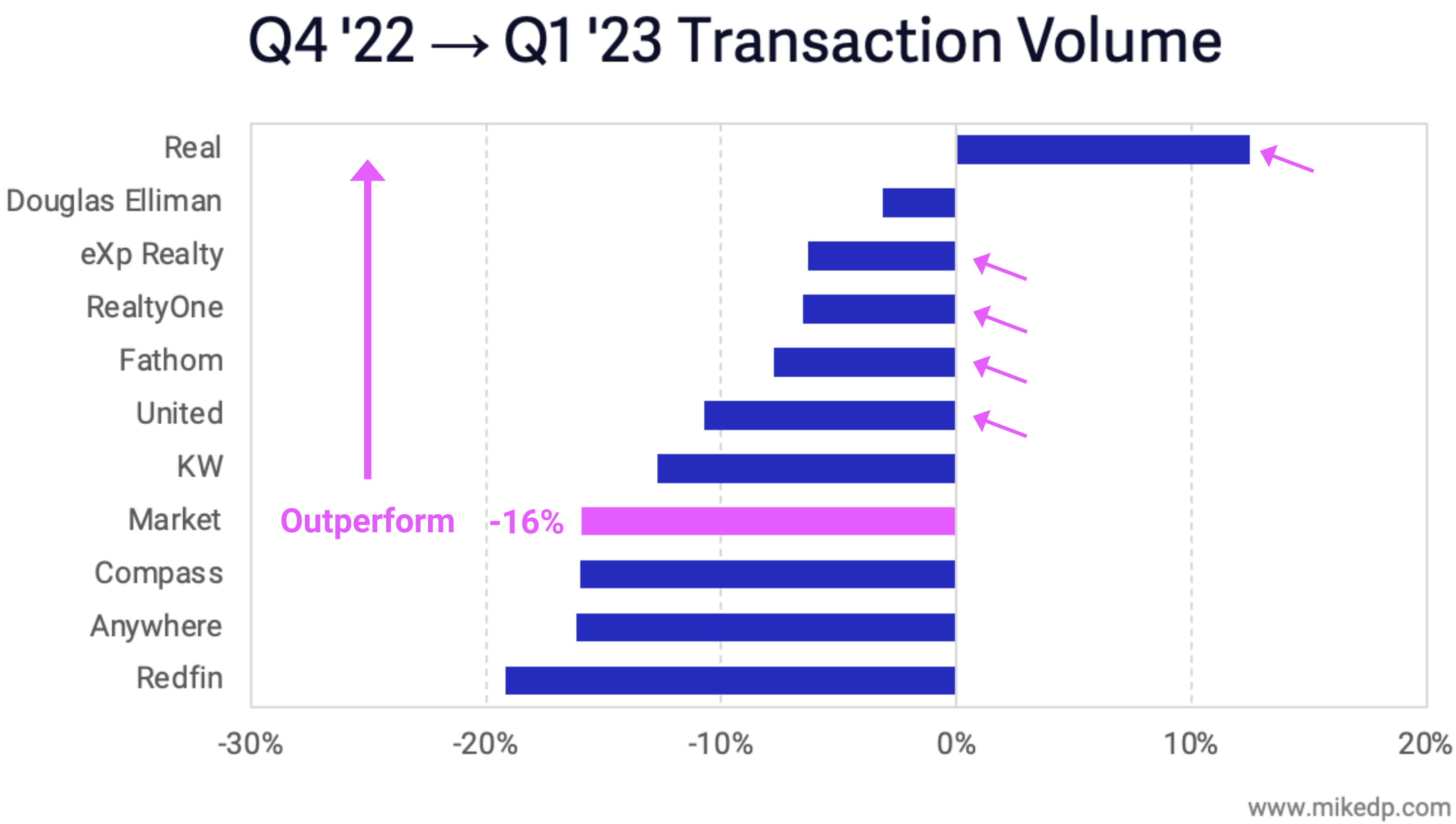
Source: Public filings and information shared directly from private companies.

But: Compass reversed the trend from Q1 and once again grew its agent count in Q2.



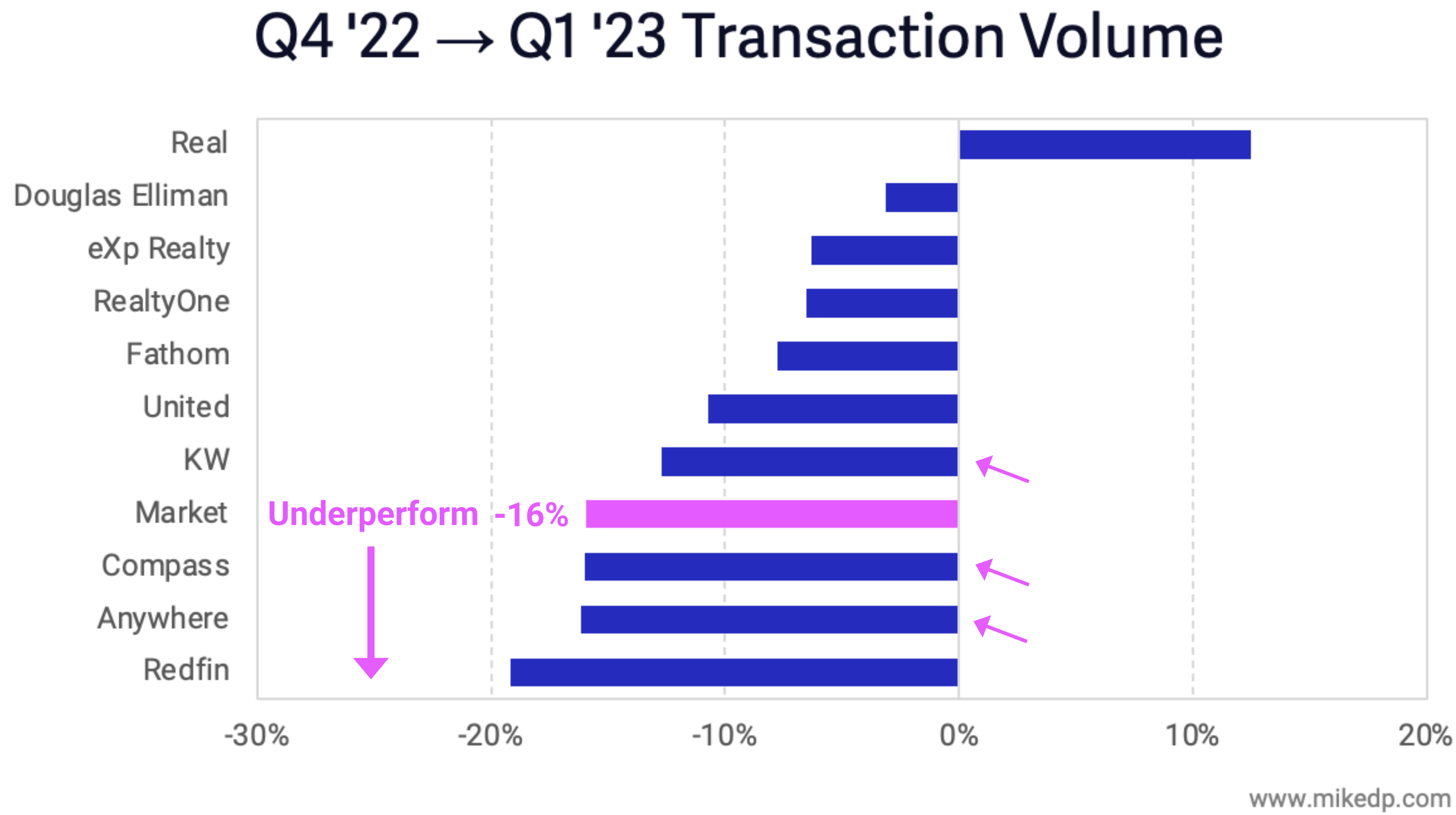
Source: Public filings and information shared directly from private companies.

In Q1, the same low-fee brokerages all outperformed the market in terms of transaction volumes.



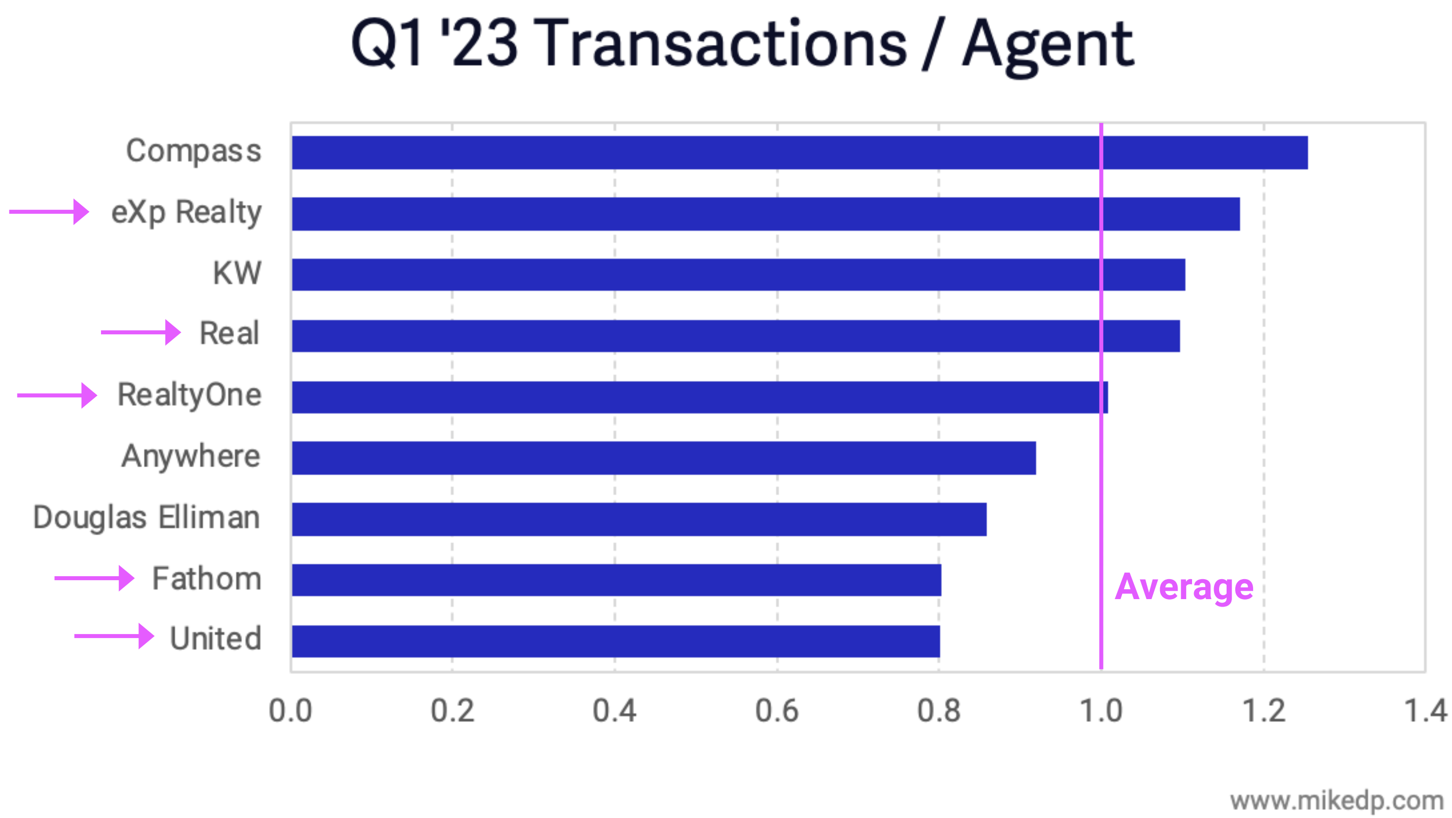
Source: Market data from NAR existing home sales.

While the legacy brands underperformed or were closer to parity in a slowing market.



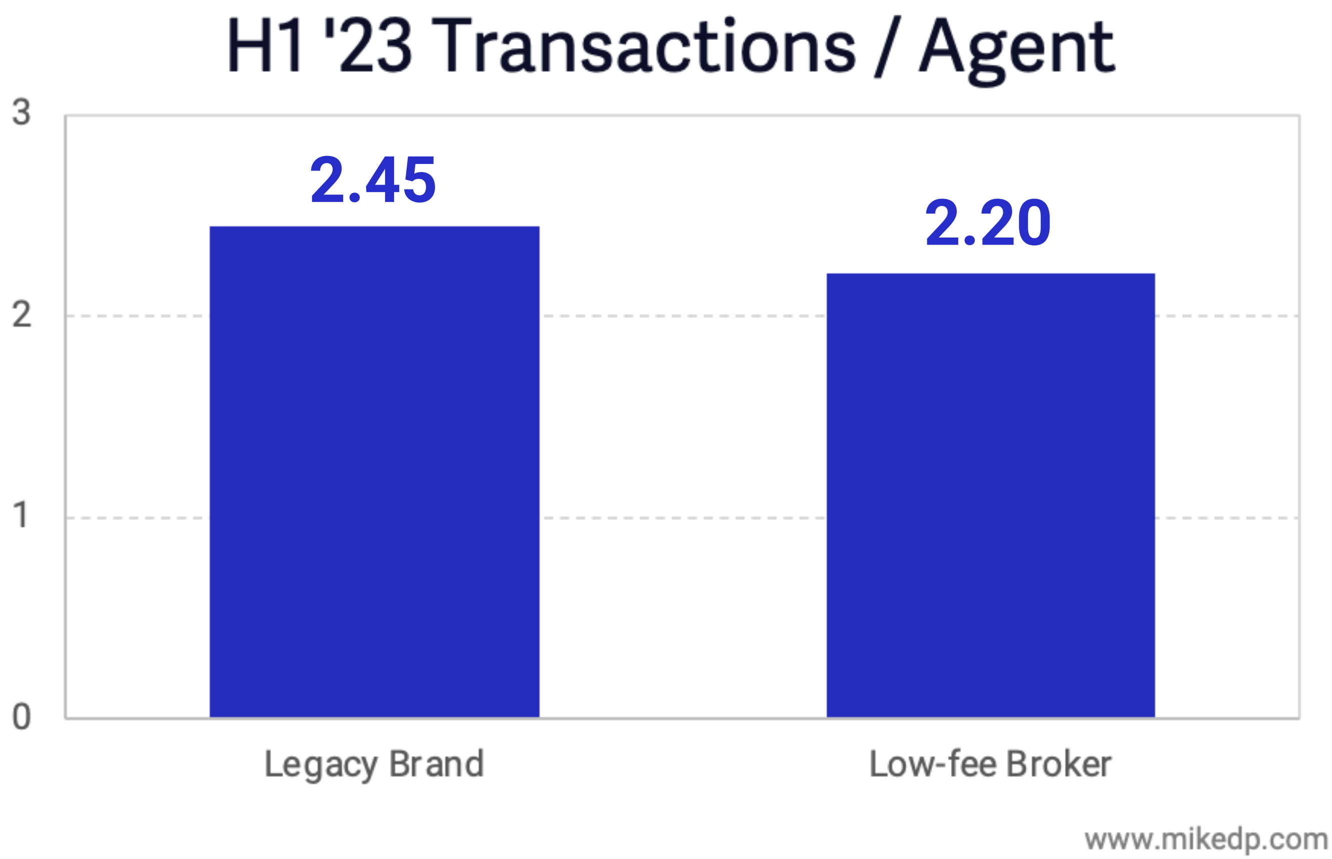
Source: Market data from NAR existing home sales.

On *average*, agents at low-fee brokerages were nearly as productive as agents at the legacy brands.



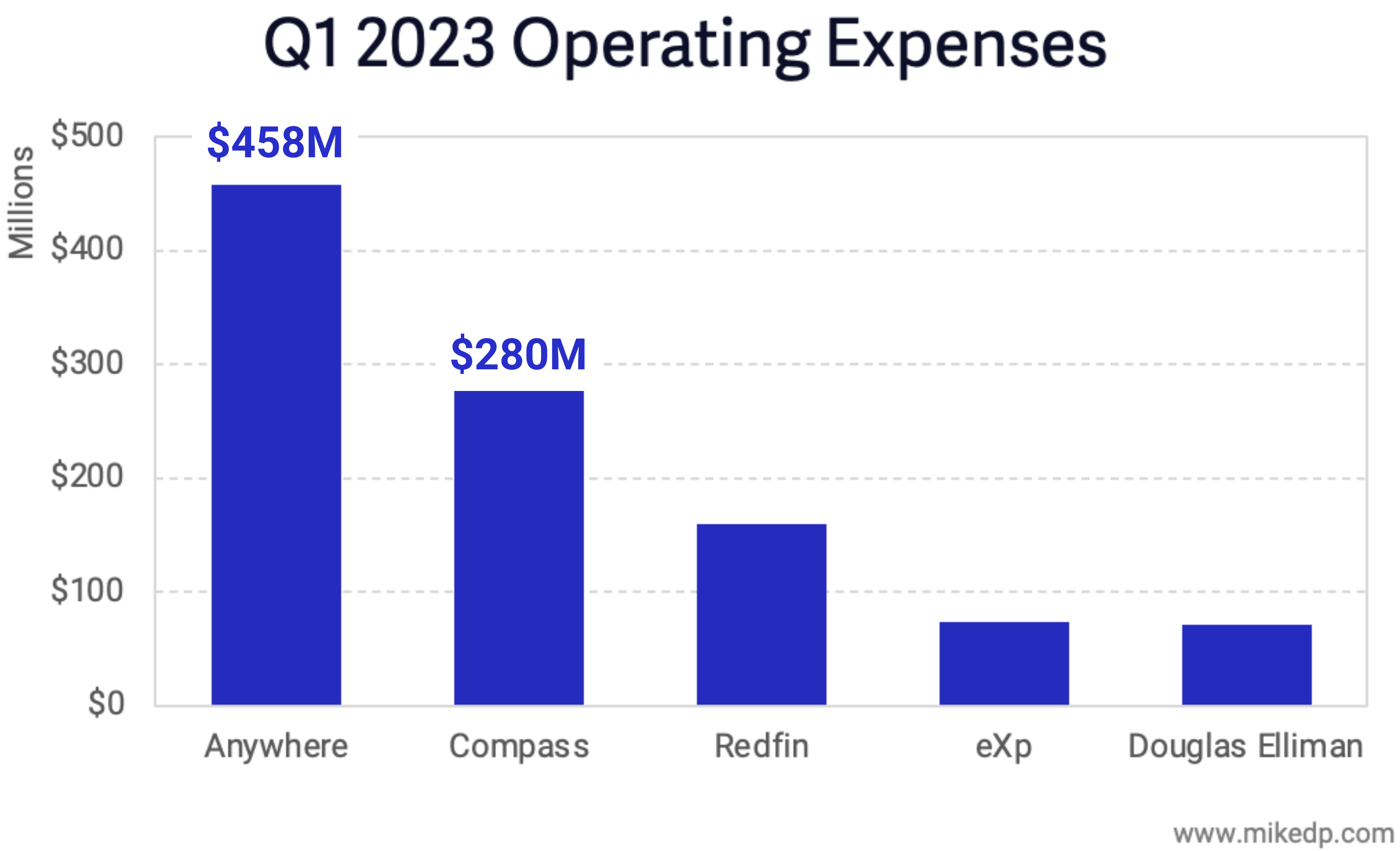
Source: Author's calculations from public filings and information shared directly from private companies.

Which goes some way to dispel the myth that low-fee brokers provide less *meaningful* support to agents.



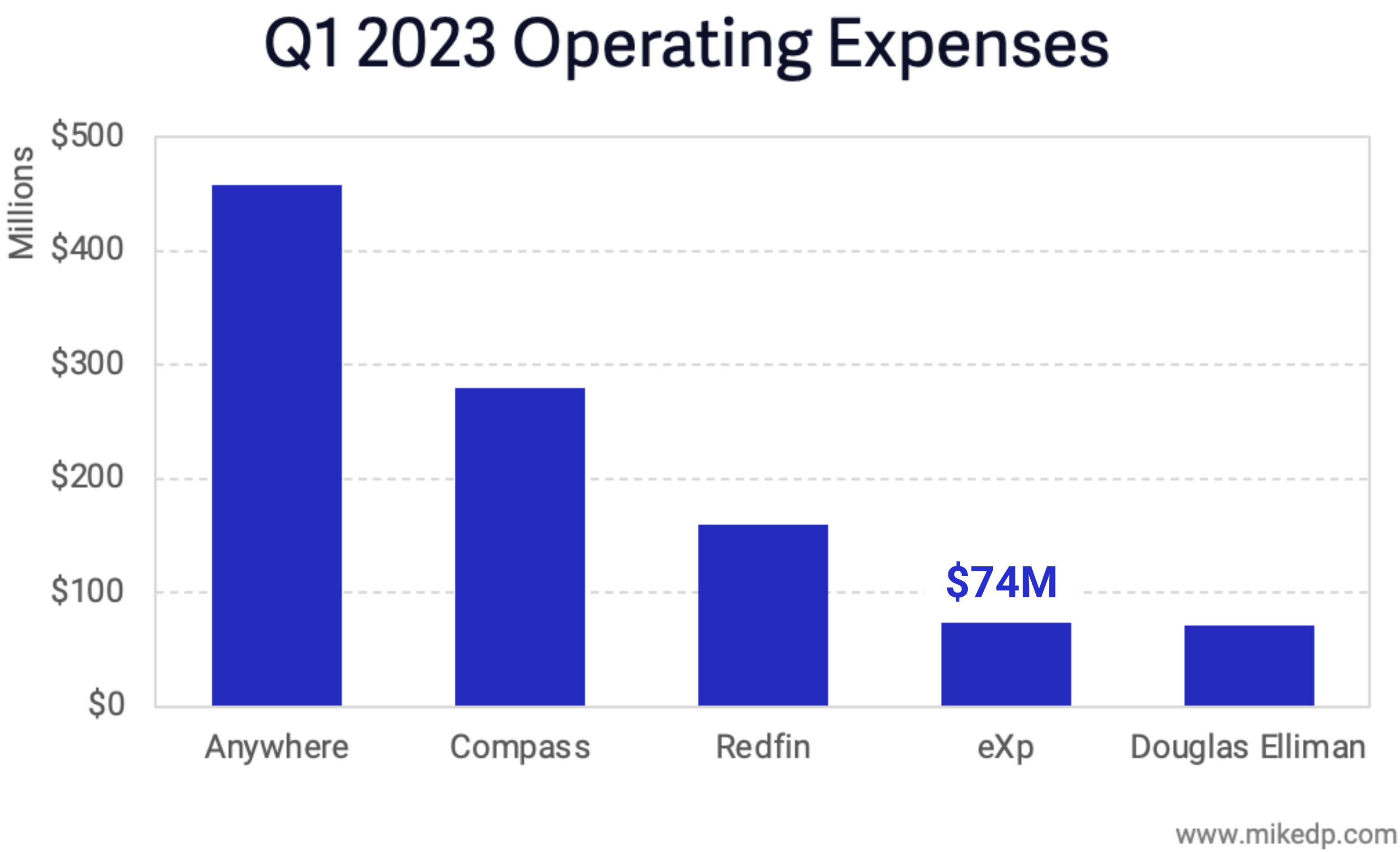
Source: Author’s calculations from public filings and information shared directly from private companies.

With more overhead and fixed costs, the legacy brands are encumbered with high operating expenses.



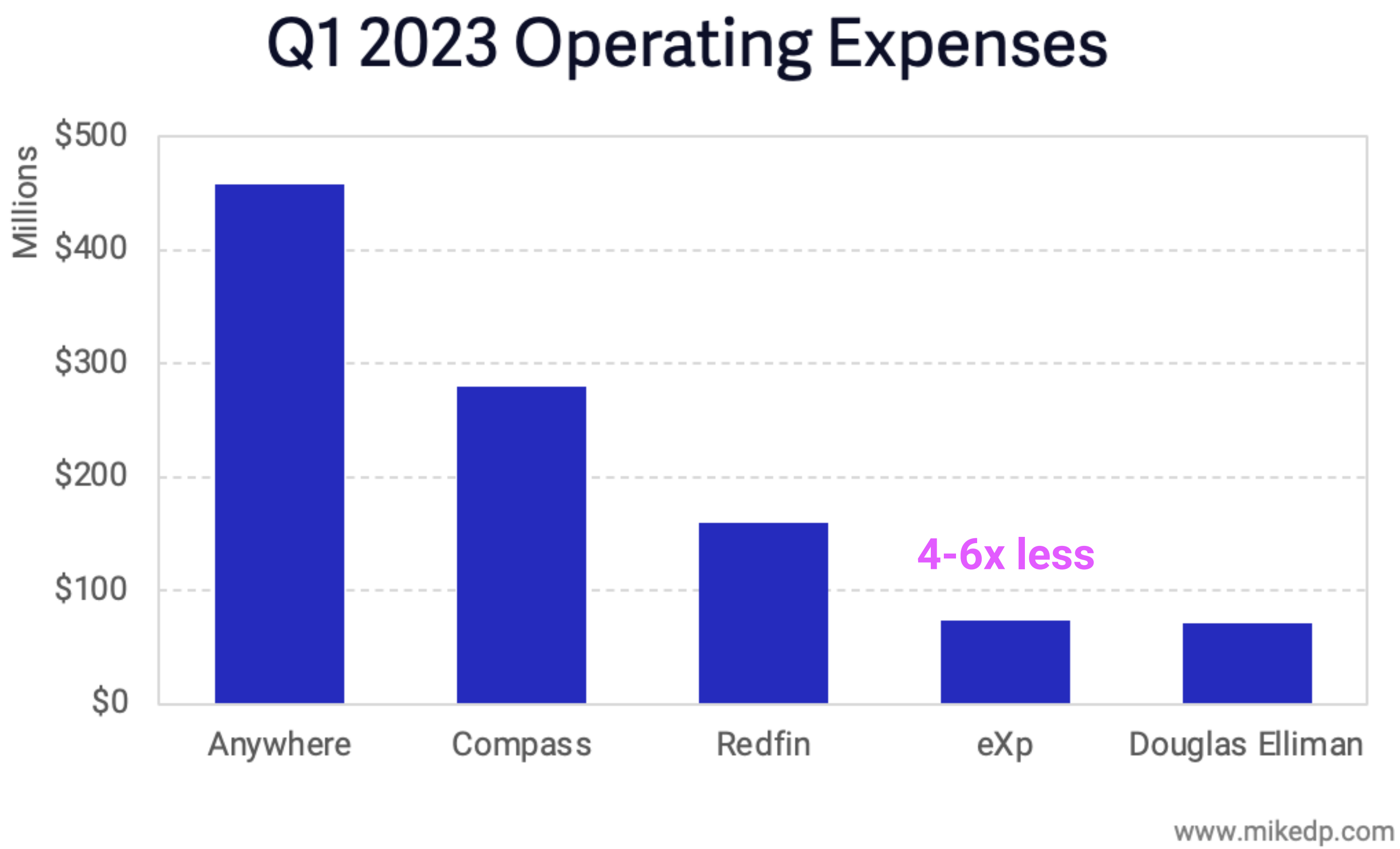
Source: Public filings.

Comparatively, with no offices and less fixed overhead, low-fee models like eXp run much leaner.



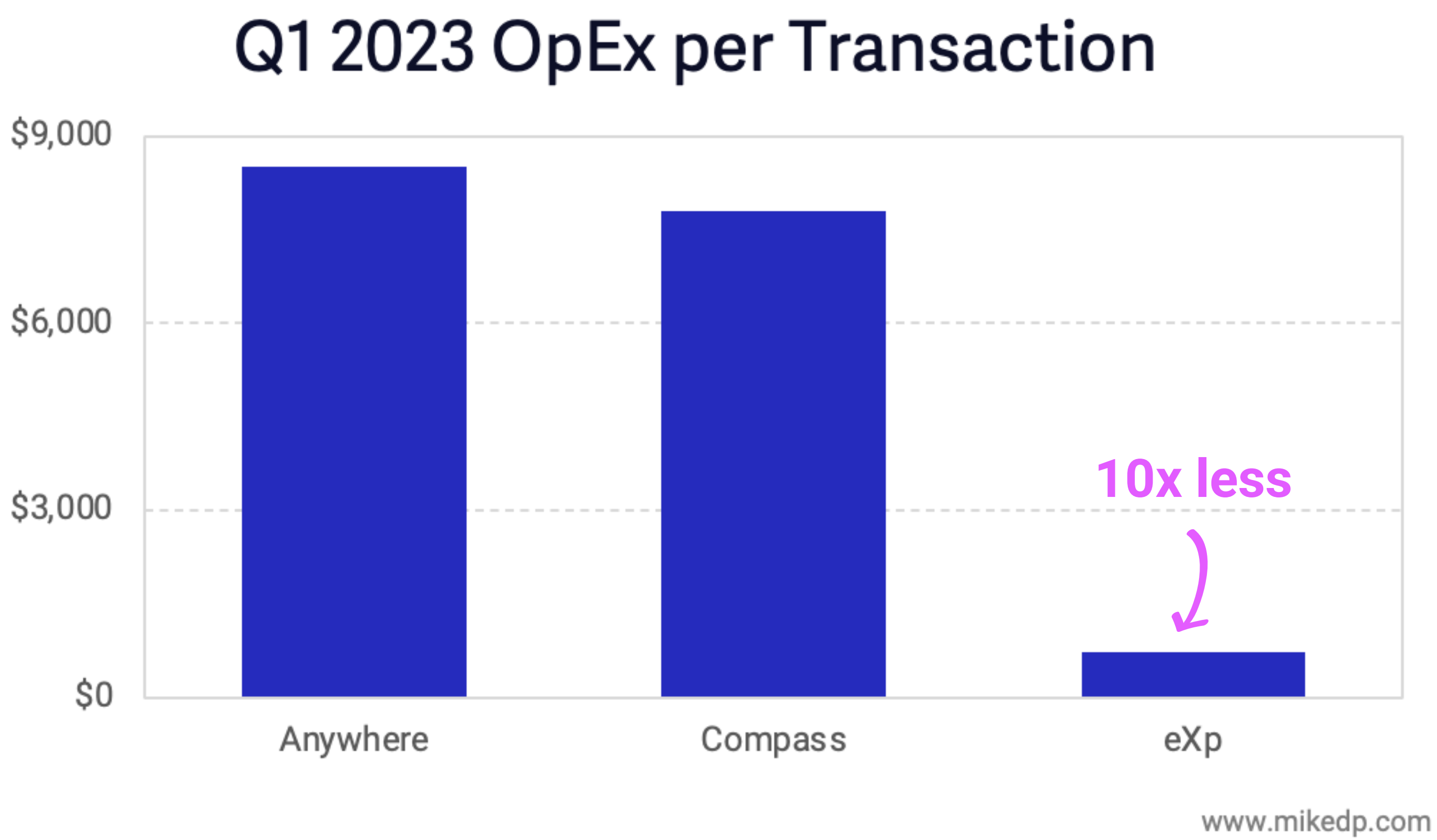
Source: Public filings.

The result is a key business model advantage with total operating expenses orders of magnitude lower.



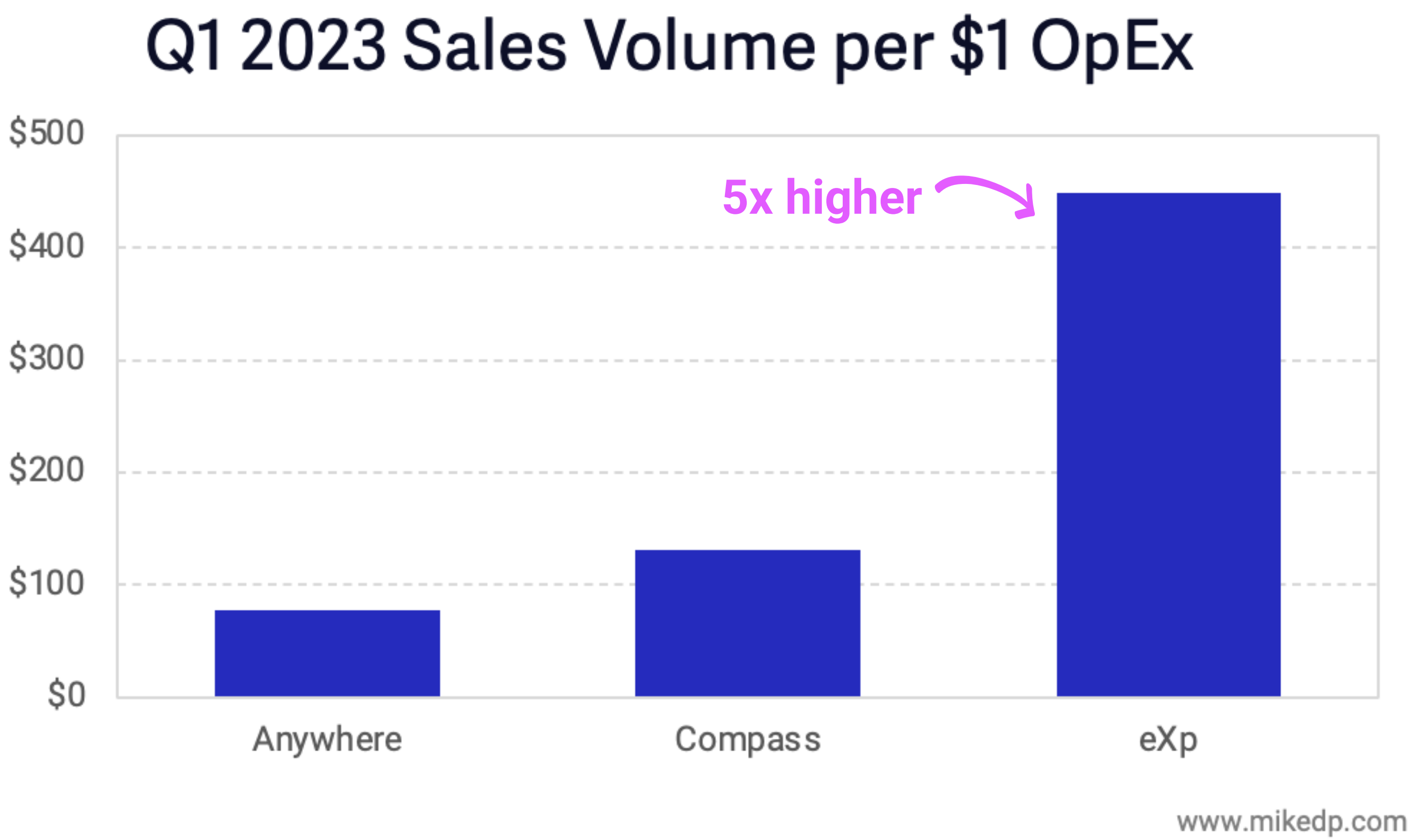
Source: Public filings.

And with 2–3x more transactions, eXp's OpEx per transaction is 10 times less than its peers.



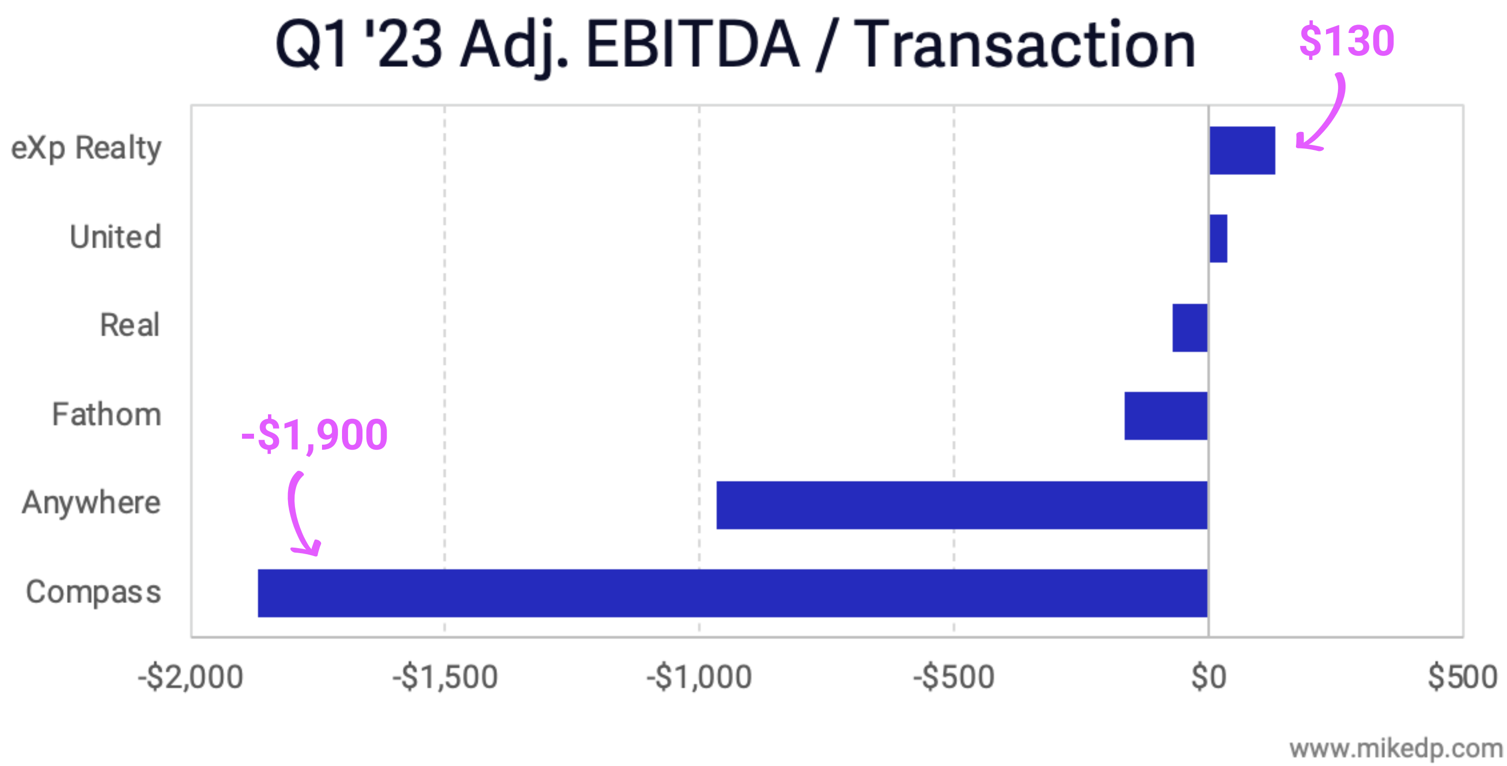
Source: Author's calculations.

Total sales volume generated per $1 of OpEx reveals that same exponential business model advantage.



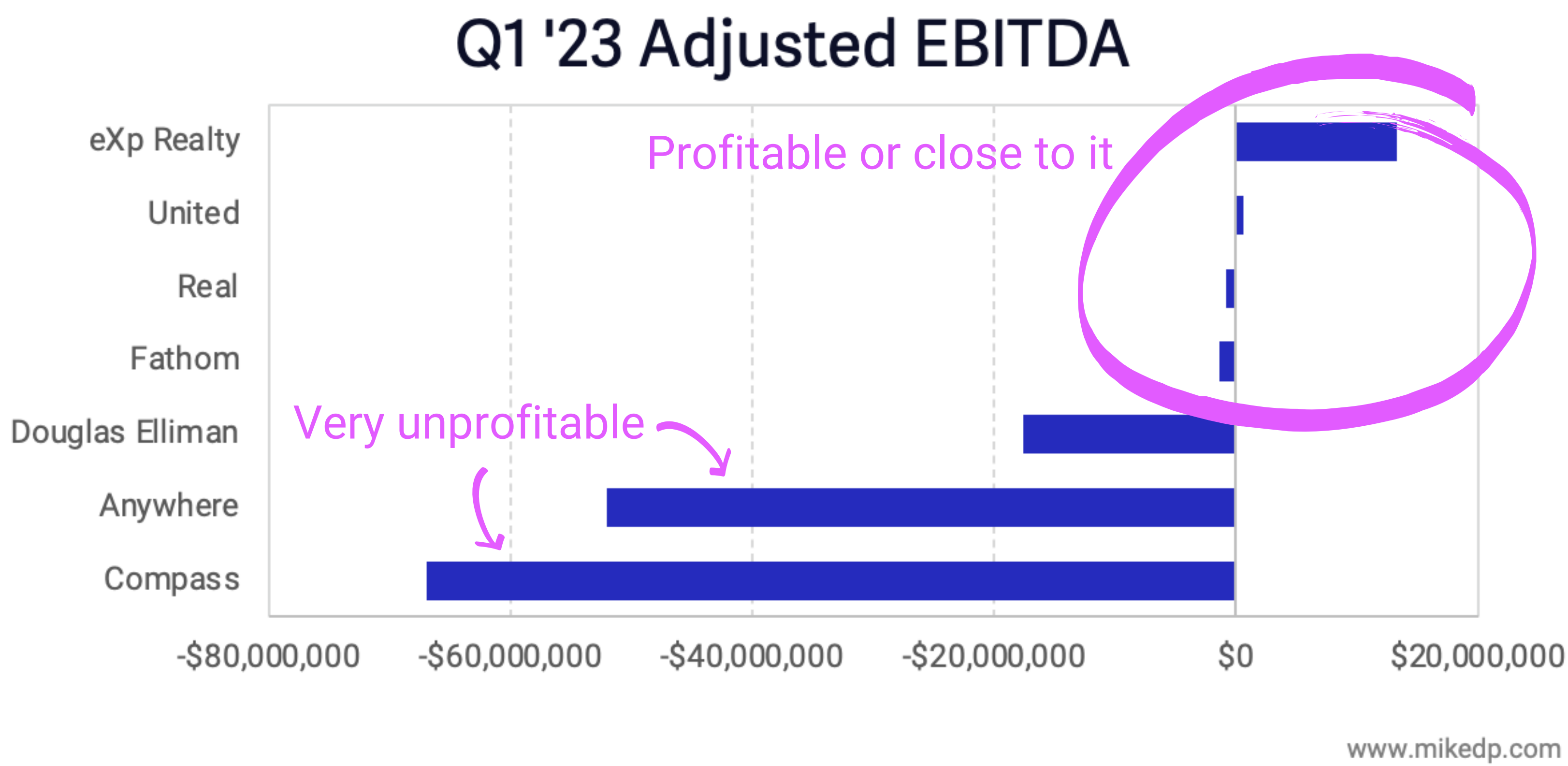
Source: Author's calculations.

The result to the bottom line is striking: a profit of $130 vs. a loss of $1,900 per transaction in Q1 '23.



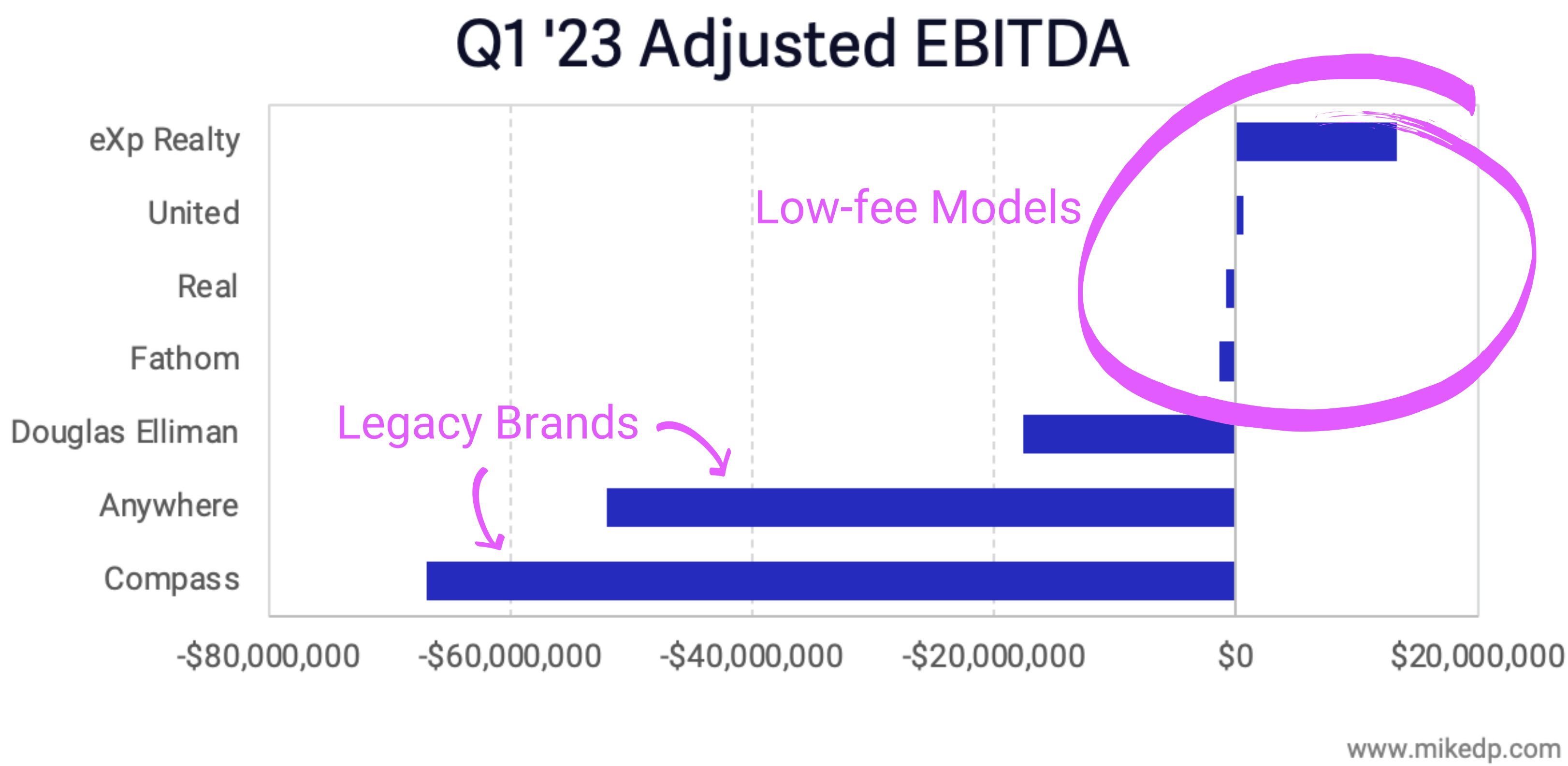
Source: Author's calculations. Adjusted EBITDA as reported by each company.

Which all adds up to two classes of brokerage businesses: profitable and unprofitable.



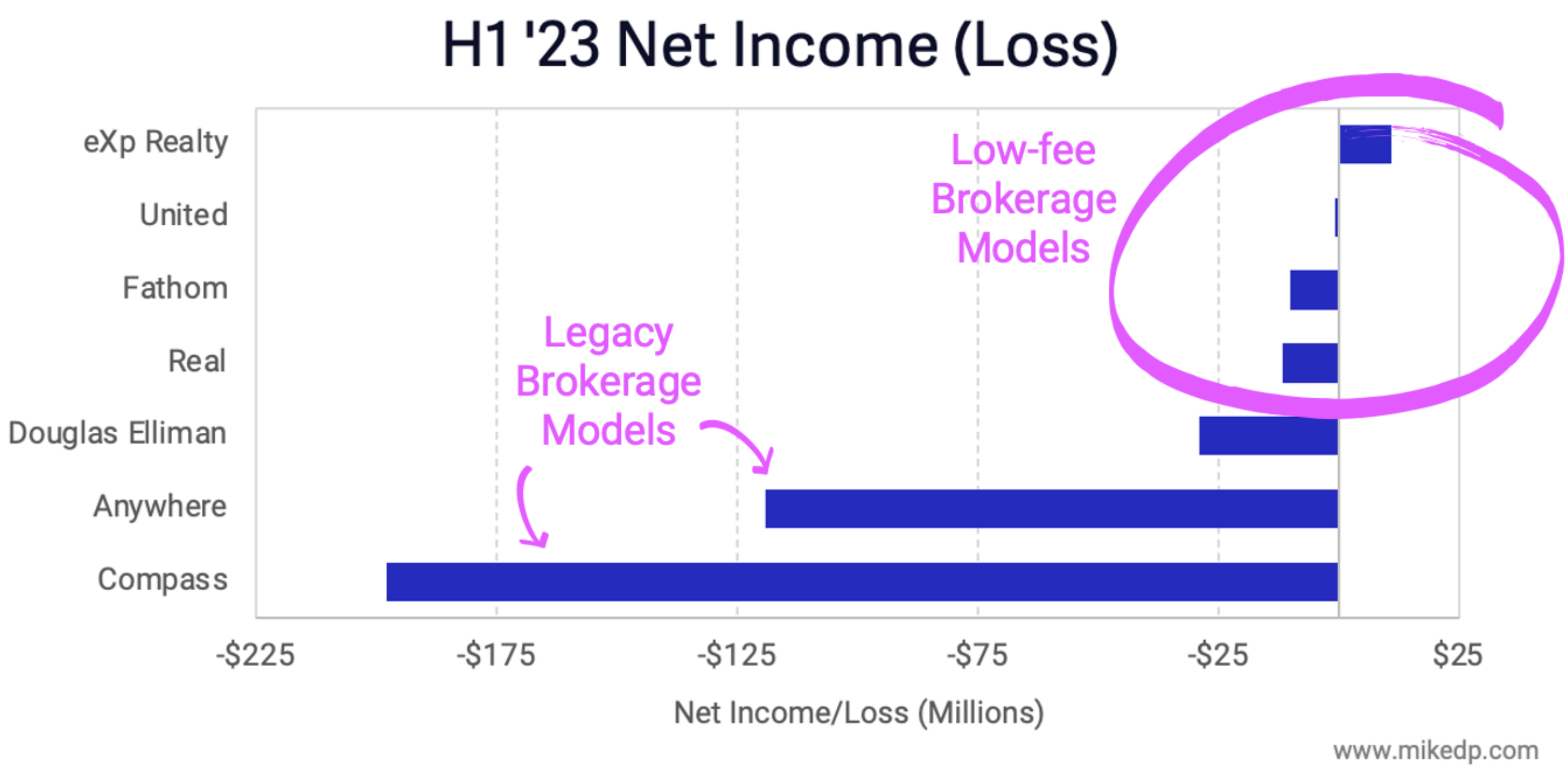
Source: Adjusted EBITDA as reported by each company.

The low-fee brokerages are all profitable or very close to it, while the legacy brands are very unprofitable.



Source: Adjusted EBITDA as reported by each company.

And the trend is the same at a Net Income level for the first half of 2023.



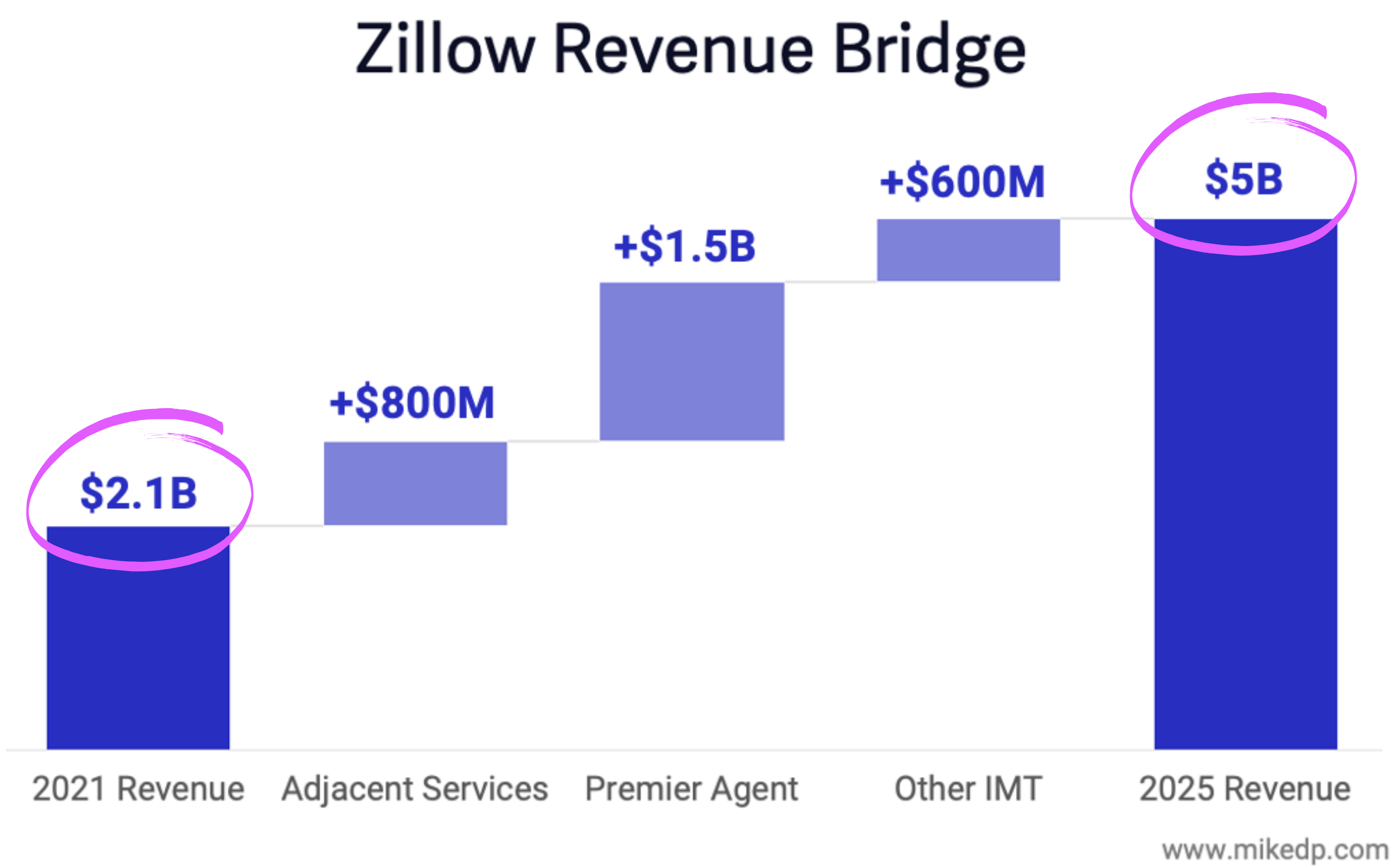
Source: GAAP Net Income as reported by each company.

It's tempting – and imperative! – to draw conclusions about brokerage models from the data.

- The winners – eXp, Real, Fathom, RealtyONE, and United Real Estate – have one thing in common: they all offer high splits, low transaction fees, or 100 percent commission models.
- Meanwhile, the biggest losers are typically seen as traditional industry incumbents (but somehow also include Redfin and sometimes Compass).
- A rising tide may lift all boats, but a receding tide slams some boats against the shore.
- In a year of belt-tightening and fewer transactions, agents – and their transactions – appear to be flocking to relatively newer models where they keep more of their commission.

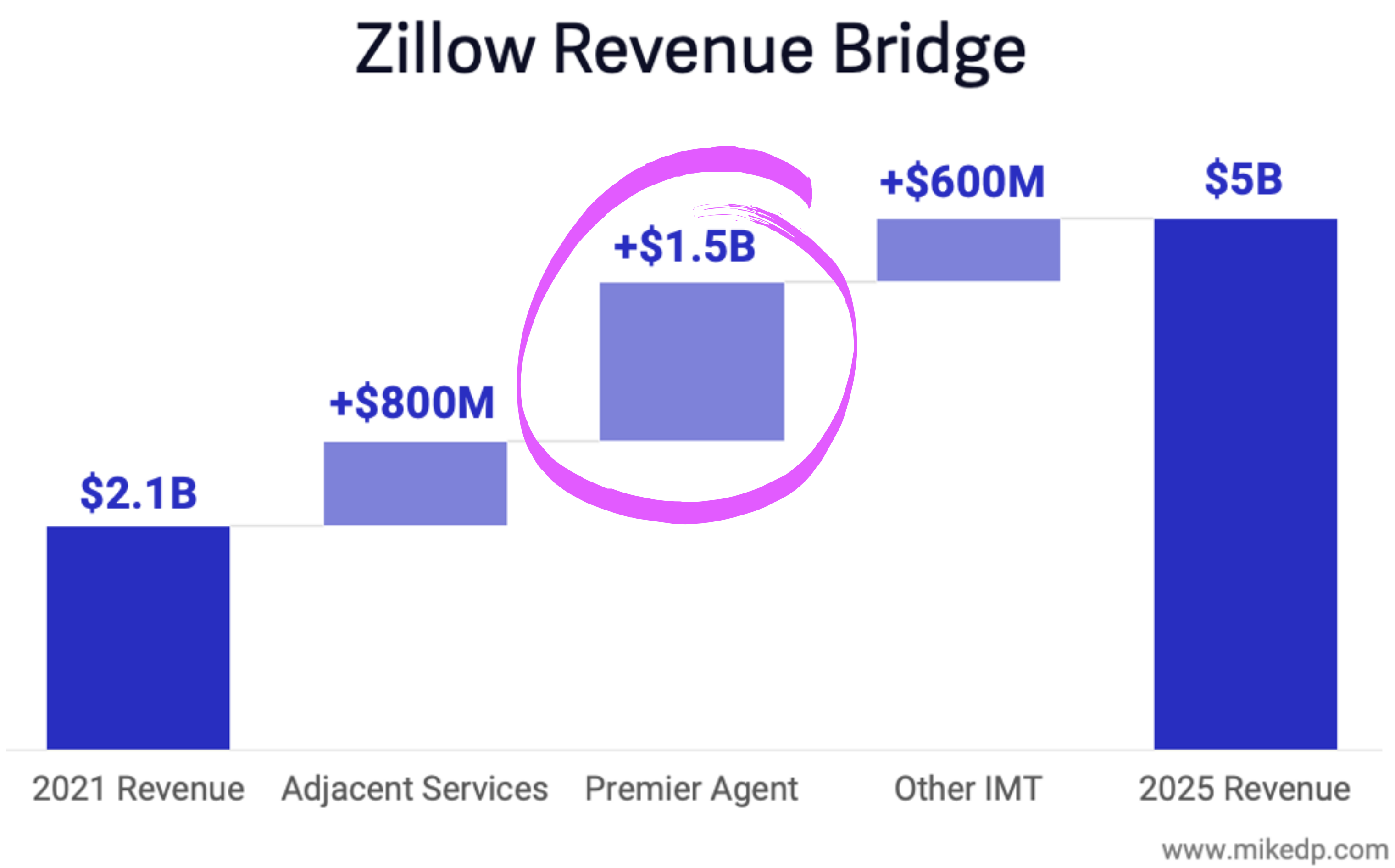
Zillow's Evolution

Zillow's strategic goal, announced in early 2022, aims to double revenue by 2025.



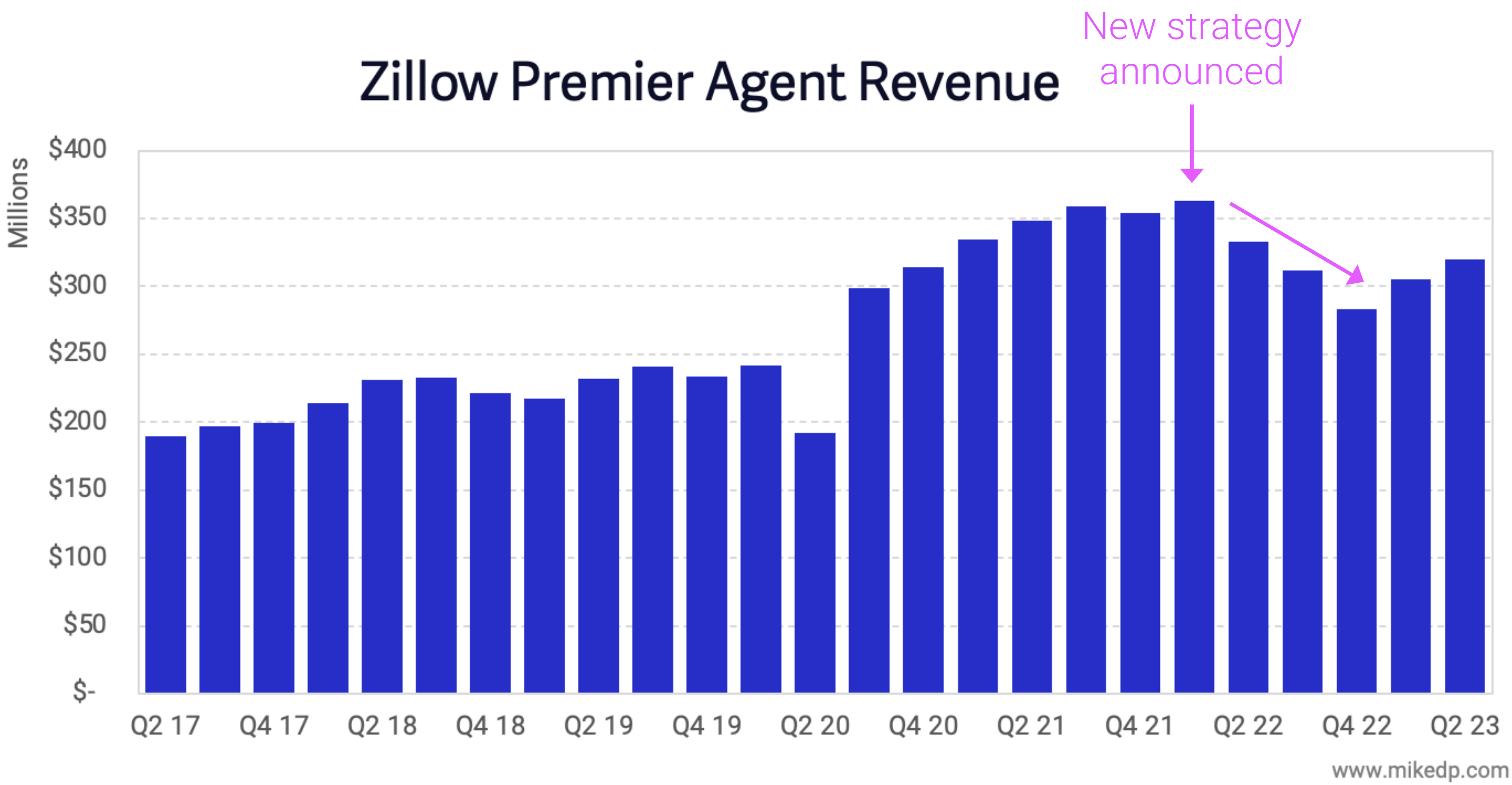
Source: Author's work based on public information.

The majority of revenue growth will come from the core Premier Agent business – selling leads.



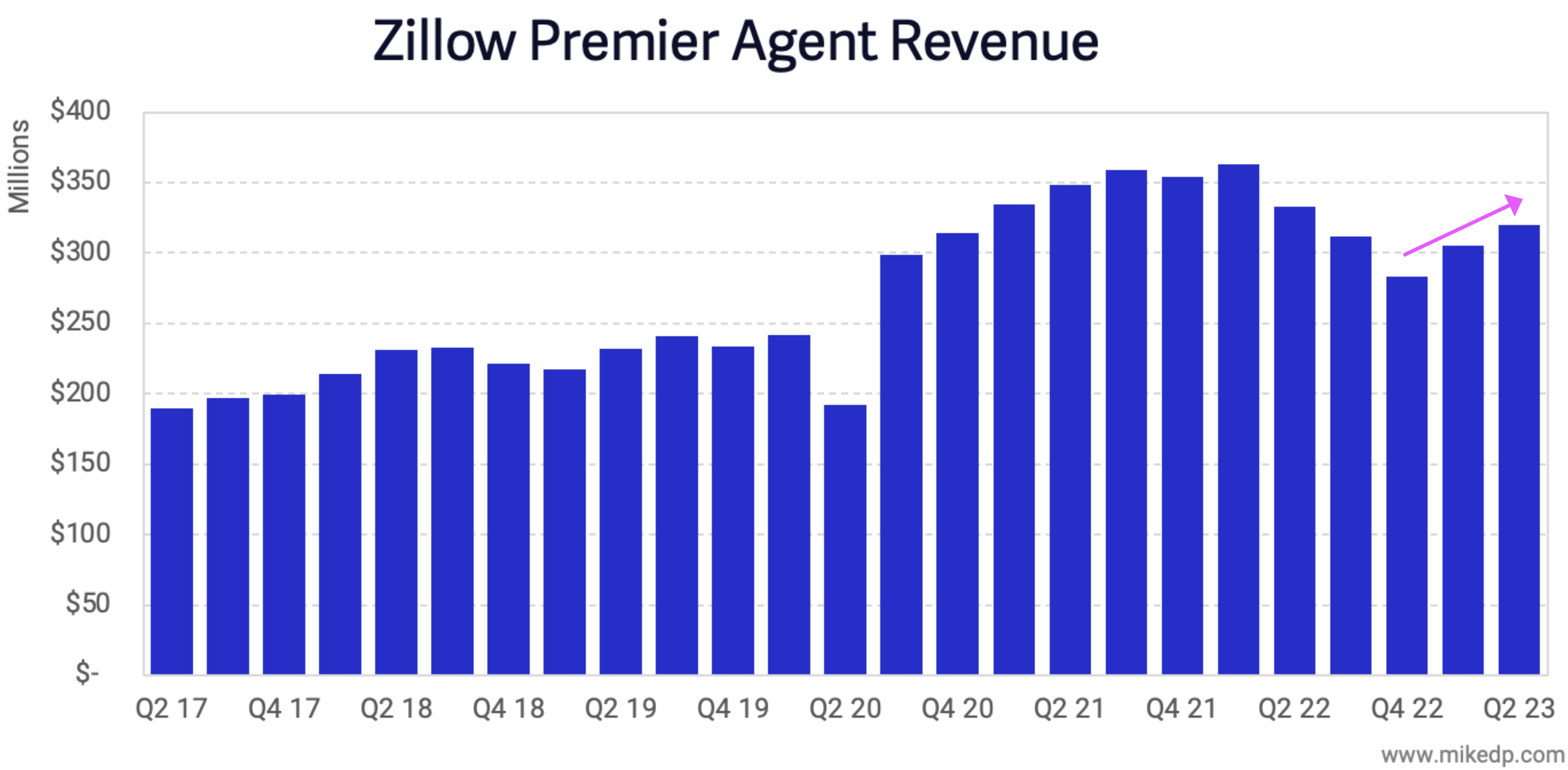
Source: Author's work based on public information.

The challenge is that since then, Zillow's Premier Agent revenue has faced significant headwinds.



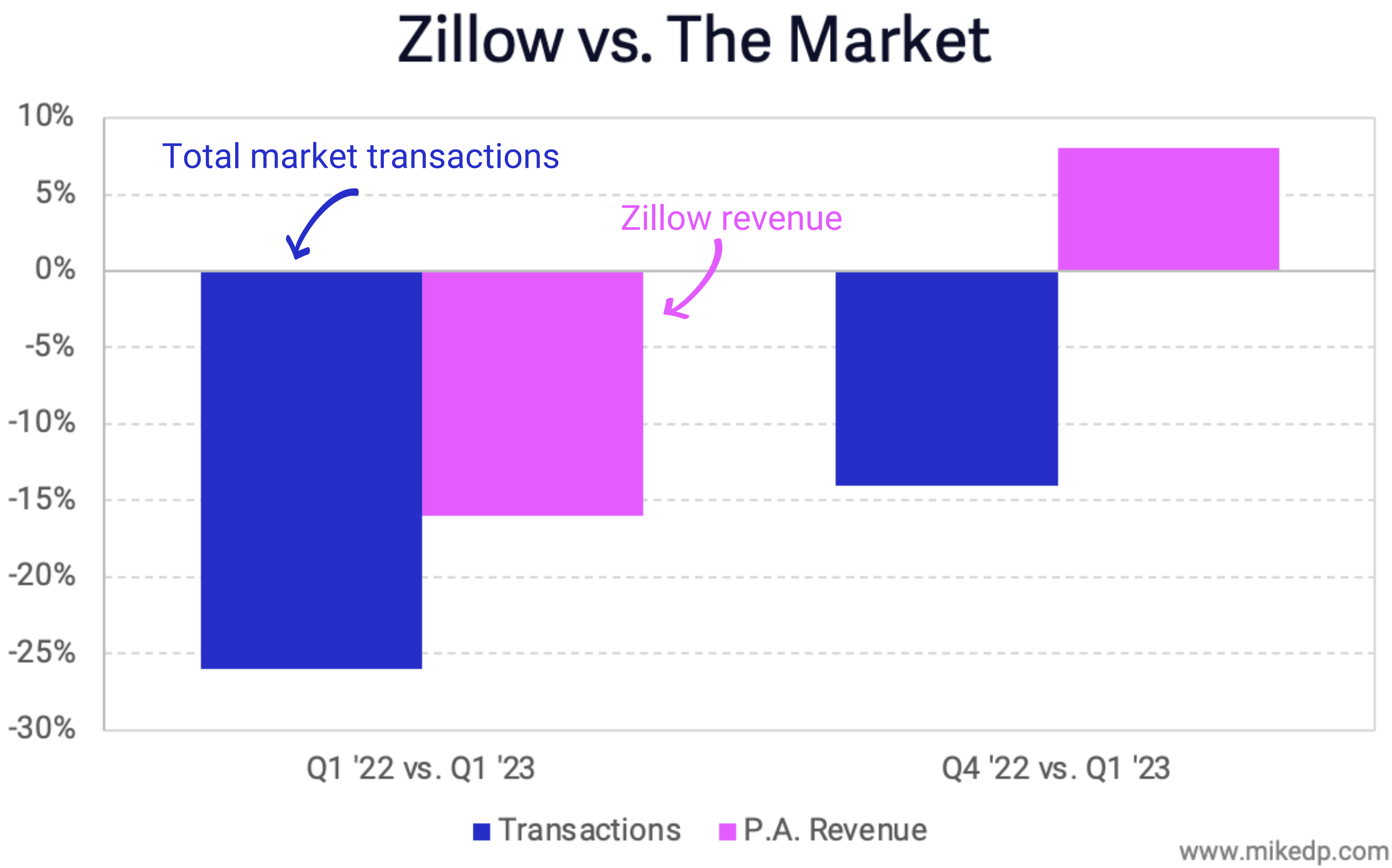
Source: Public filings.

But: Premier Agent revenue finally increased during Q1 2023, breaking a nine-month losing streak.



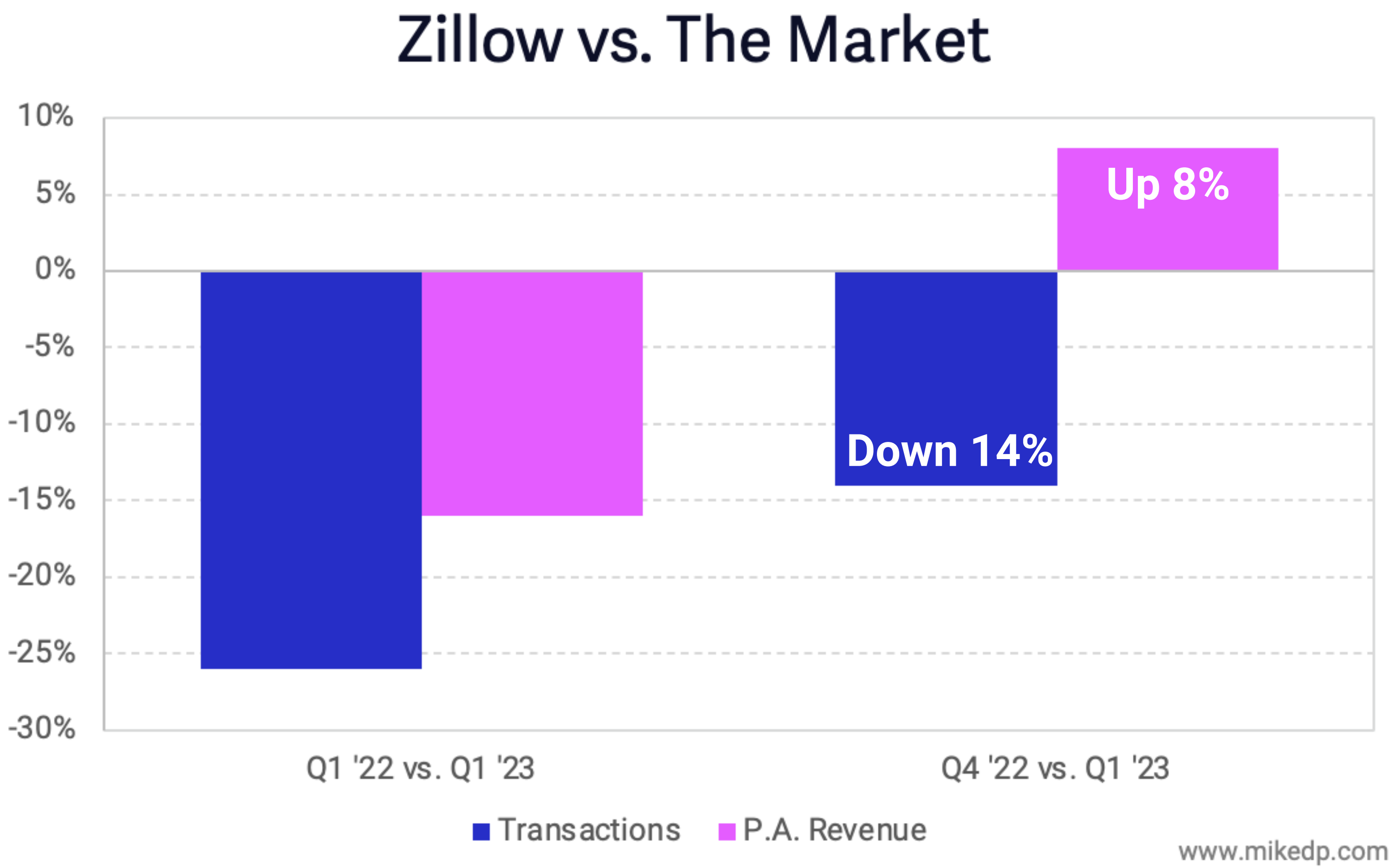
Source: Public filings.

In Q1, Zillow's Premier Agent business outperformed the market year-over-year and quarter-over-quarter.



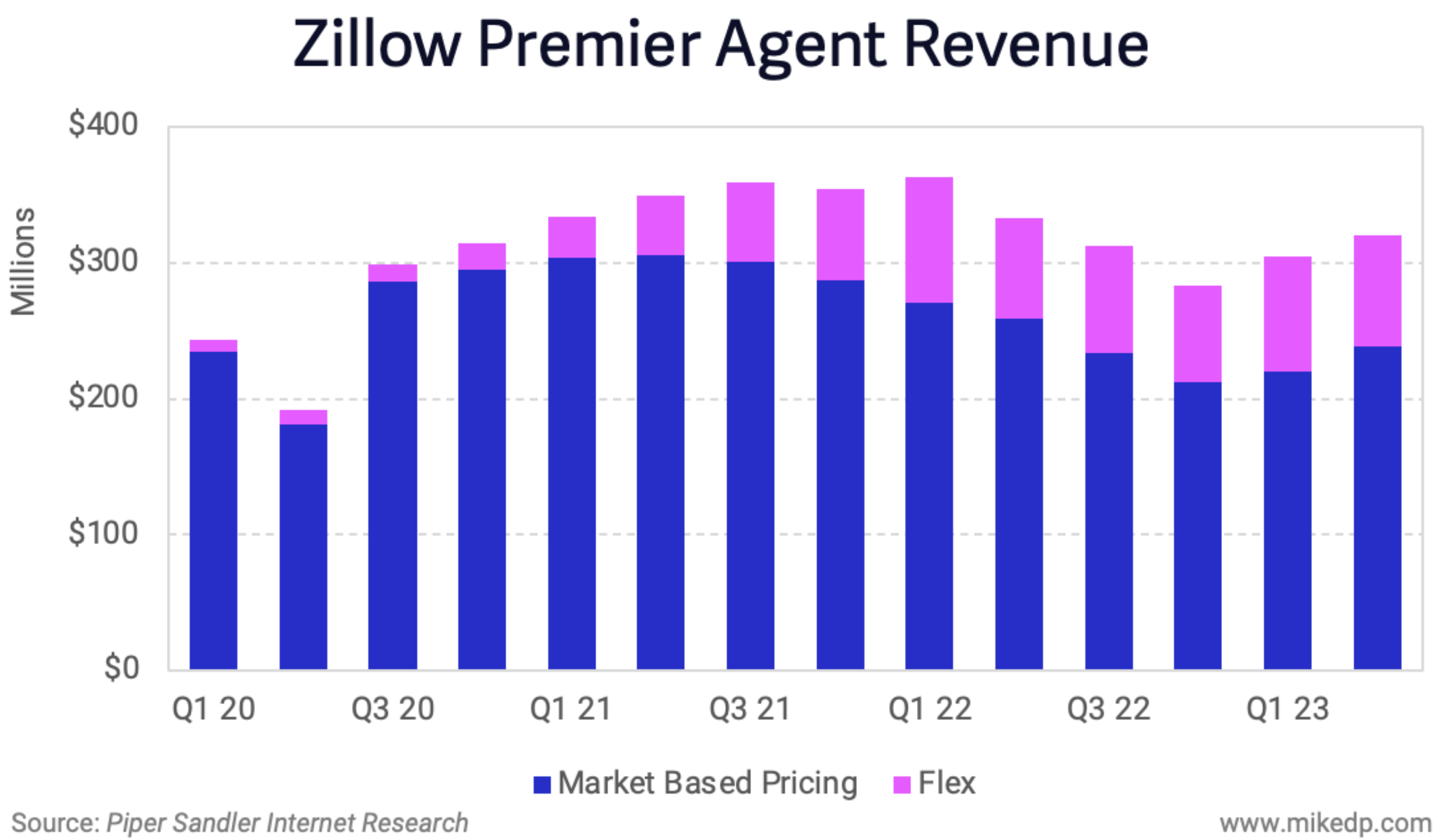
Source: Author's calculations based on NAR data and public filings.

Compared to Q4, market transactions were down 14% but Zillow *increased* its Premier Agent revenue 8%.

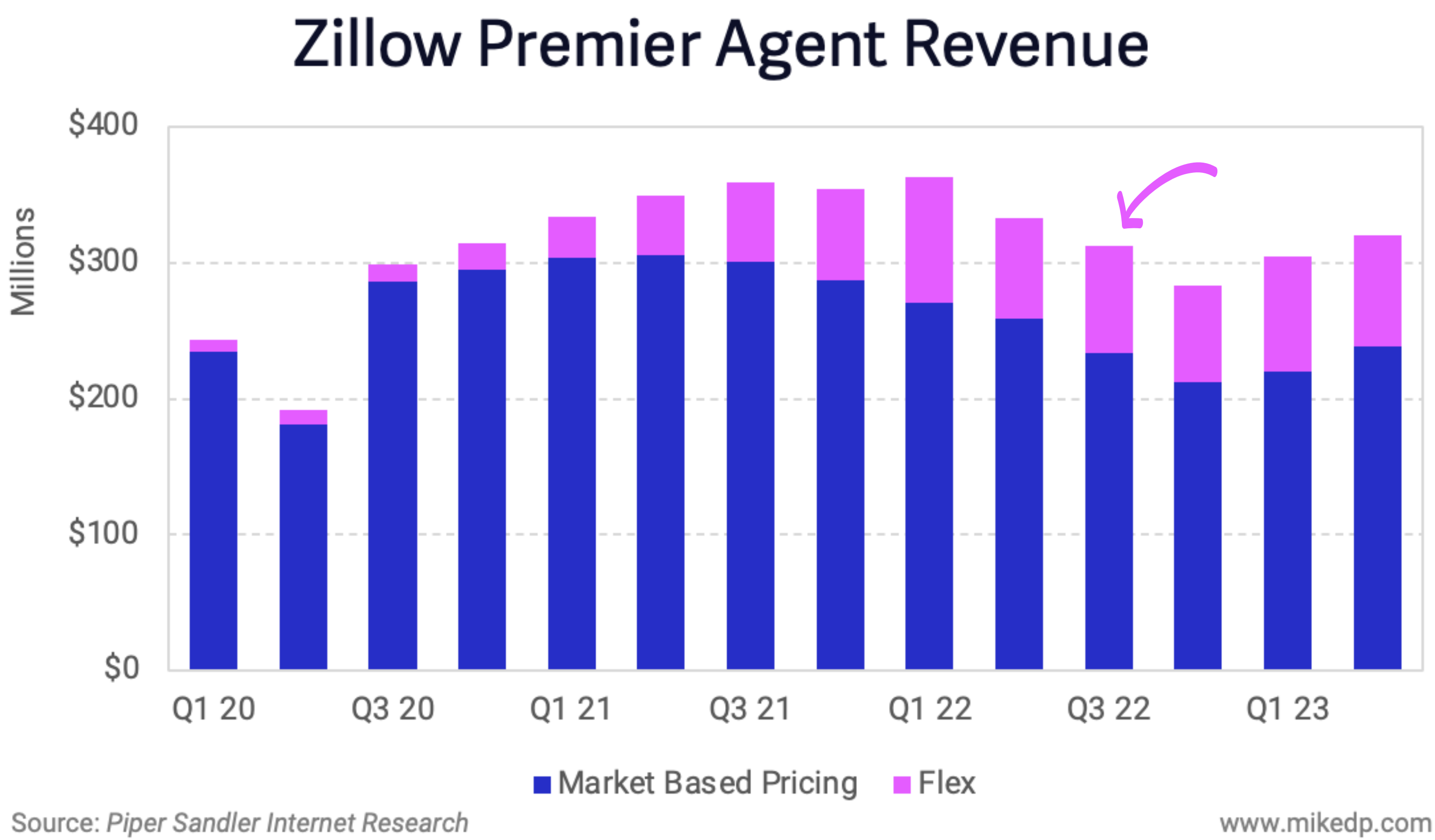


Source: Author's calculations based on NAR data and public filings.

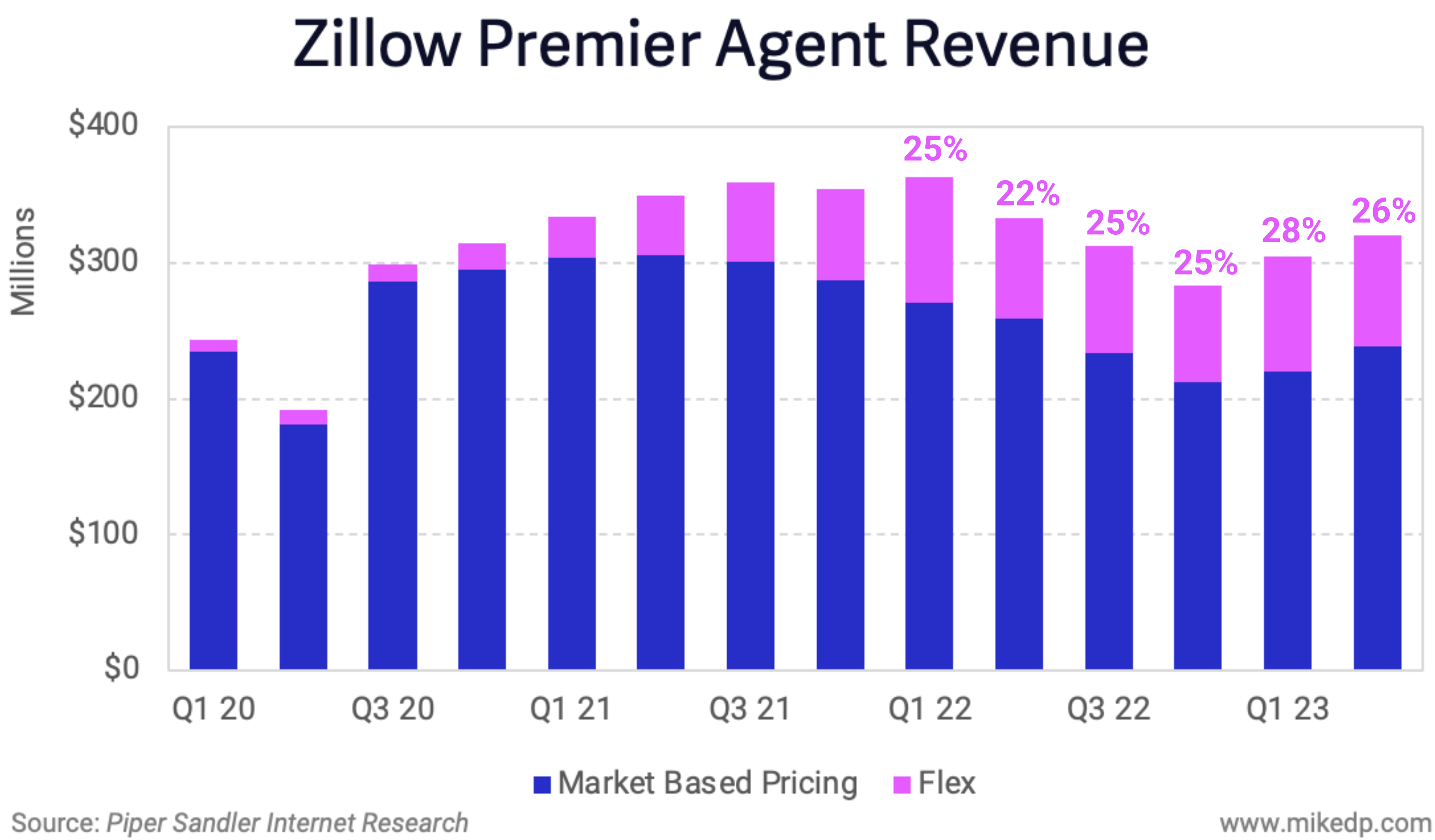
A key ingredient of Zillow's future growth rests on its Flex program, which charges agents a success fee.



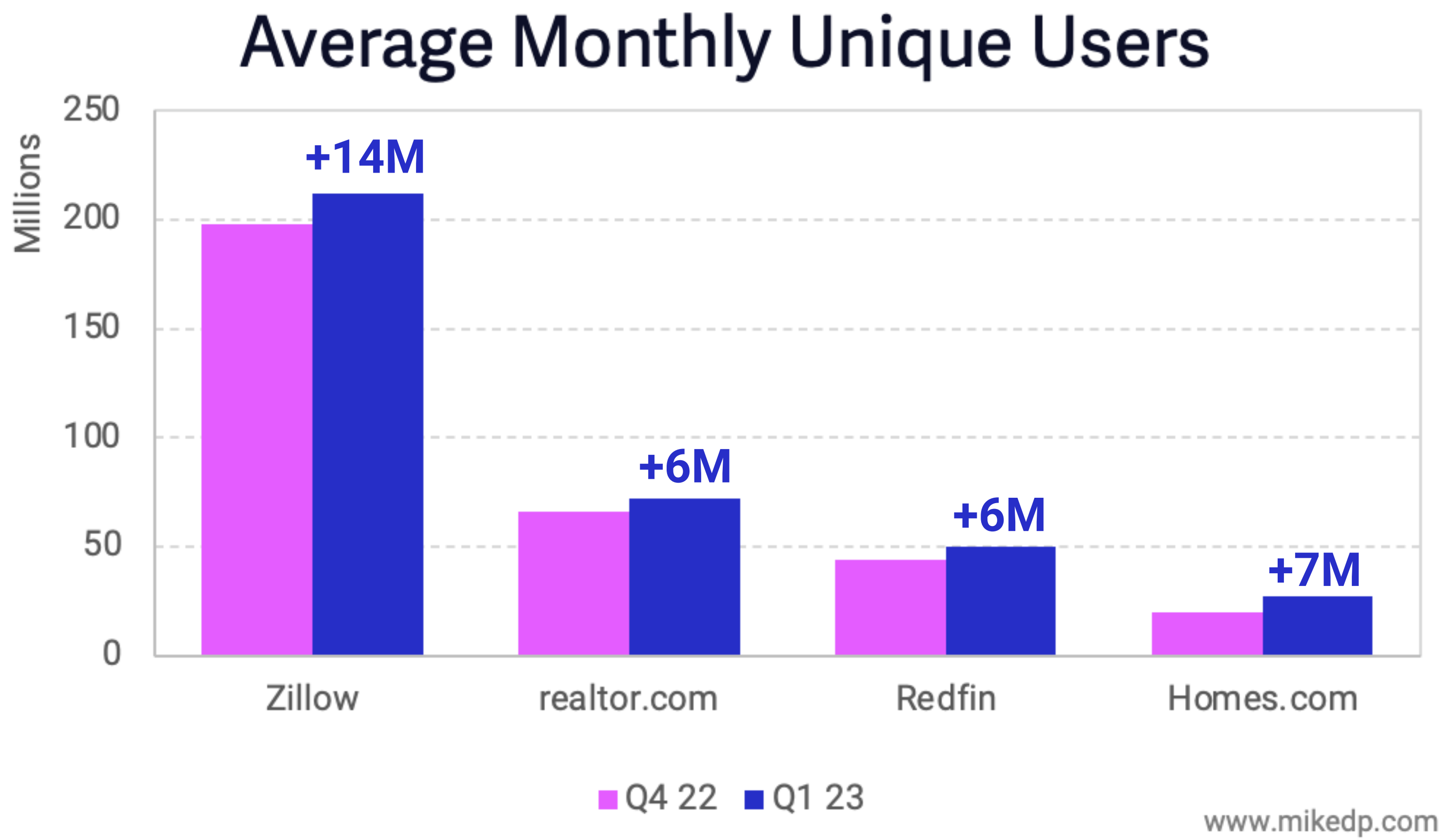
Over time, Flex is becoming a larger part of Zillow's Premier Agent lead gen business.



But Flex revenue has plateaued at around 25%, suggesting a potential upper limit for the business.

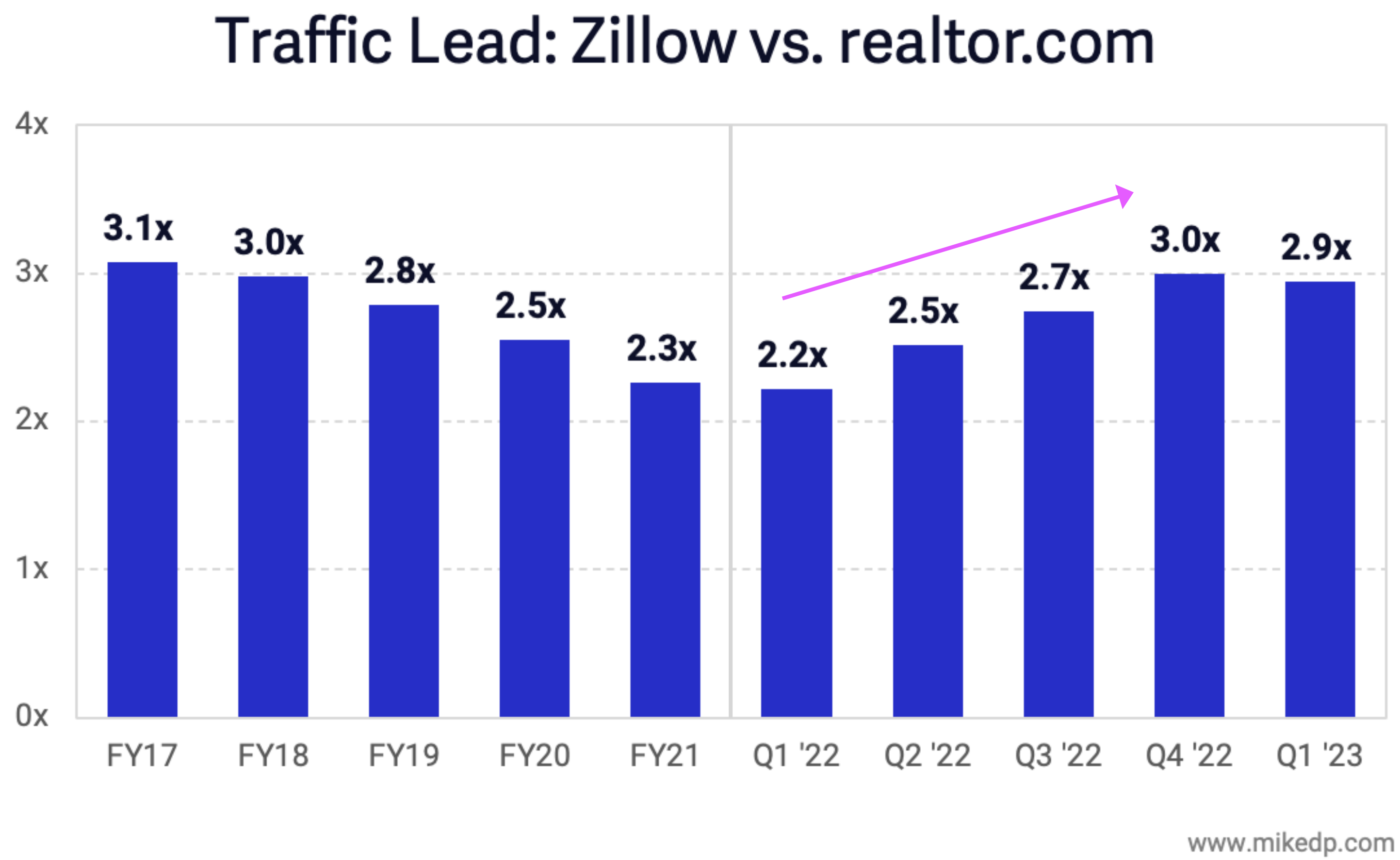


Zillow has maintained its top market position, adding 2x the monthly users than any other portal in Q1 ‘23.



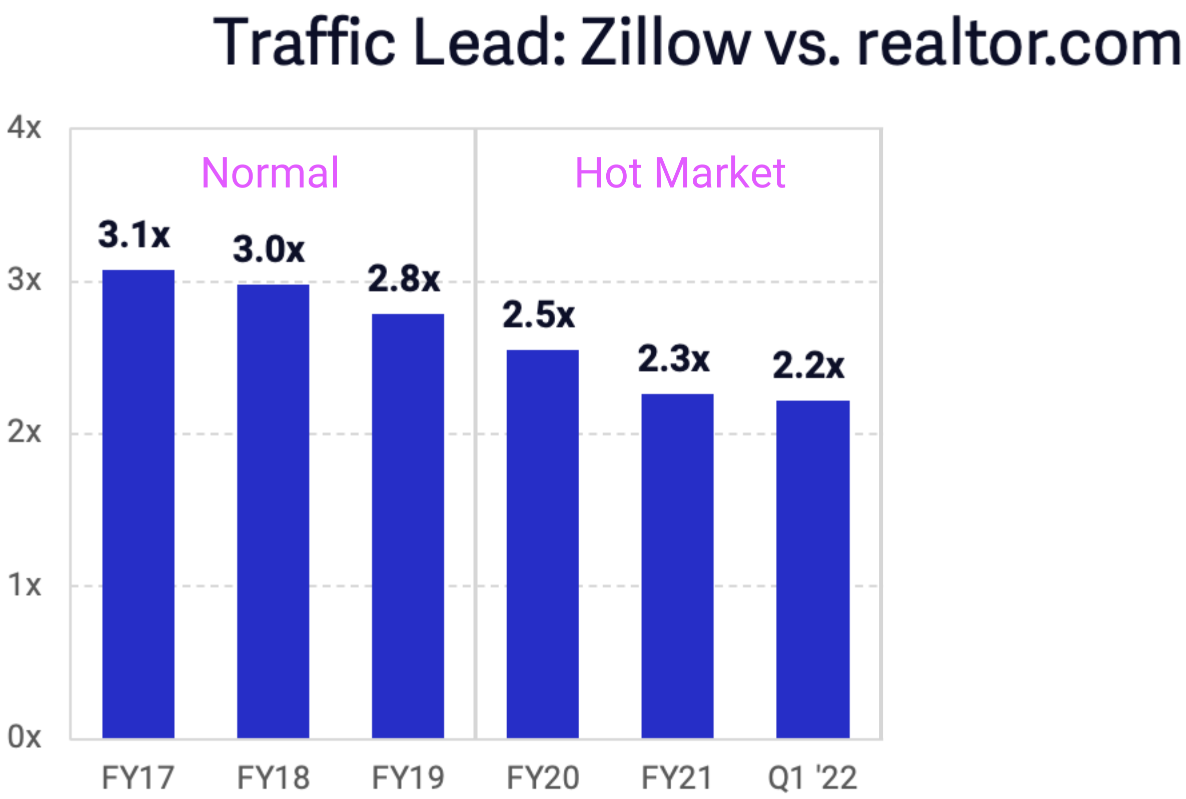
Source: Public filings.

Zillow increased its commanding traffic lead over realtor.com throughout 2022.



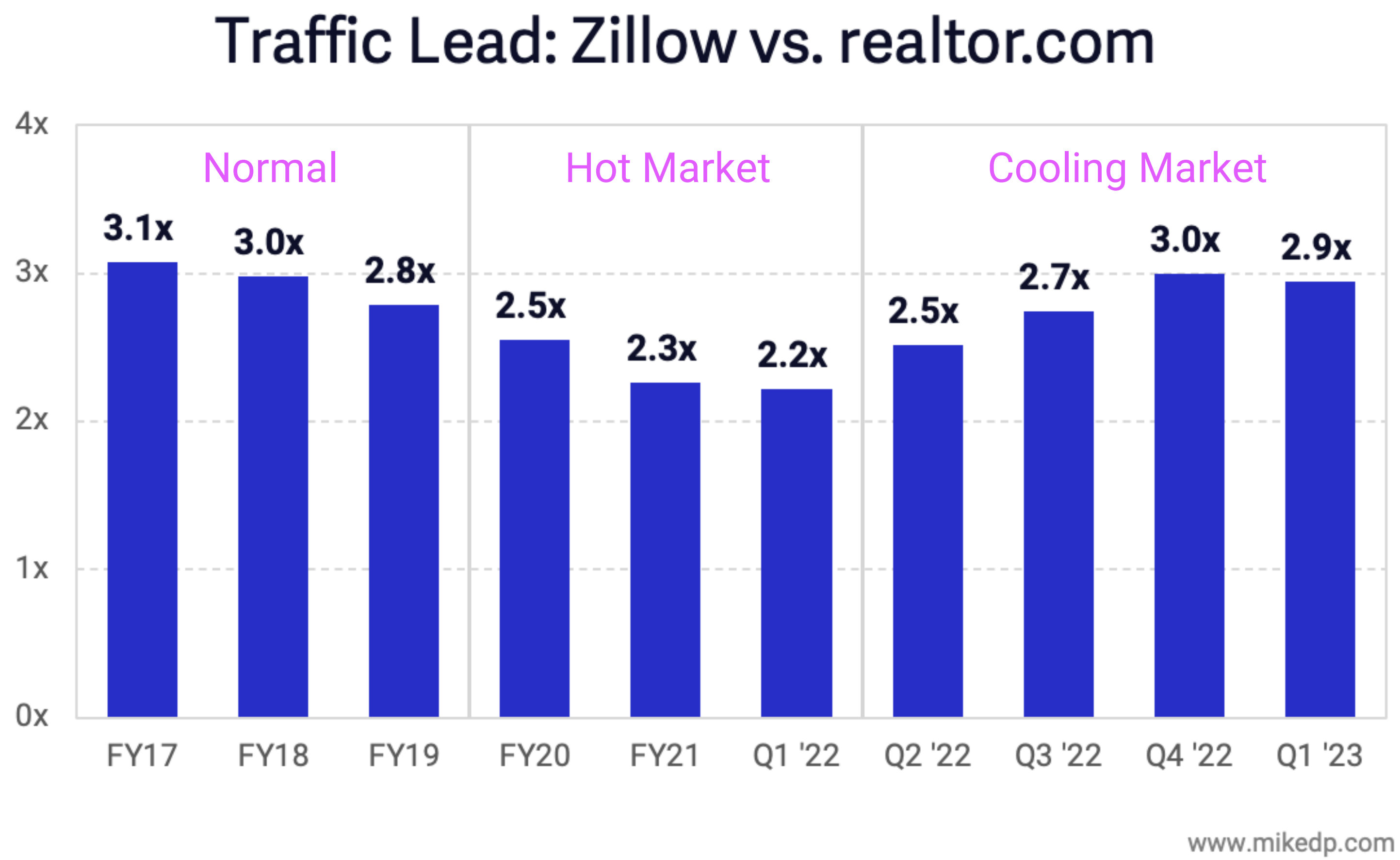
Source: Author's calculations based on public filings.

Consumers spent more time on multiple portals during the hot housing market…



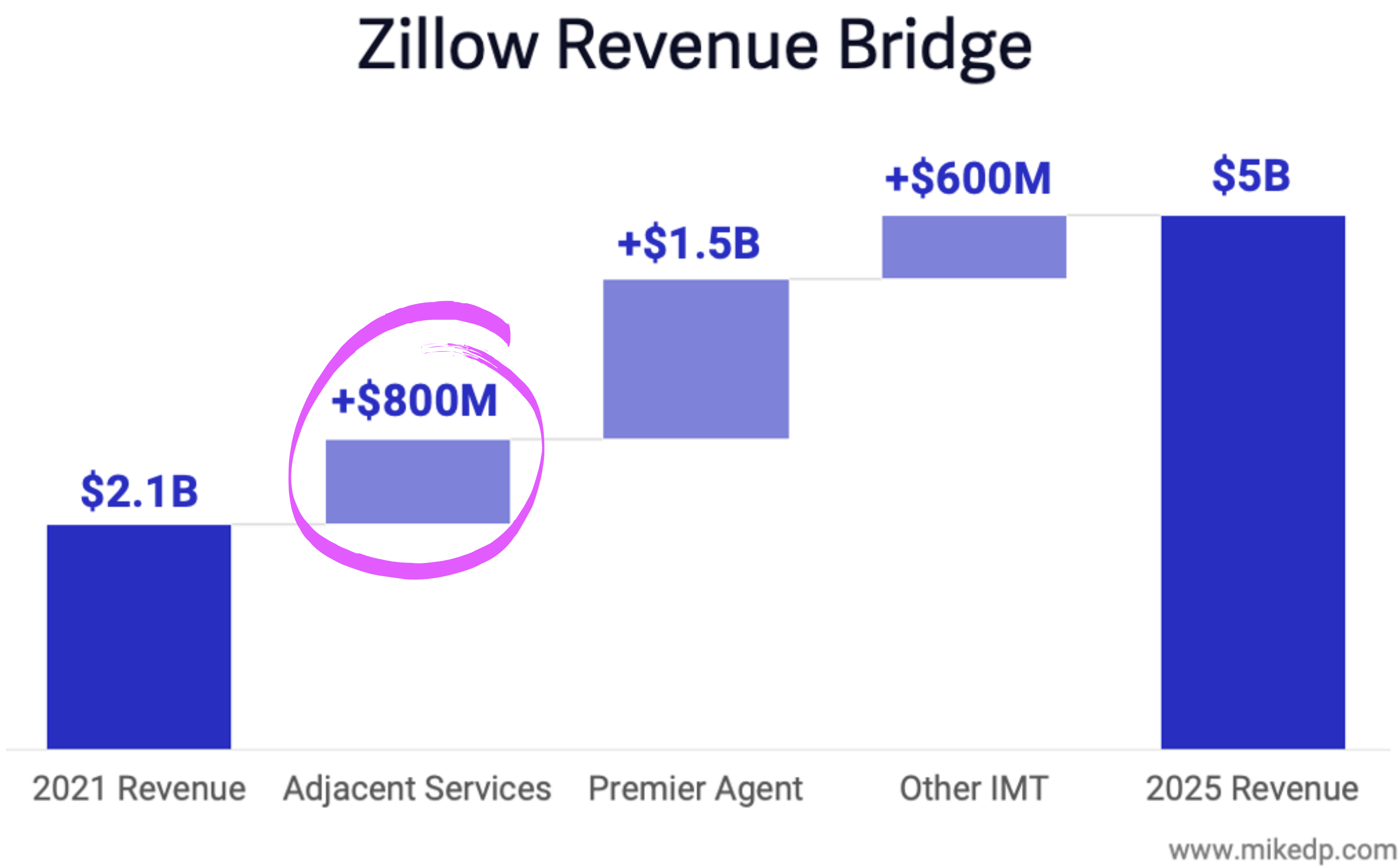
Source: Author's calculations based on public filings.

…but have reverted to "normal" behavior in a cool market, spending more time on just one portal.

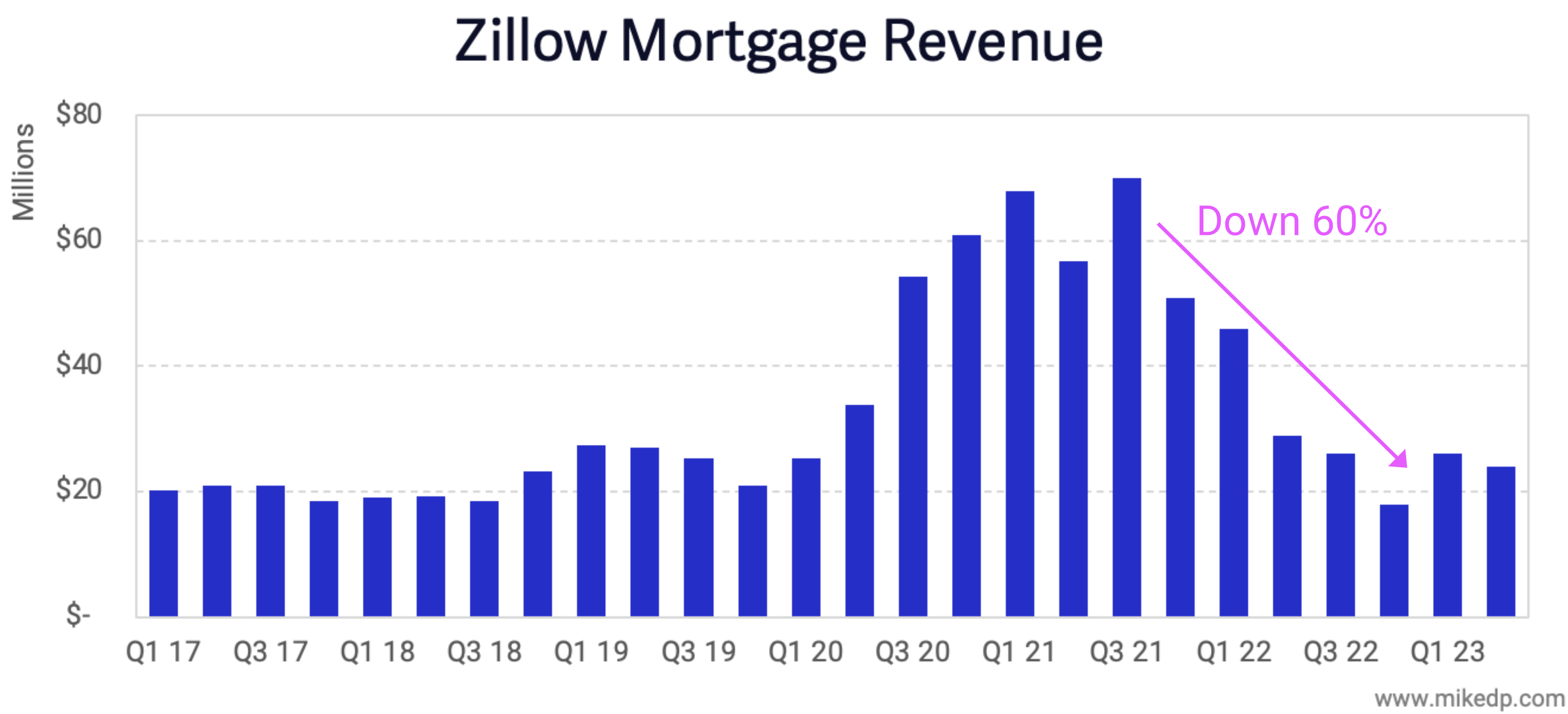


Source: Author's calculations based on public filings.

Zillow’s strategic pivot also called for big revenue growth in mortgages (adjacent services).

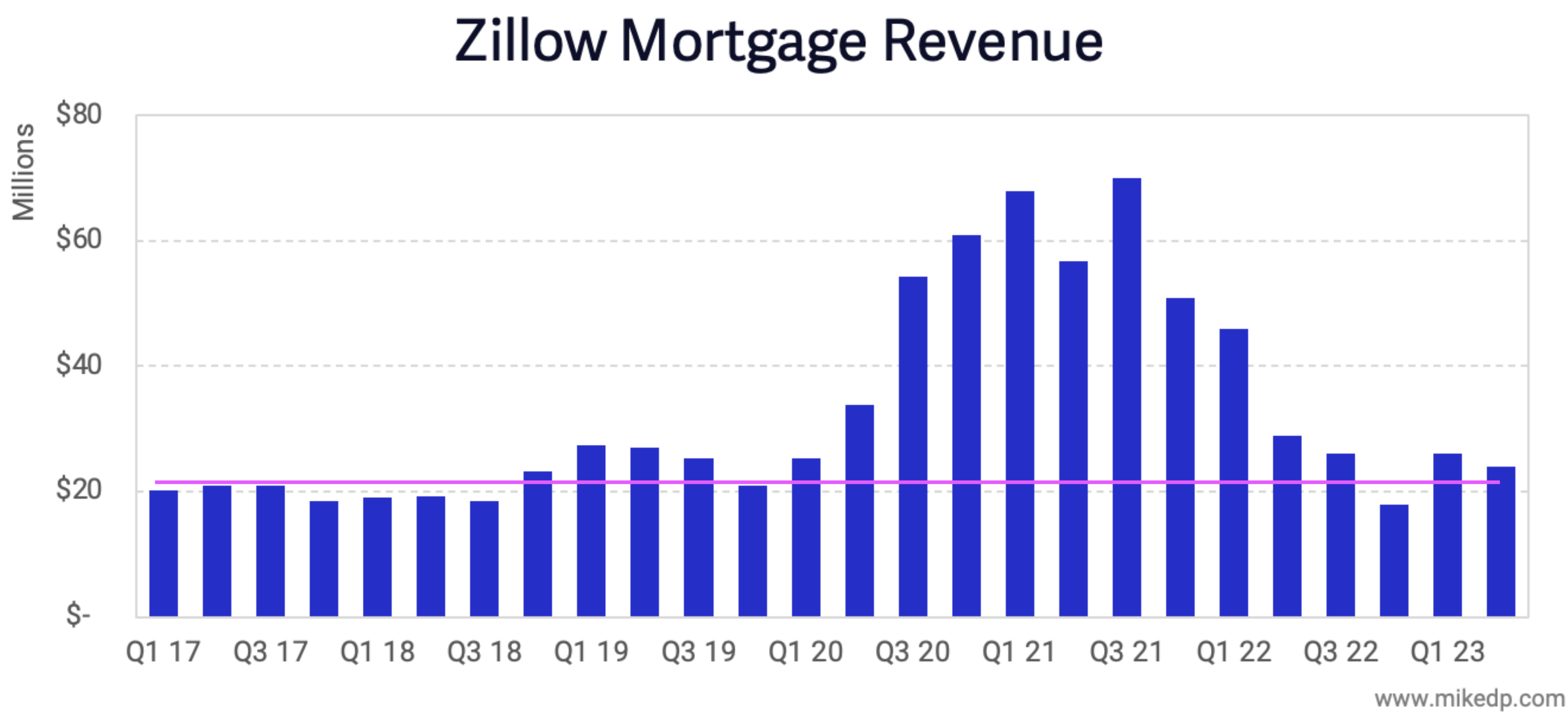


Like Premier Agent, headwinds are strong with mortgages revenue down in a soft market.



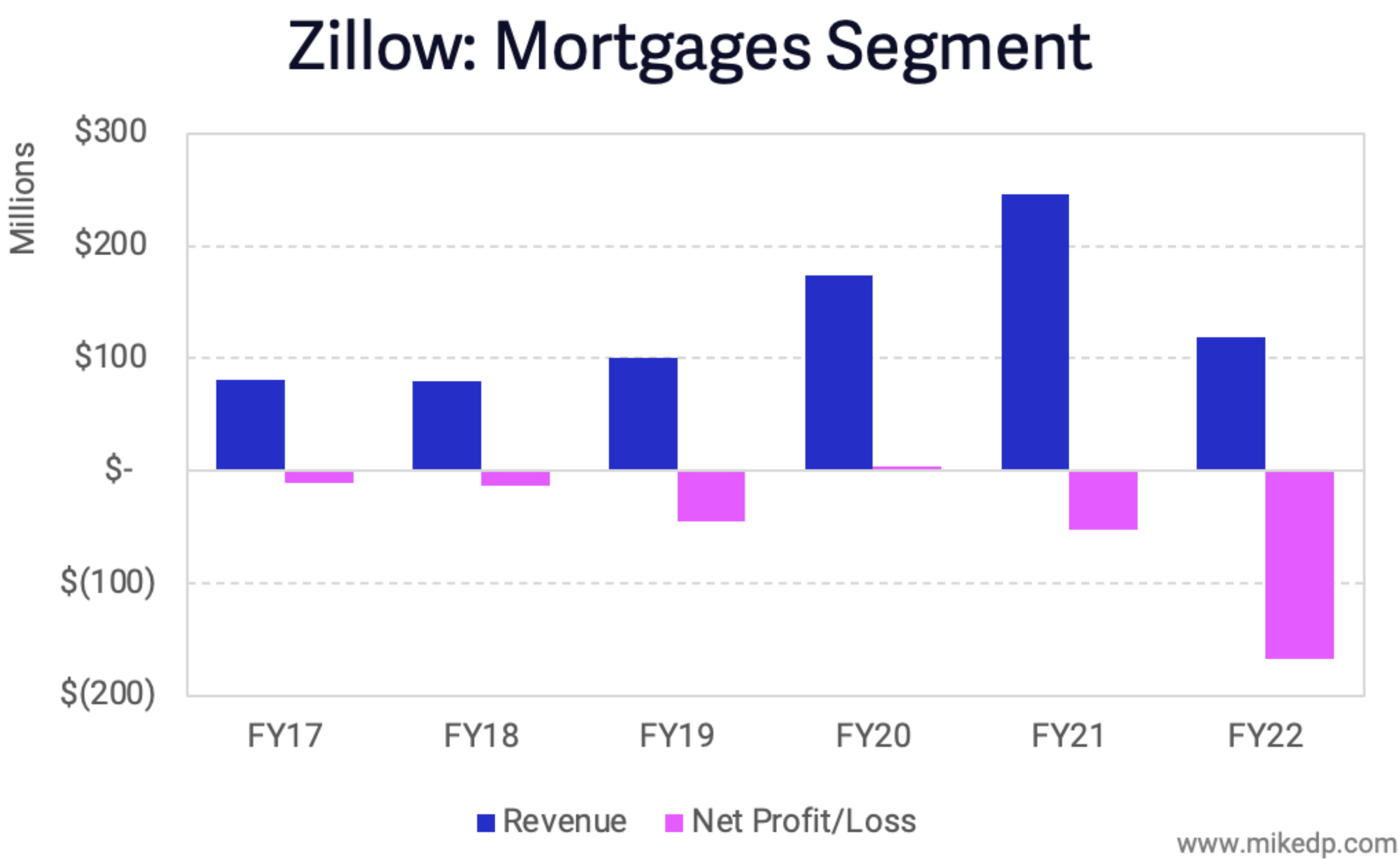
Source: Public filings.

But, after the pandemic bump, revenue is close to historical levels.



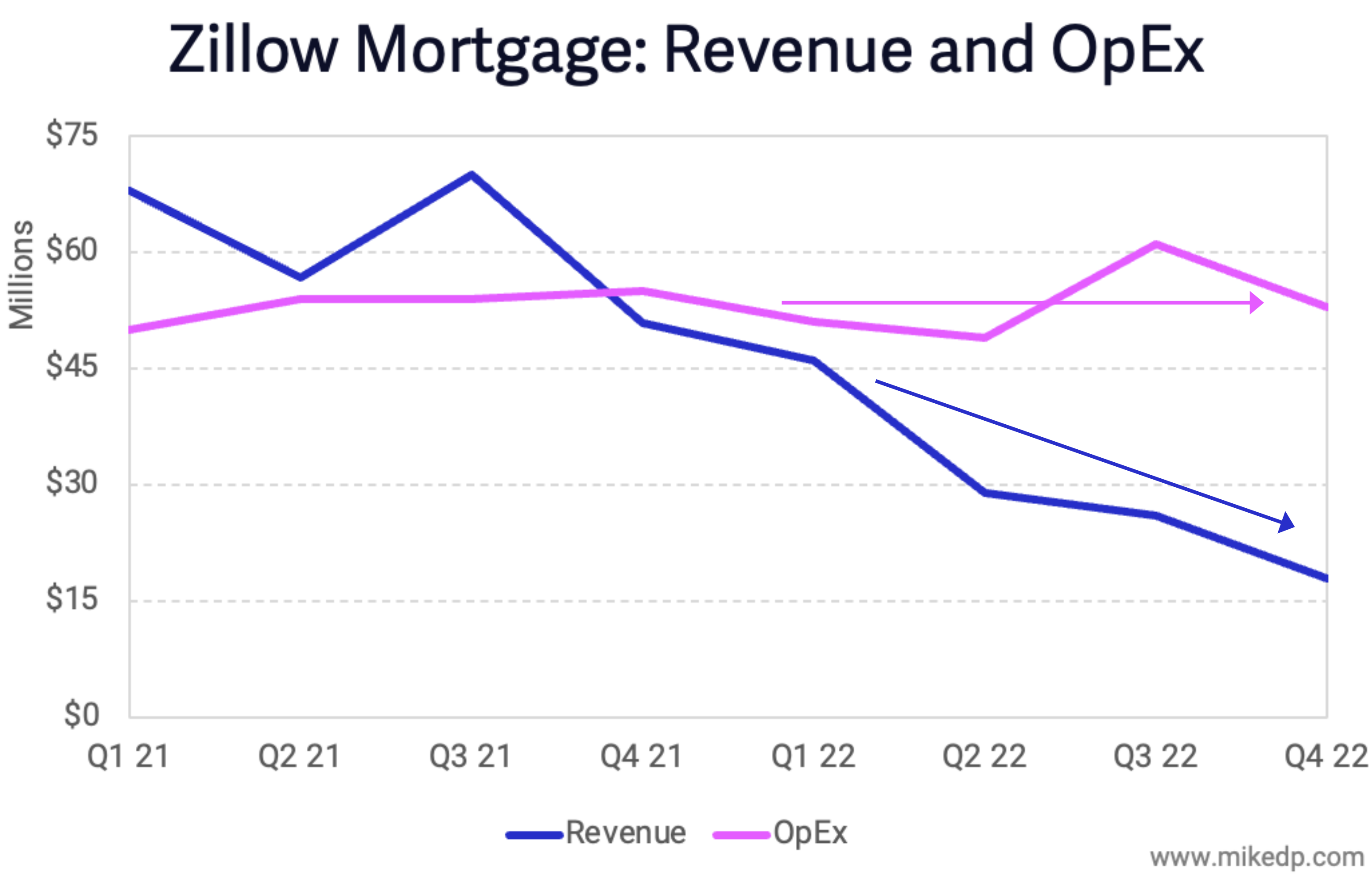
Source: Public filings.

Zillow mortgage continues to struggle with profitability: it has lost over $280 million since 2017.



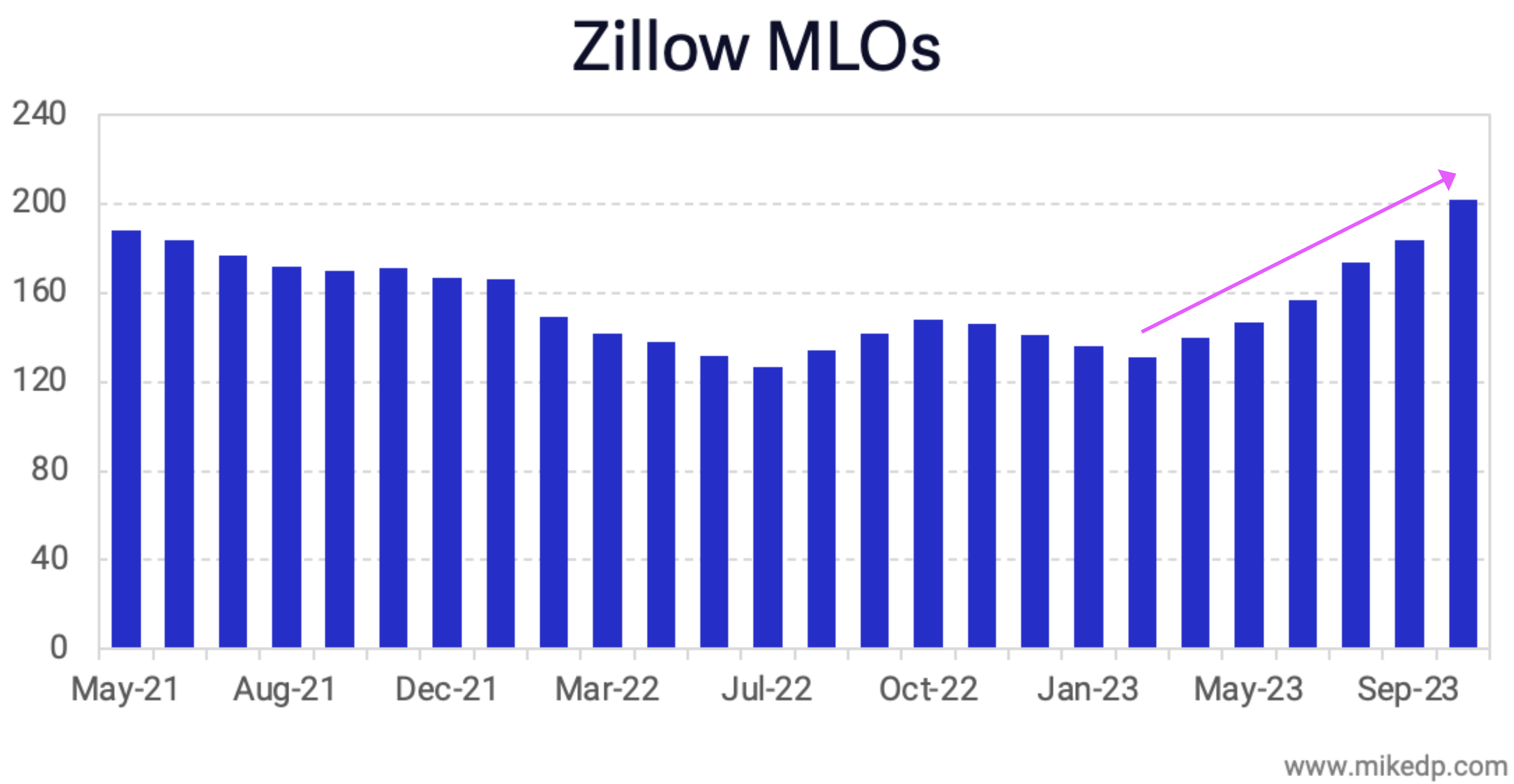
Source: Public filings.

Interestingly, while other mortgage businesses have cut costs, Zillow is keeping its mortgage OpEx steady.



Source: Public filings.

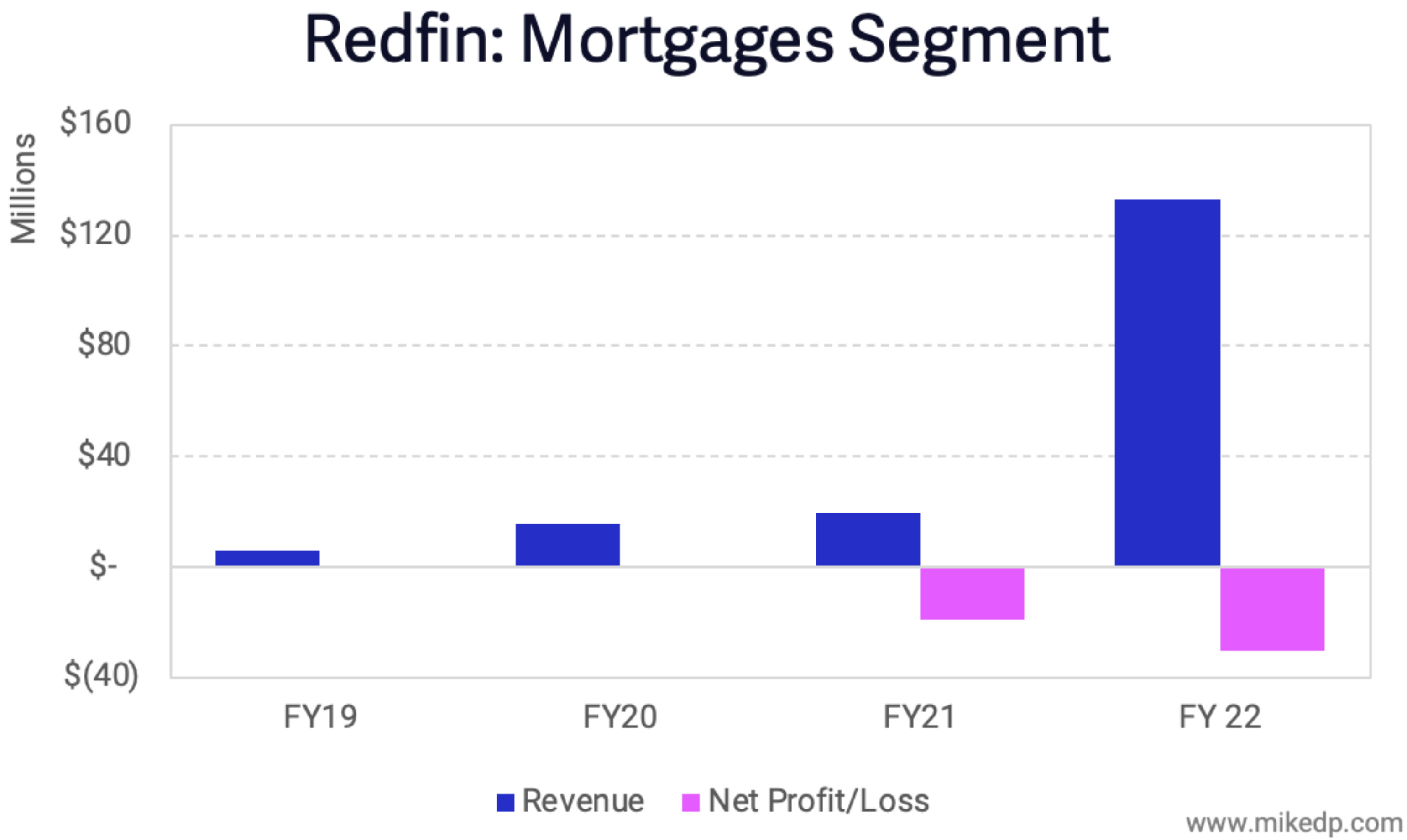
Even in a slow market, Zillow continues to invest by hiring more mortgage loan officers (MLOs).



This is a good reminder that mortgage remains a people business.

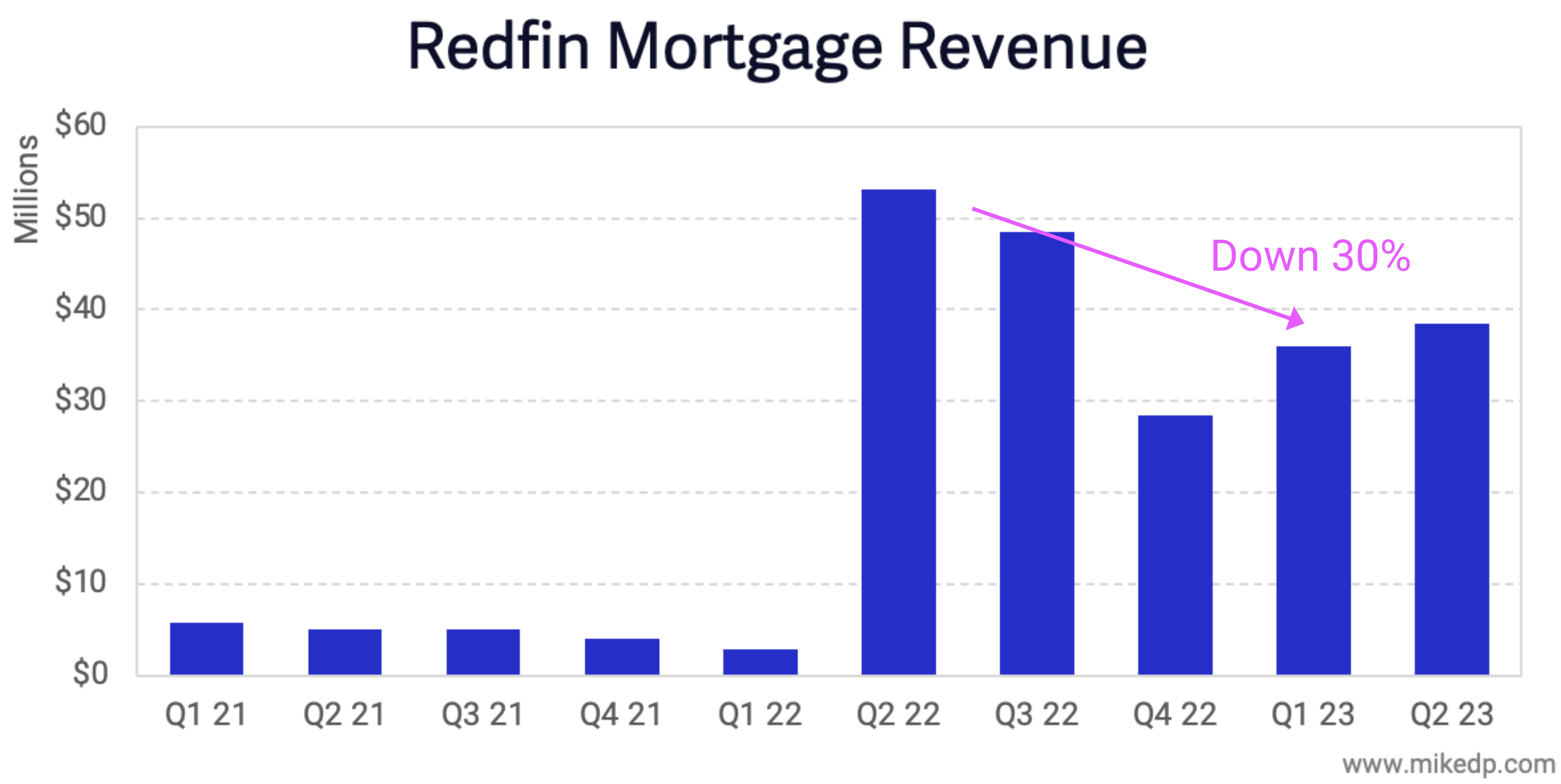
Source: Author's research from public information.

Zillow isn't alone; after acquiring a large mortgage broker, Redfin also struggles with profitability.



Source: Public filings.

Redfin's mortgage business has also experienced steep revenue declines in a soft market.

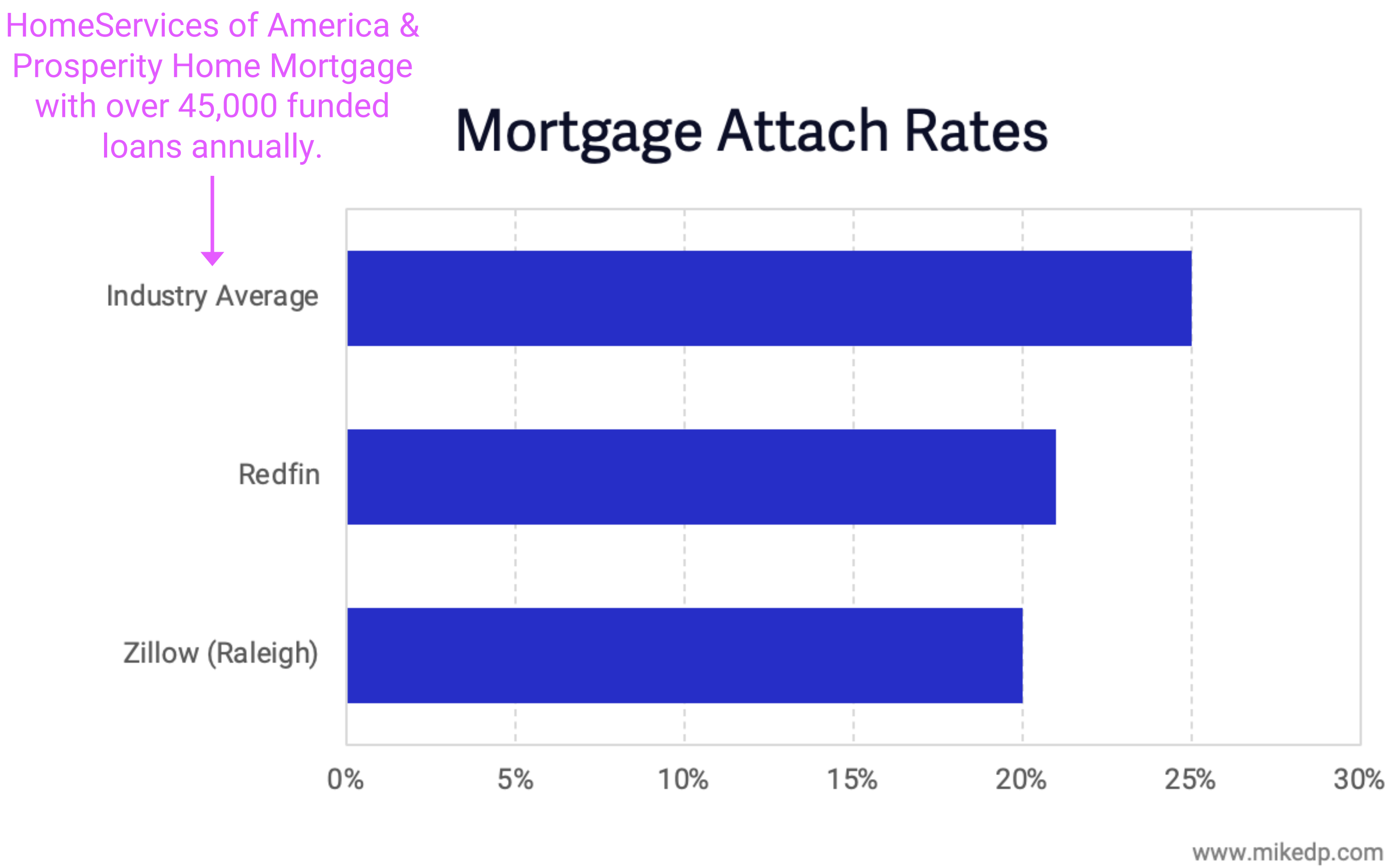


Source: Public filings.

Zillow's growth strategy is to sell Zillow Home Loans through its Premier Agent and Flex program.

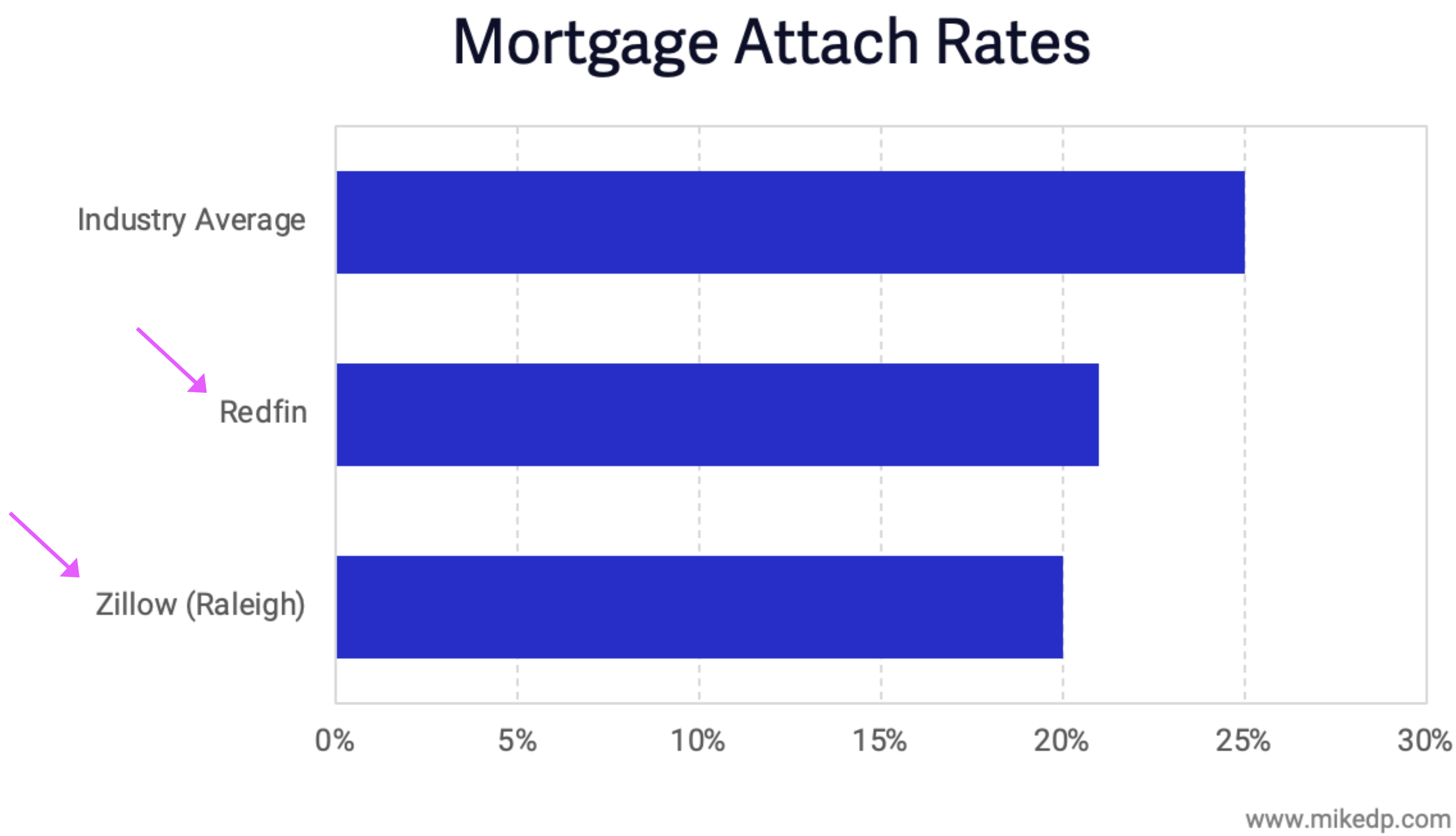
Source: Zillow investor presentation.

At scale, best in class industry mortgage attach rates are around 25 percent.



Source: Public disclosures and earnings releases.

Zillow and Redfin are showing promising early signs, but remain below the industry average.



Source: Public disclosures and earnings releases.

Operating at scale with current assumptions, Zillow Home Loans could generate $84 million in revenue.

	Example 1
Flex Leads	75,000
Markets	50%
Attach	25%
Mortgages	9,375
Revenue	$84 million

Flex transactions, 2022

ZHL scales to half of Zillow's markets

Industry average attach rate

ZHL generated about $39 million in revenue in 2022
(This doesn't include revenue from Zillow's mortgage marketplace)

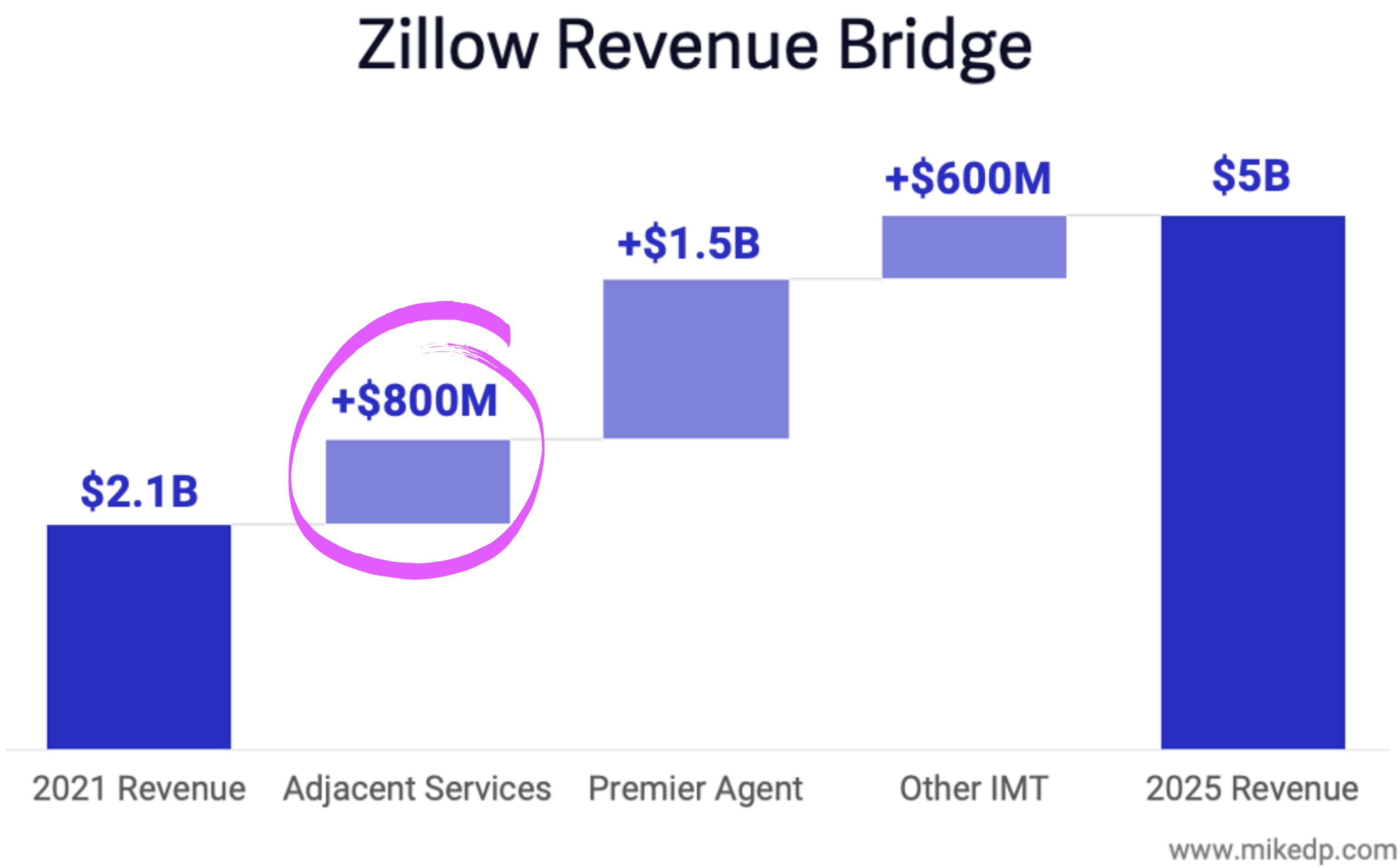
Source: Author's calculations and assumptions.

Achieving its goals would require doubling Flex leads and hitting industry-leading attach rates.

	Example 1		Example 2
Flex Leads	75,000	x2	150,000
Markets	50%		80%
Attach	25%	+5%	30%
Mortgages	9,375		36,000
Revenue	$84 million		$324 million

Source: Author’s calculations and assumptions.

But even then, the revenue uplift still falls short of Zillow's aspirations; mortgage is hard.



Which begs the question: is mortgage worth it for Zillow?

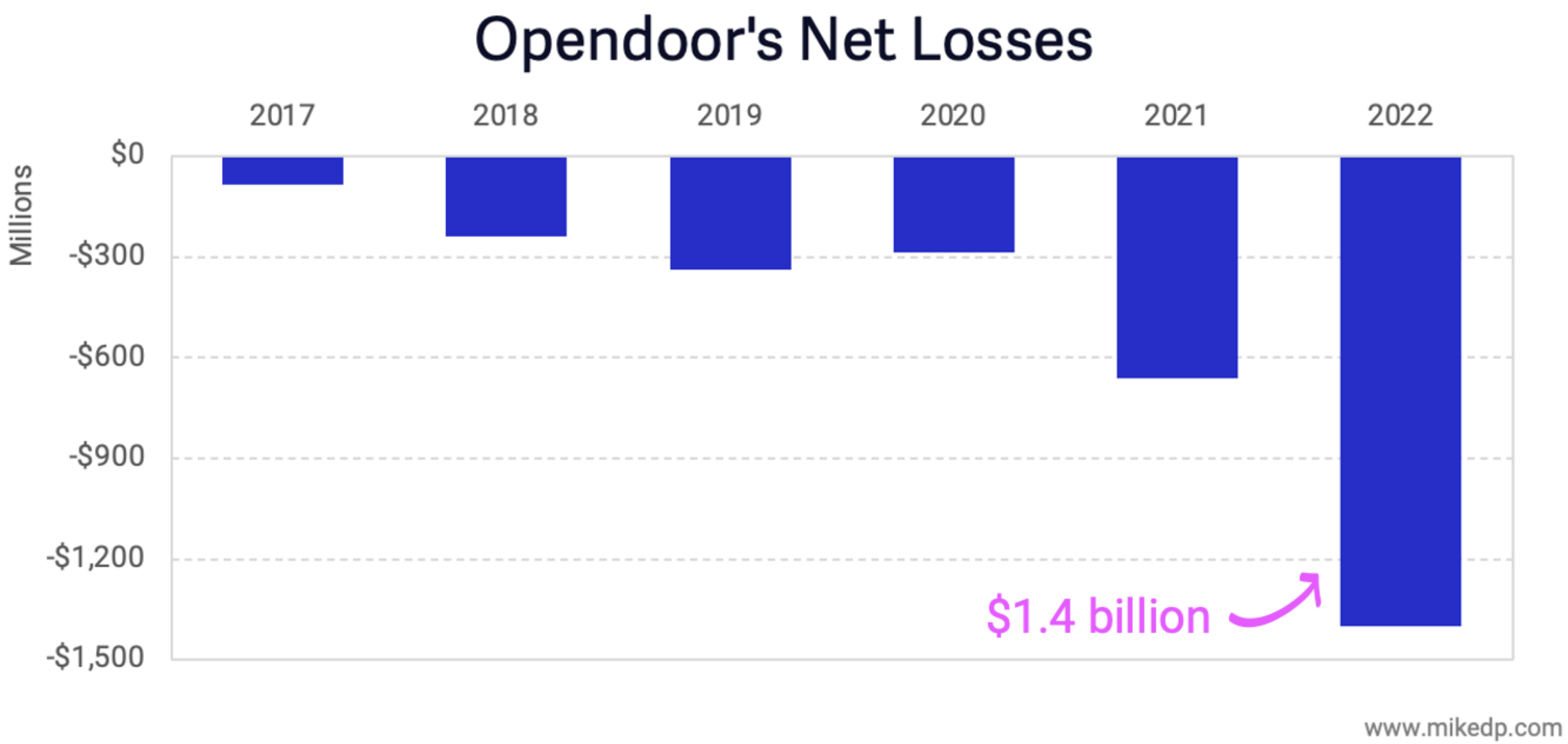
- Mortgage is a lot of work – hundreds of loan officers, scaling across dozens of markets, integrating with Flex teams and hundreds of agents.
- And after all of that investment and hard work in a business that only scales linearly, revenue is – comparatively – much smaller than other parts of the business (and unprofitable).
- All of this brings to mind two phrases: “Compete where you can win” and “Just because you can doesn’t mean you should.”

Meanwhile, Zillow's core business continues to operate from a position of strength.

- Zillow maintains a strong number one position in the market.
- The Premier Agent business is back to growth, even in a soft and declining market – which underscores the value Zillow provides to agents.
- But there are suggestions of an upper limit in Flex adoption and how much money Zillow can squeeze out of the system.
- Hitting its revenue goals by 2025 appears unlikely, but Zillow is on the right trajectory.

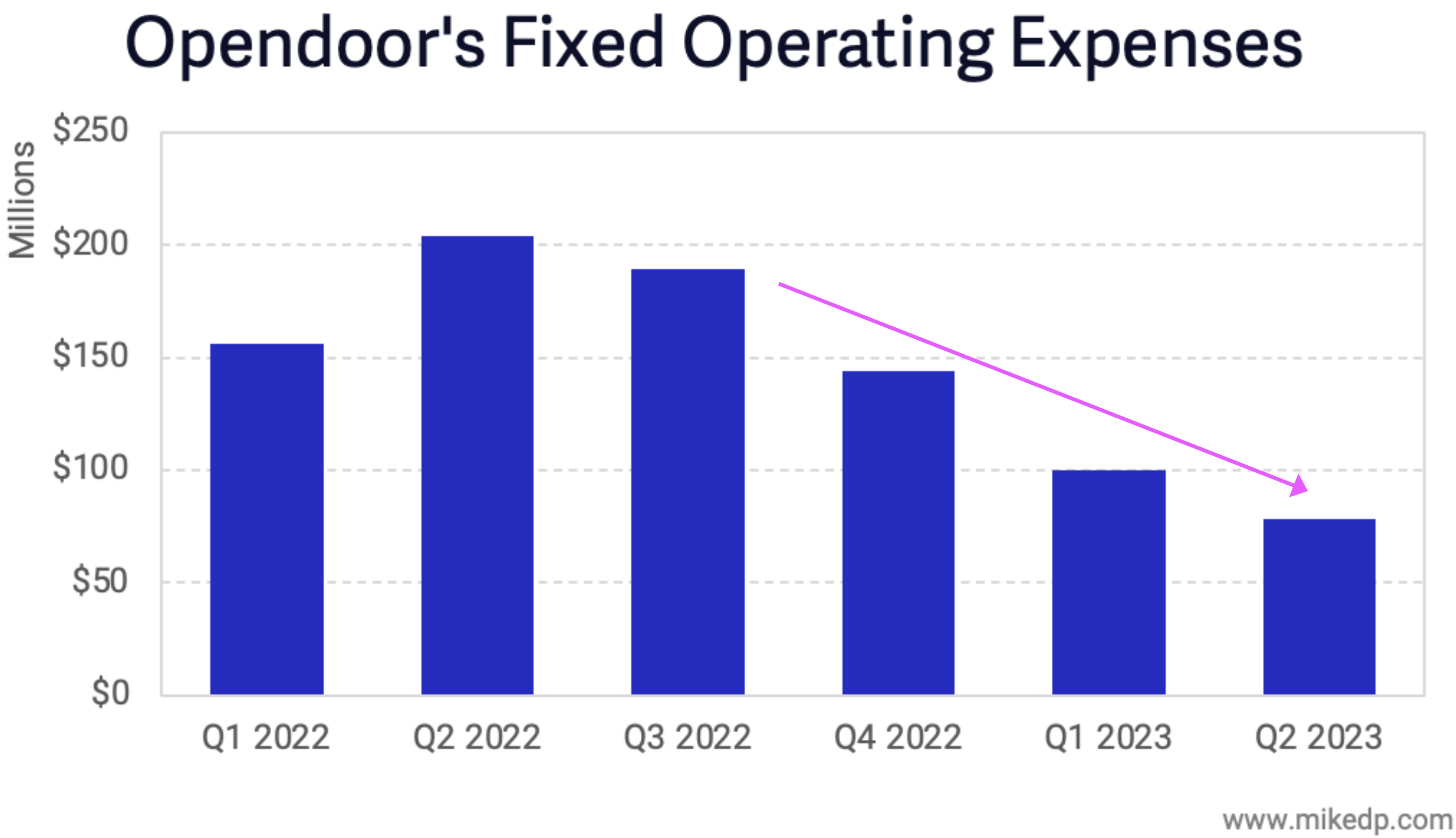
Opendoor Reloaded

Opendoor is licking its wounds after racking up record losses in 2022.



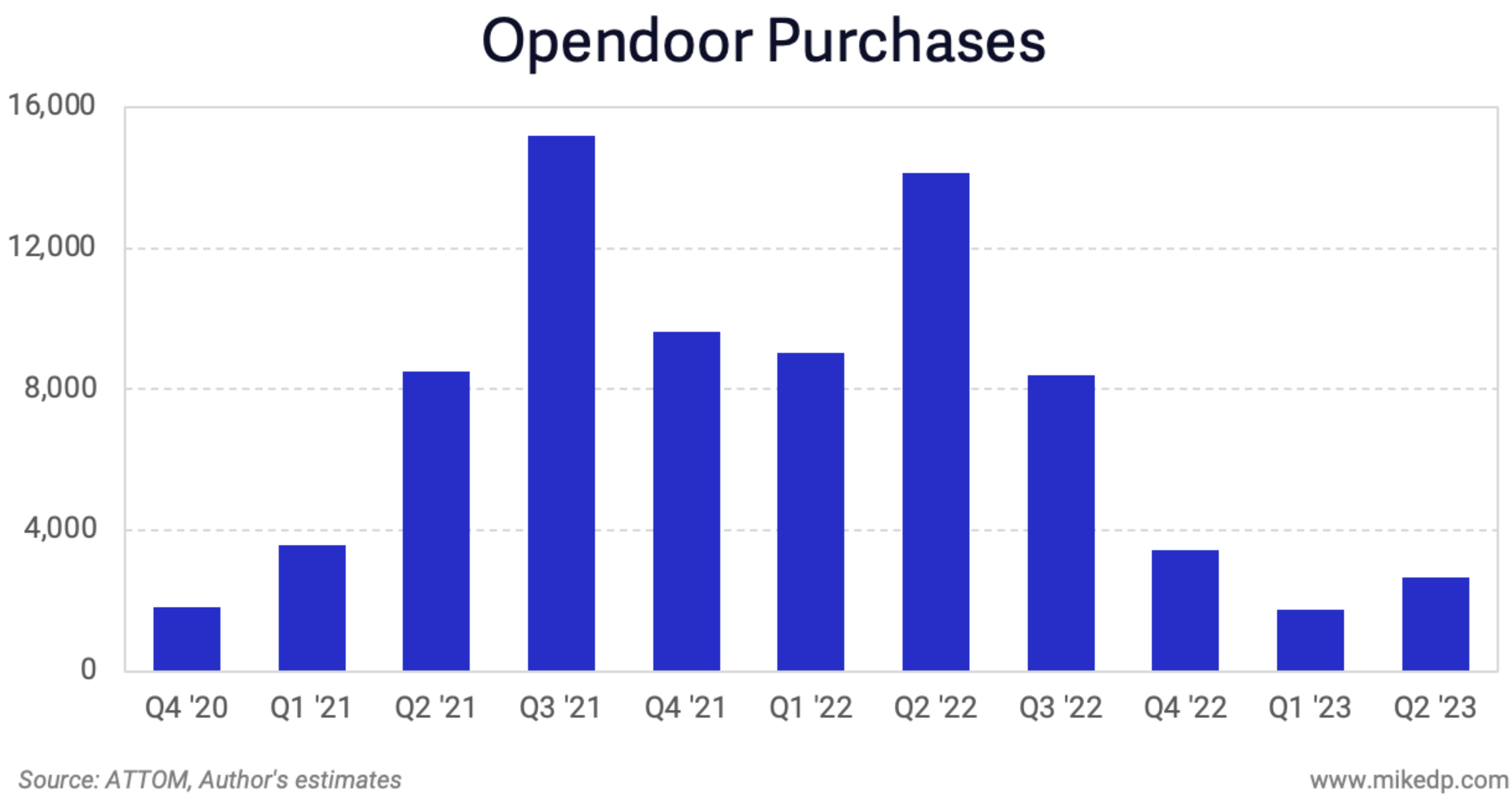
Source: Public filings.

Opendoor is cutting expenses by slashing its fixed operating expenses (layoffs & reduced advertising).

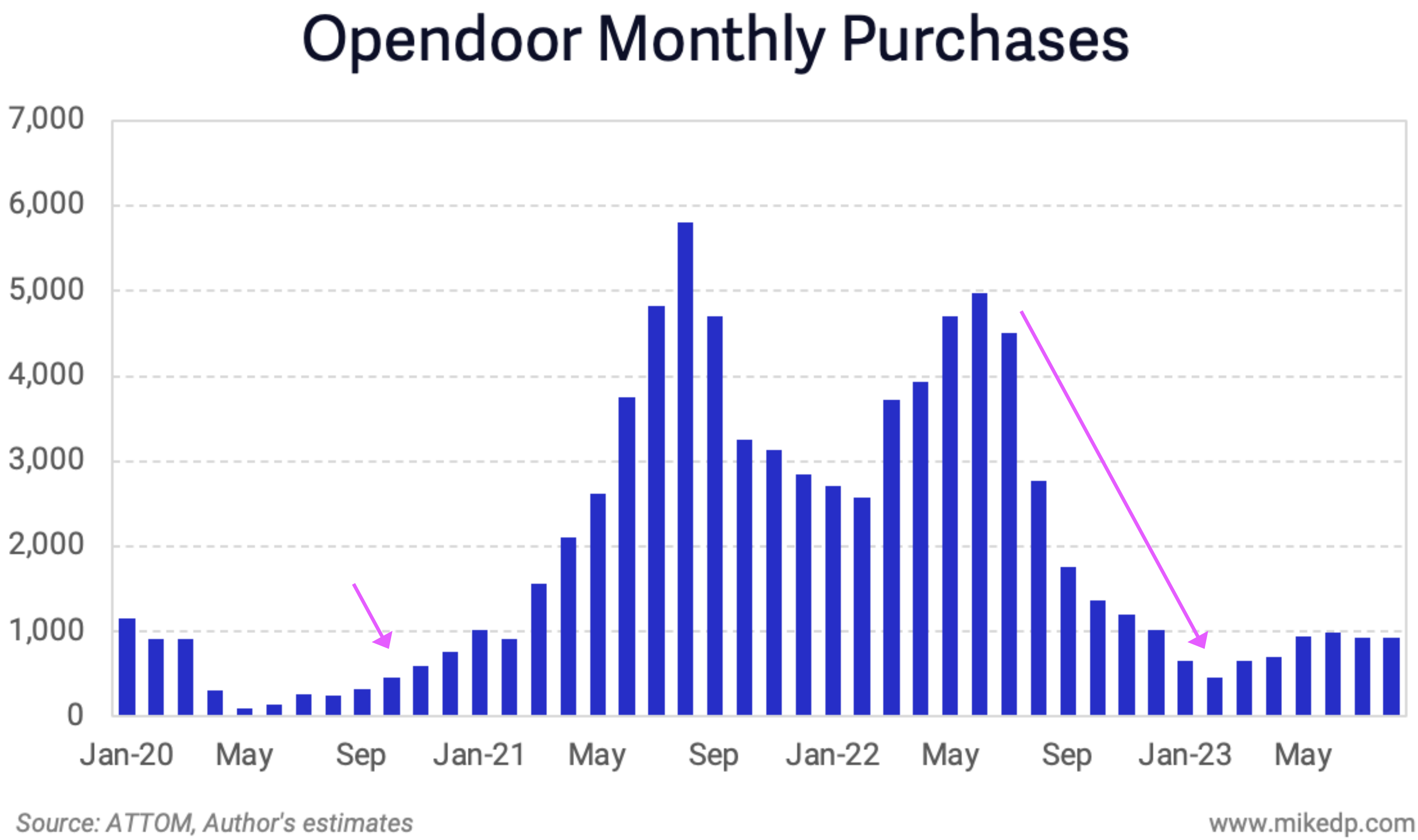


Note: “Fixed” (author’s term) Operating Expenses are defined by Opendoor as *Adjusted Operating Expenses*.

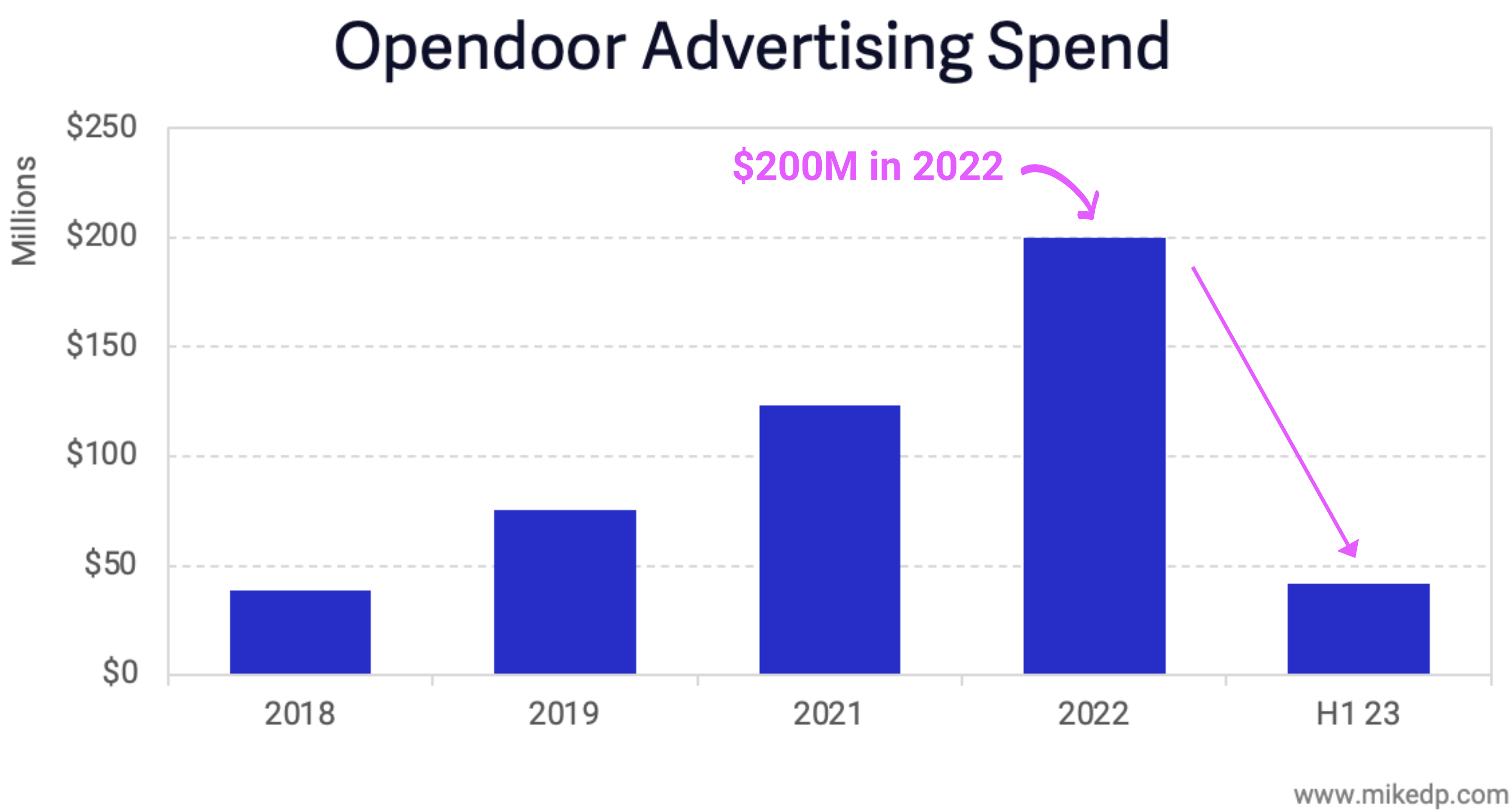
In addition to leadership changes, Opendoor has dramatically slowed its pace of new acquisitions.



On a monthly basis, purchases are at the lowest point since the start of the pandemic.

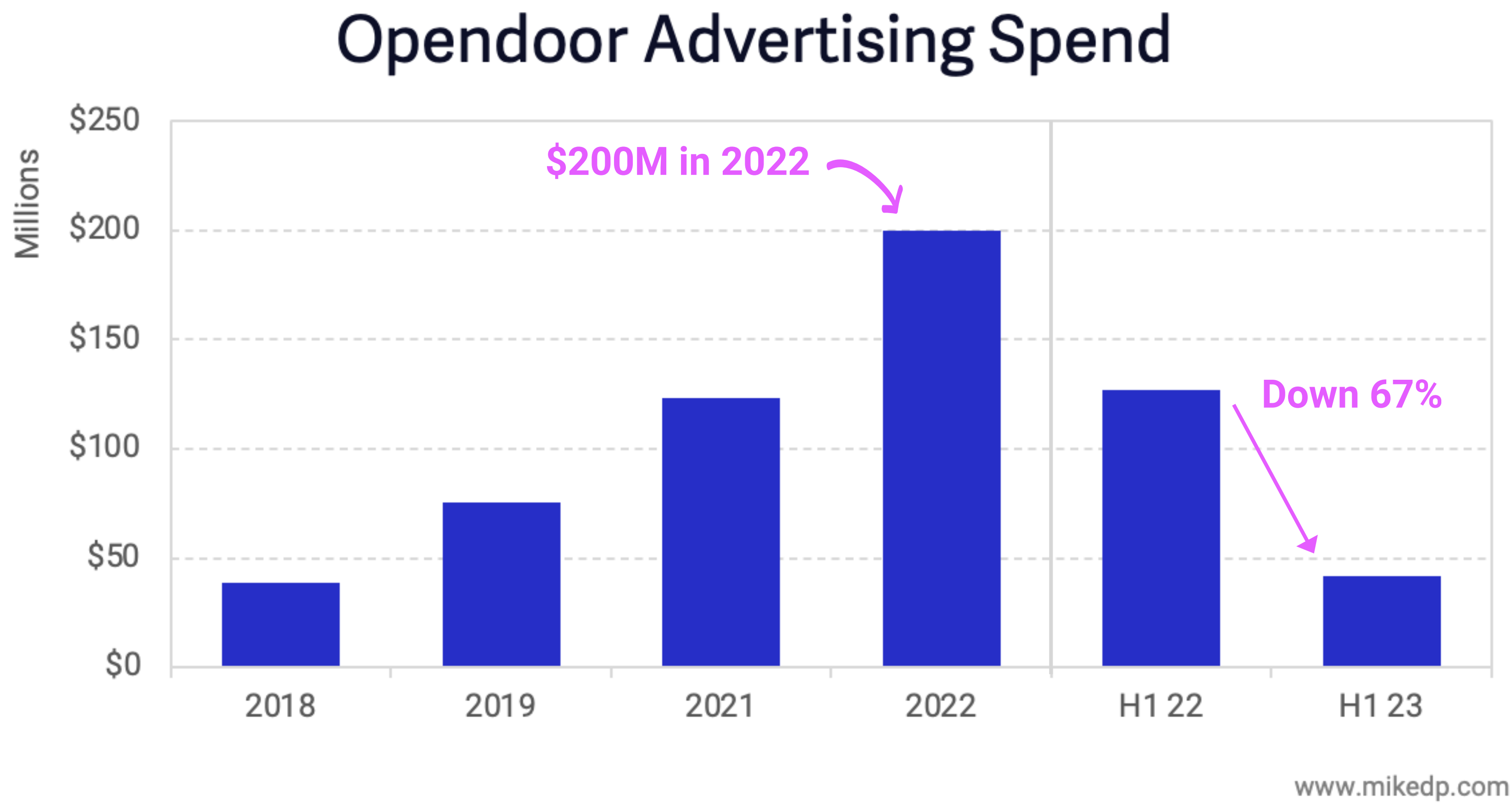


Opendoor is saving money and slowing acquisitions by significantly reducing its advertising spend.



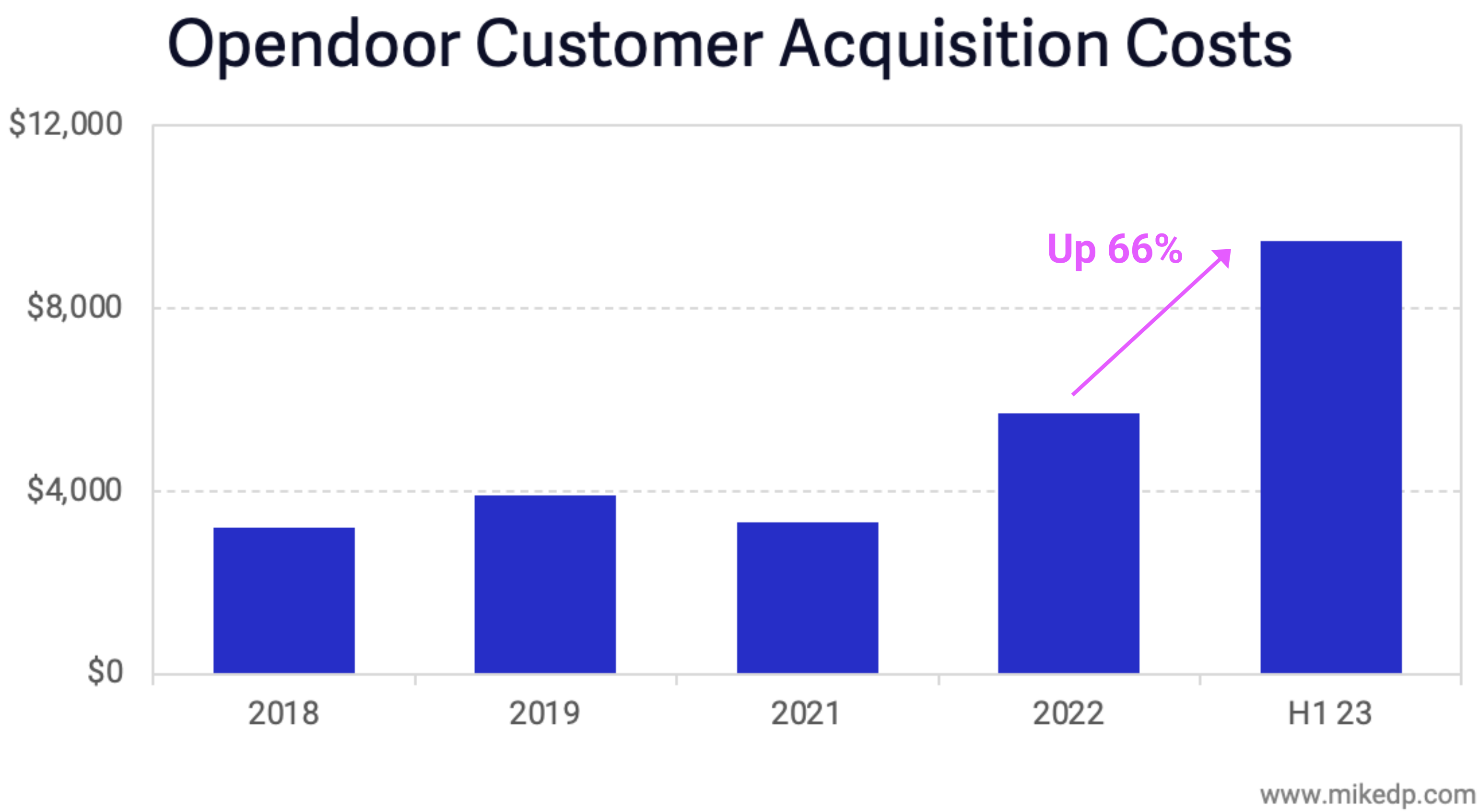
Source: Author's work from public filings.

Total advertising spend was down 67% in the first half of 2023 compared to the same time last year.



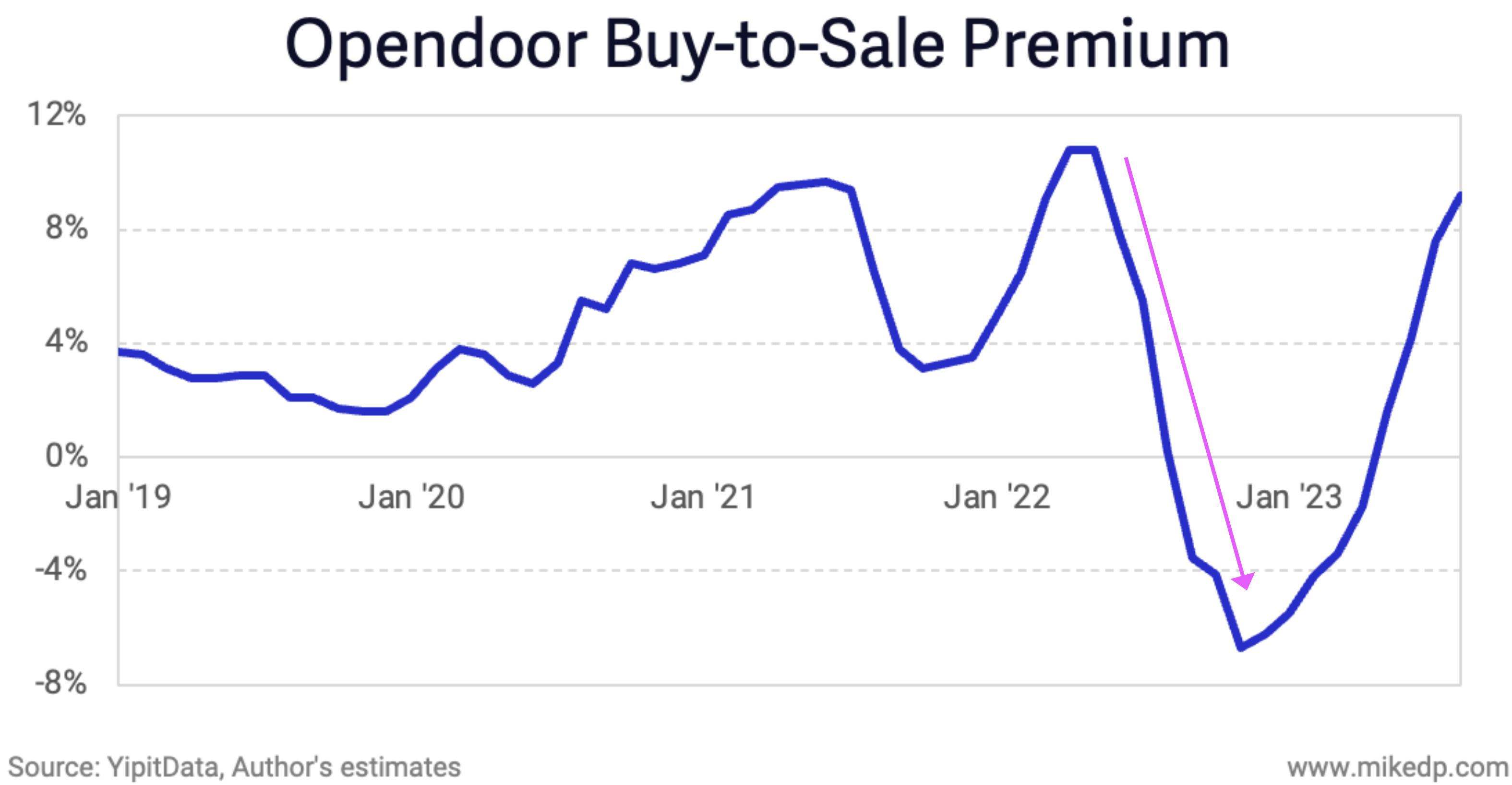
Source: Author's work from public filings.

A side effect of this shift is skyrocketing customer acquisition costs (CAC).

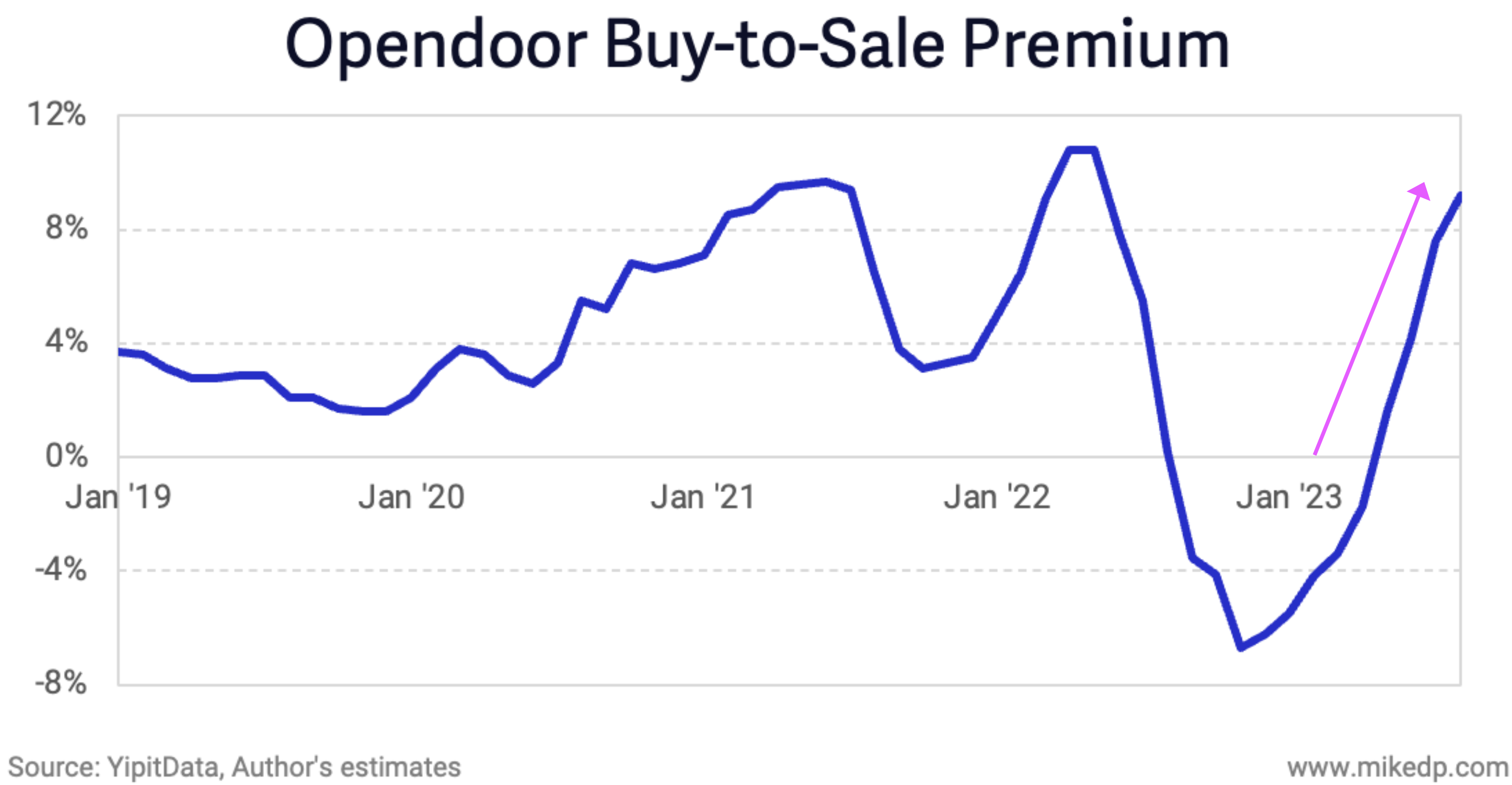


Note: CAC measured by total advertising spend divided by the number of homes purchased in a period.

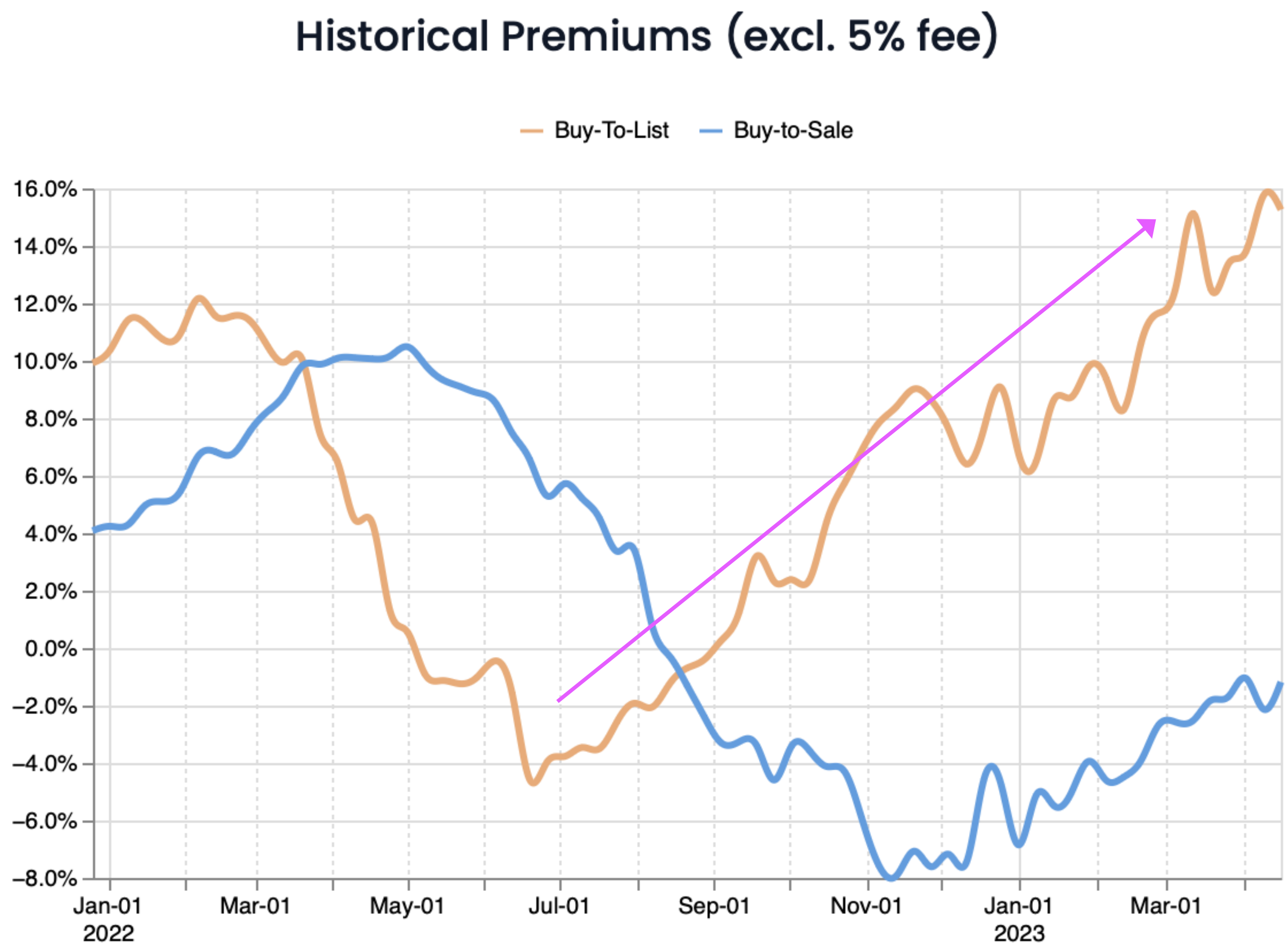
In mid-2022, Opendoor got into trouble by losing too much money on the resale of its homes.



This trend has since reversed as Opendoor has reset its pricing to the changing market.

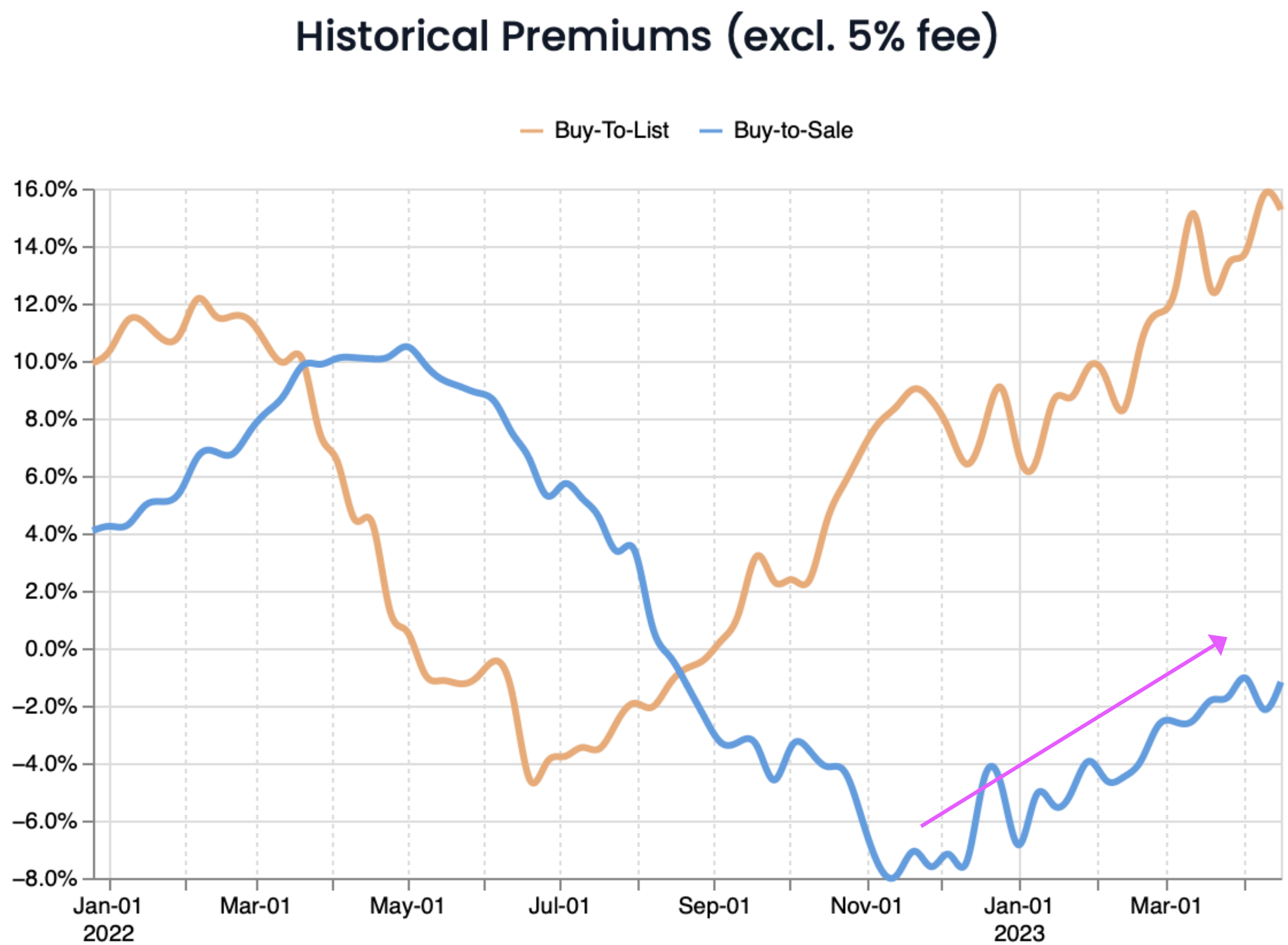


Opendoor's buy-to-list premium has increased significantly since mid-2022…



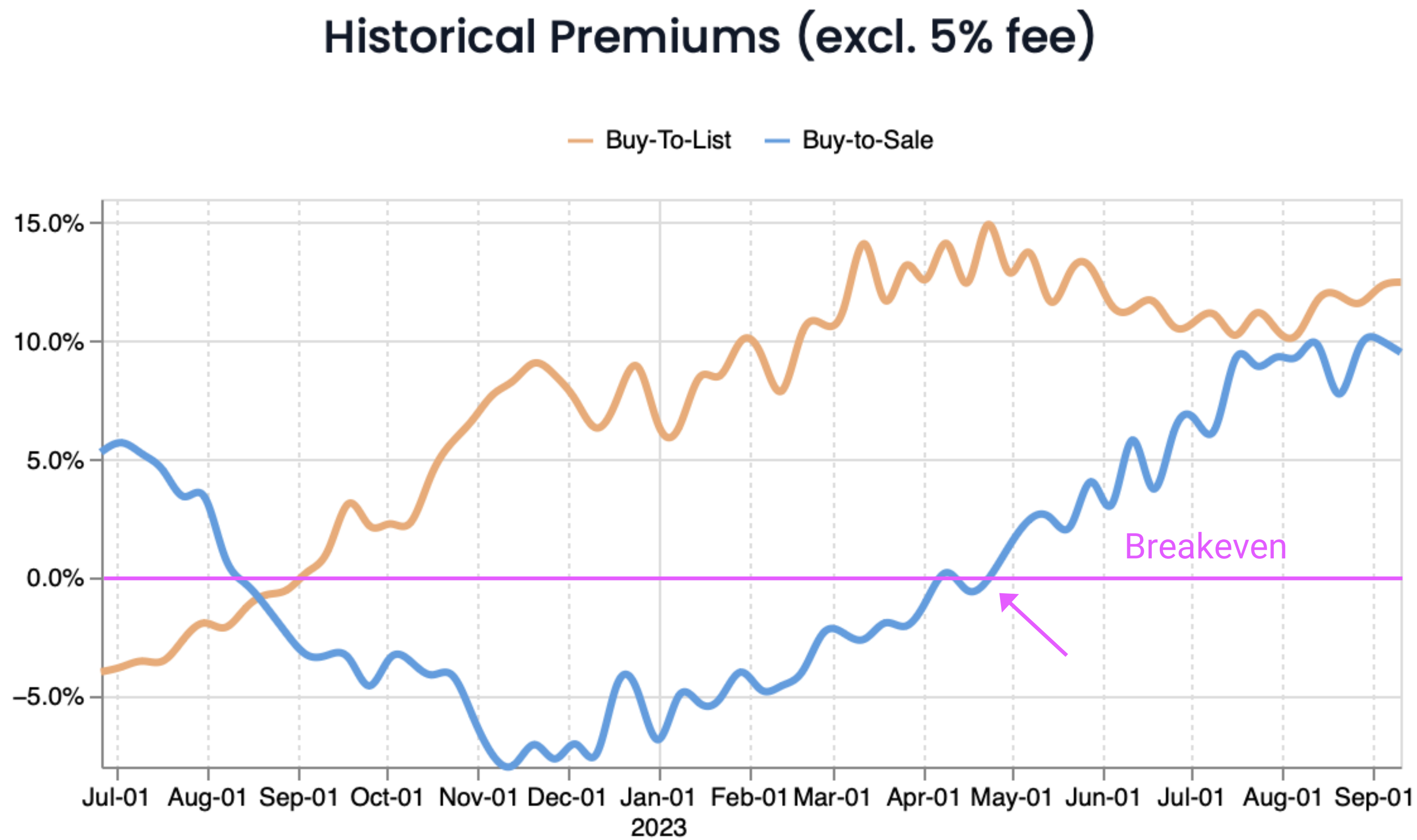
Source: Datadoor.io

…which led to an improvement in its buy-to-sale premiums.



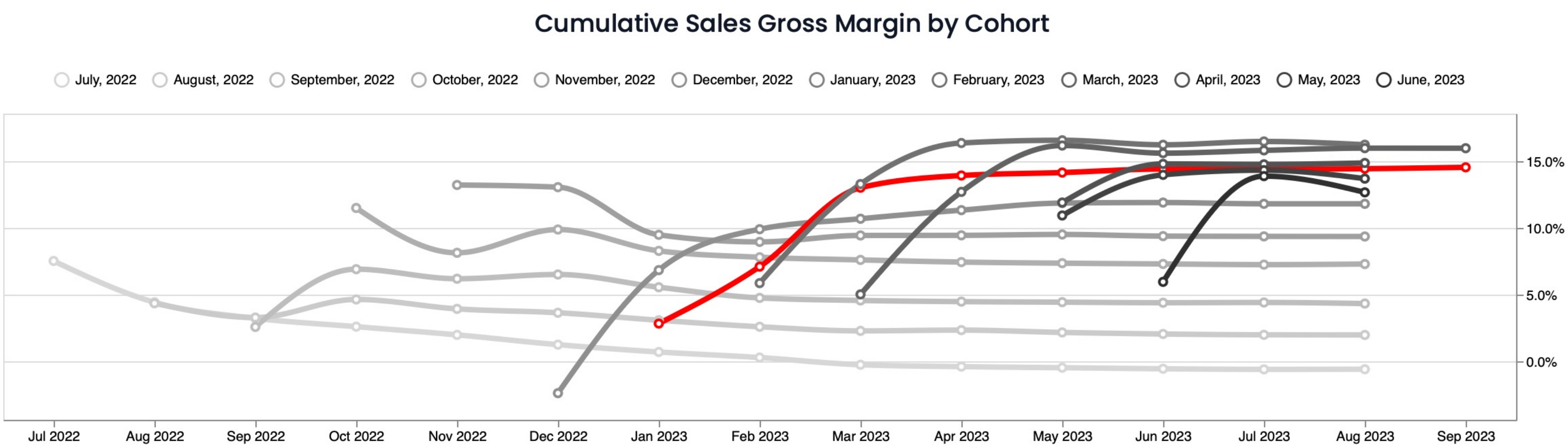
Source: Datadoor.io

Starting in May, in aggregate, Opendoor returned to selling homes for more than it bought them for.



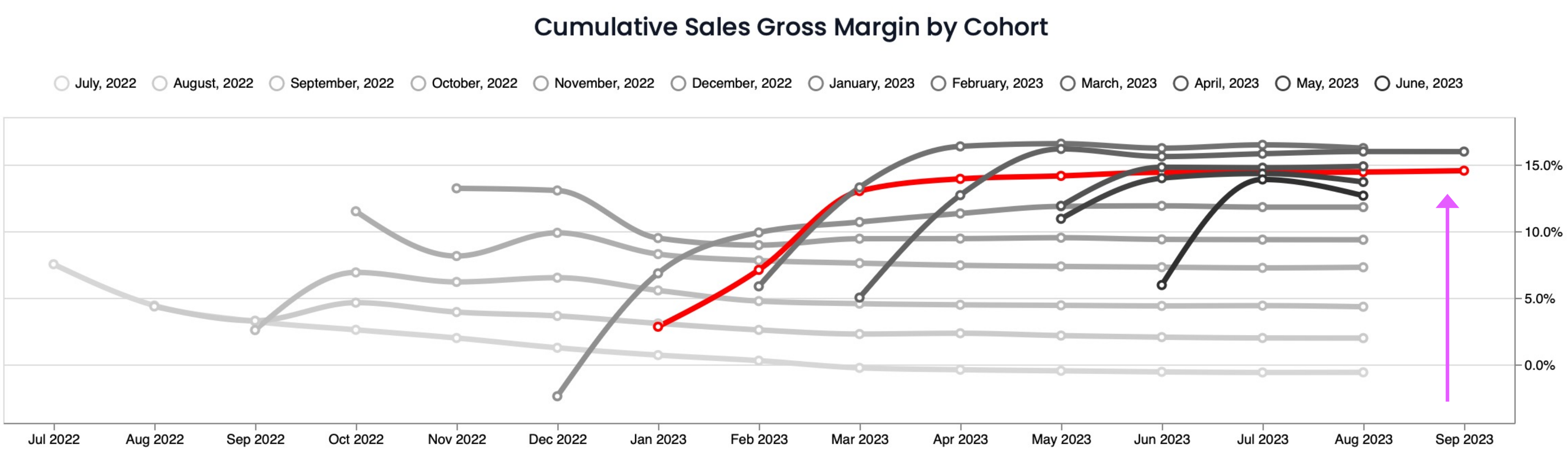
Source: Datadoor.io

Opendoor's margins are improving on homes purchased after Q2 2022.



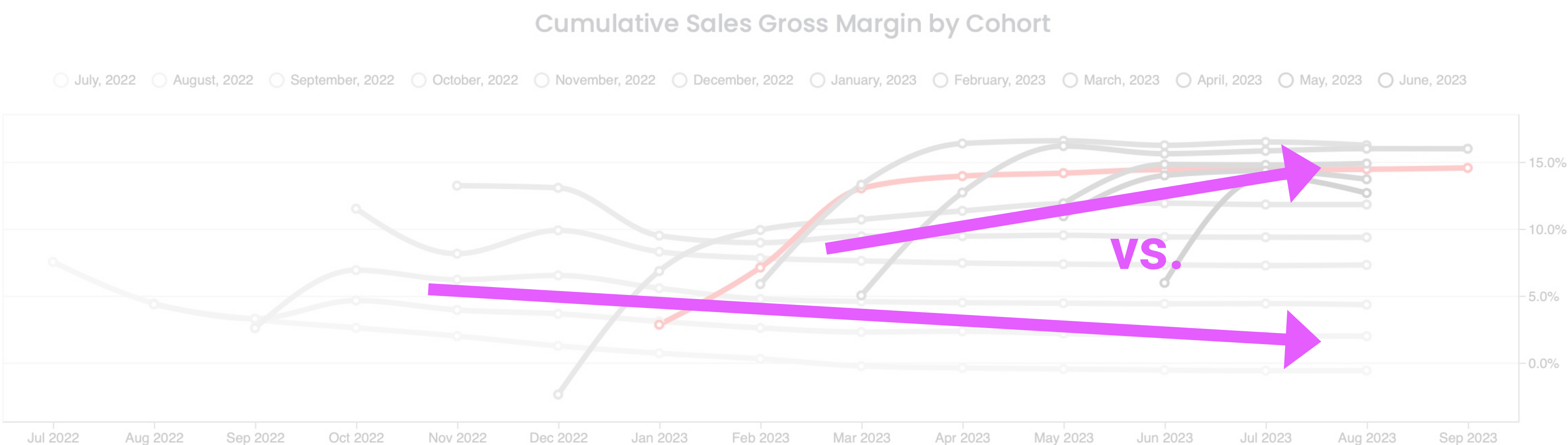
Source: Datadoor.io

Cumulative gross margins, which include a 5% service fee, are improving with time.



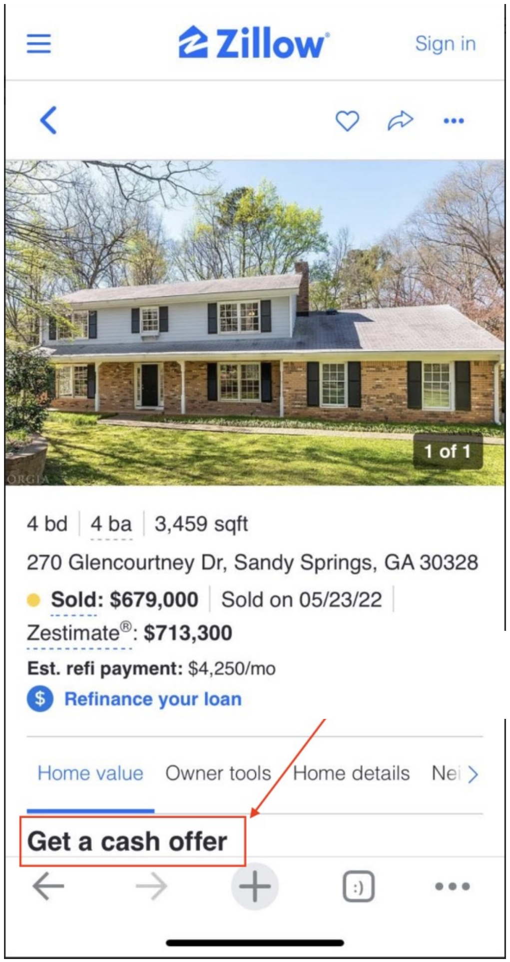
Source: Datadoor.io

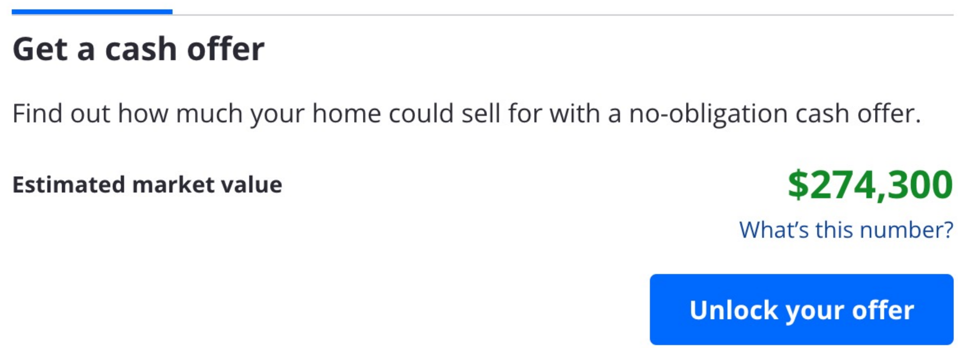
And in general, cumulative gross margins are going up – or at least not going down as much – over time.



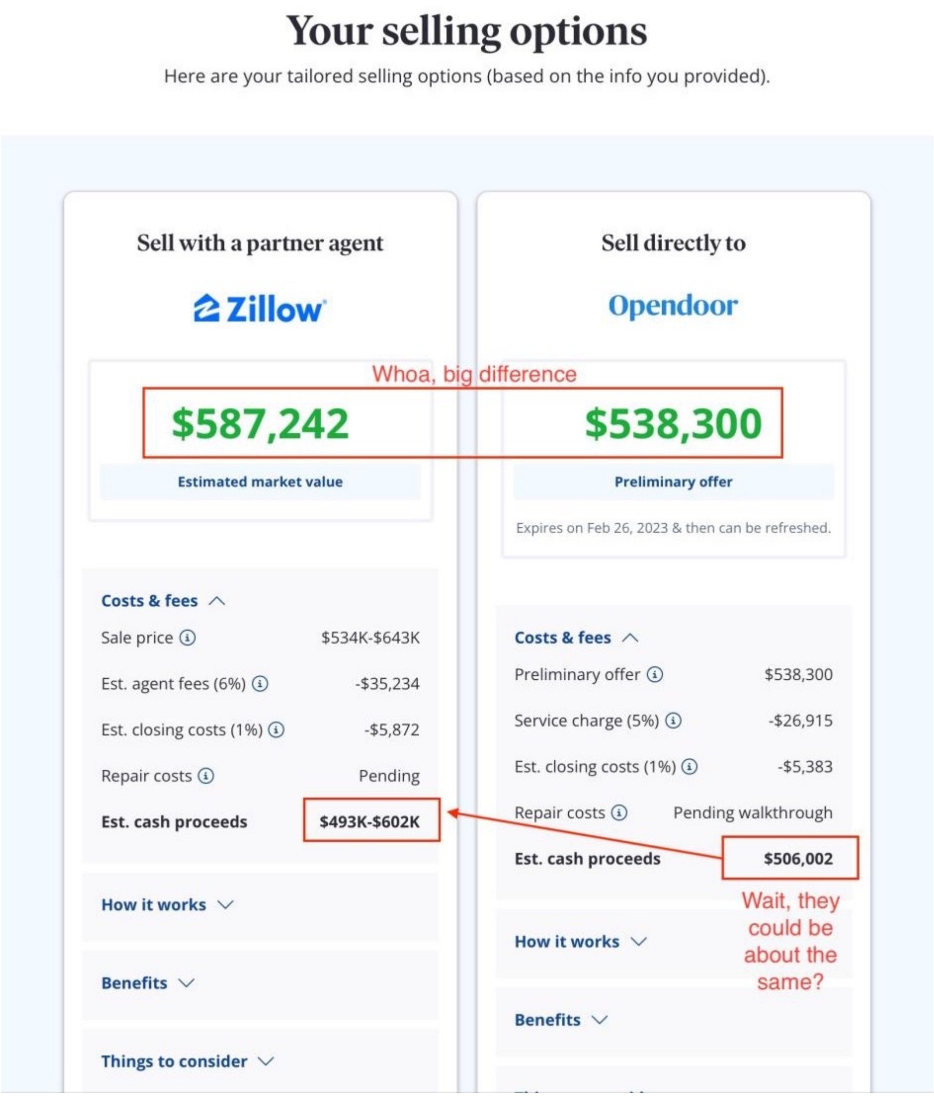
Source: Datadoor.io

Opendoor's partnership with Zillow continues to roll out, with prominent calls to action.





Zillow aims to provide choice – the challenge is that Opendoor's offers are comparatively low.



Opendoor is continuing to invest in its Exclusives program, still only live in three Texas markets.

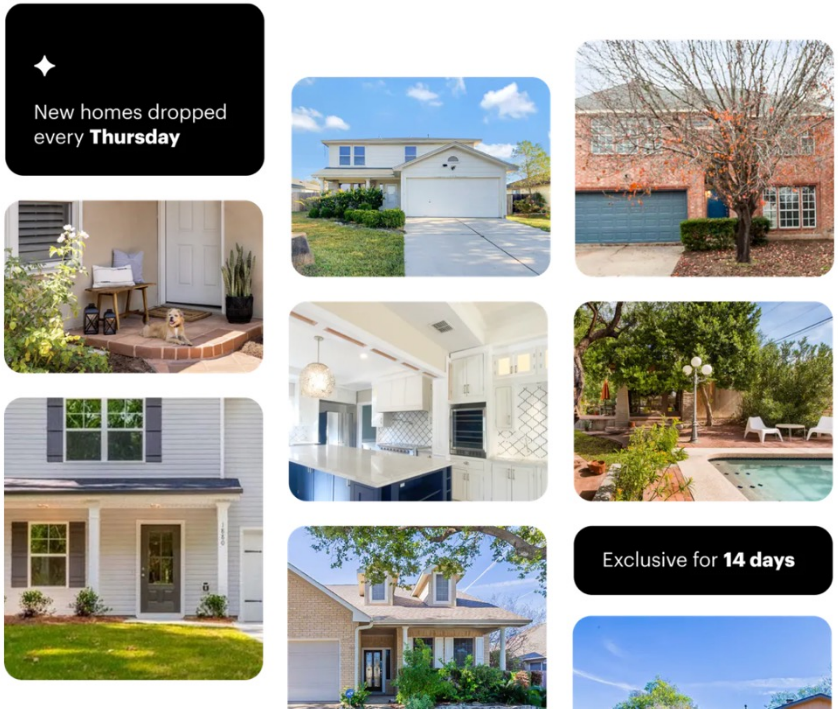
Opendoor **Exclusives**

Off-market homes you can't find *anywhere else*

Skip the bidding wars. Self-tour and buy off-market homes at exclusive prices. We even offer an Appraisal Price Match Guarantee.

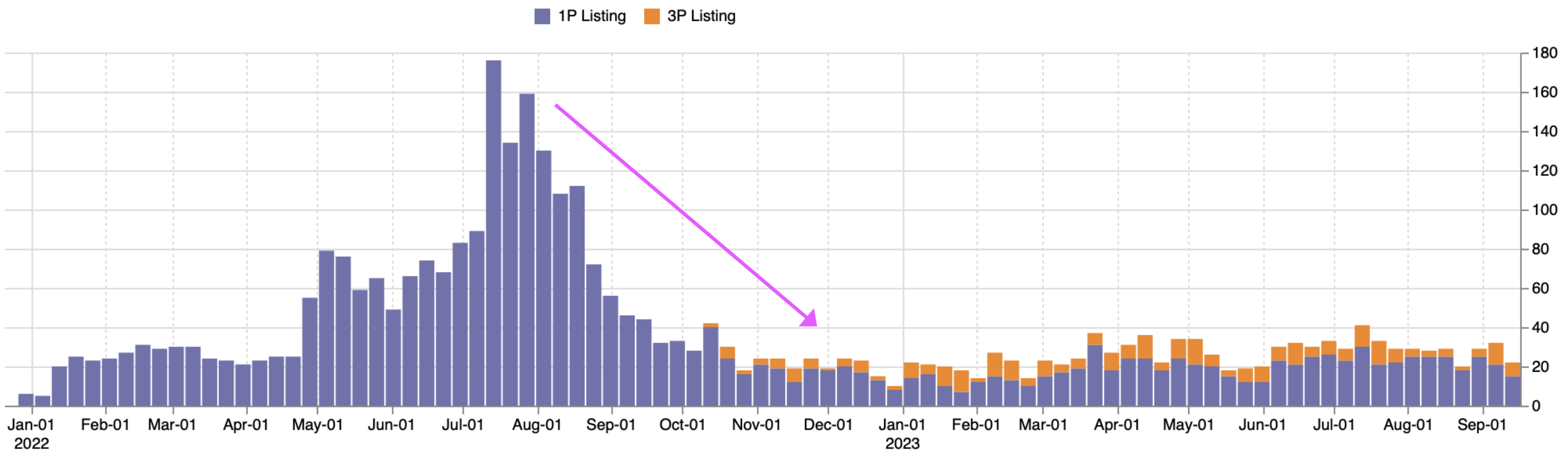
See all homes

Currently only available in Austin, Houston, and Dallas-Fort Worth, TX



Total exclusive listings are down significantly from mid-2022.

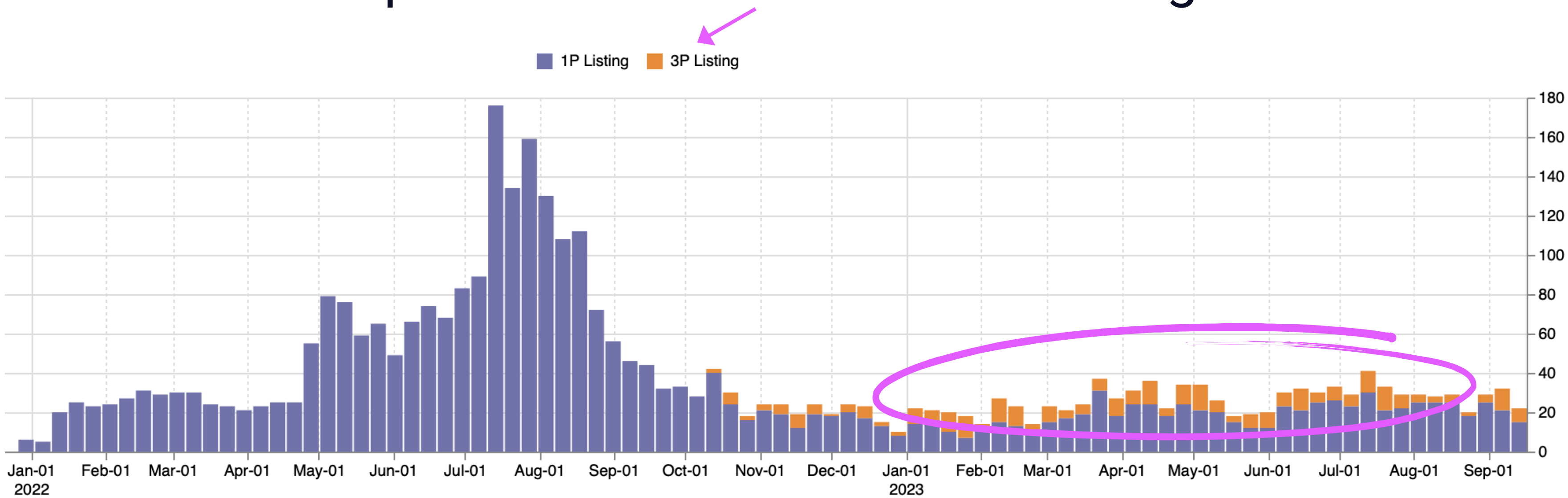
Opendoor's New Exclusive Listings



Source: Datadoor.io

Opendoor’s “next act,” its third-party listings marketplace (3P), remains very small.

Opendoor’s New Exclusive Listings



Source: Datadoor.io

Opendoor is a business in transition.

- After a major reorientation in mid-2022, Opendoor is more focused than ever before.
- The company is responding to the changing market by reducing the number of new home acquisitions and improving its spread (making lower offers and reselling for more).
- There are positive leading indicators and core economics, but questions remain about Opendoor’s path to profitability. Not losing as much money is a positive sign, but is not the same as operating profitably.

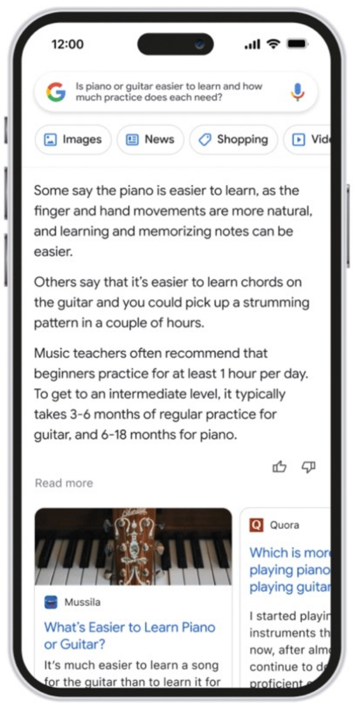
AI in Real Estate

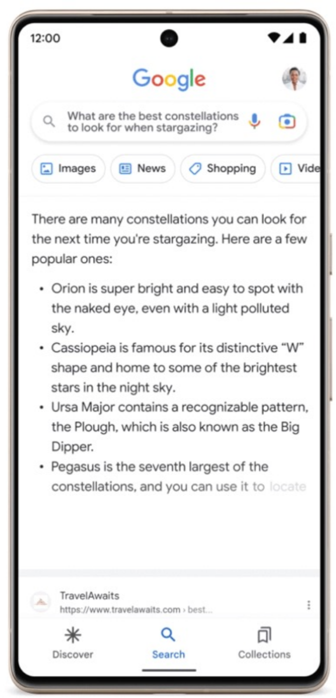
It’s tempting to dismiss the potential of AI and ChatGPT to change real estate.

“Will it actually change the very nature of search? I don’t think so.”

–Gary Keller

But AI is already changing the nature of search on Google and across the web.





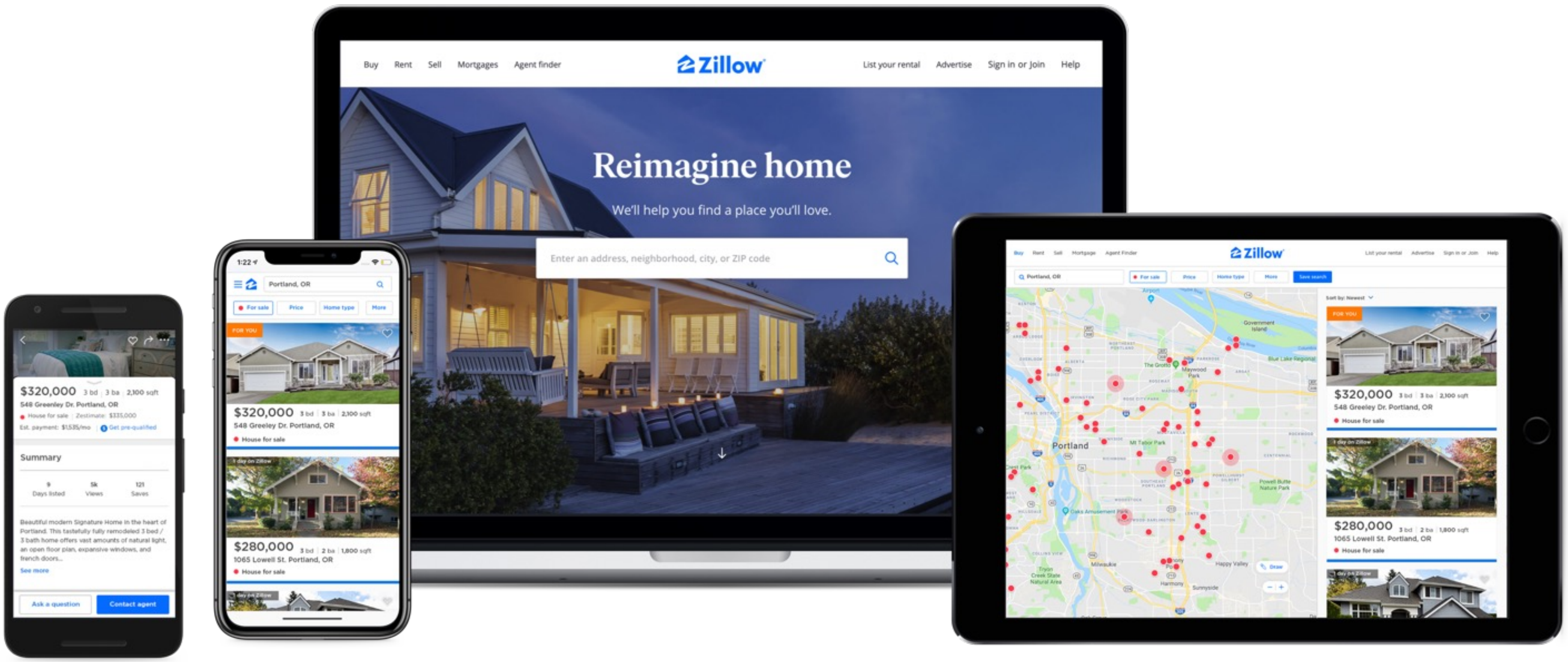
Google Plans to Make Search More 'Personal' with AI Chat and Video Clips

Changes aim to respond to queries that can't be easily answered by traditional '10 blue links' web results

TECHNOLOGY

Google shares drop $100 billion after its new AI chatbot makes a mistake

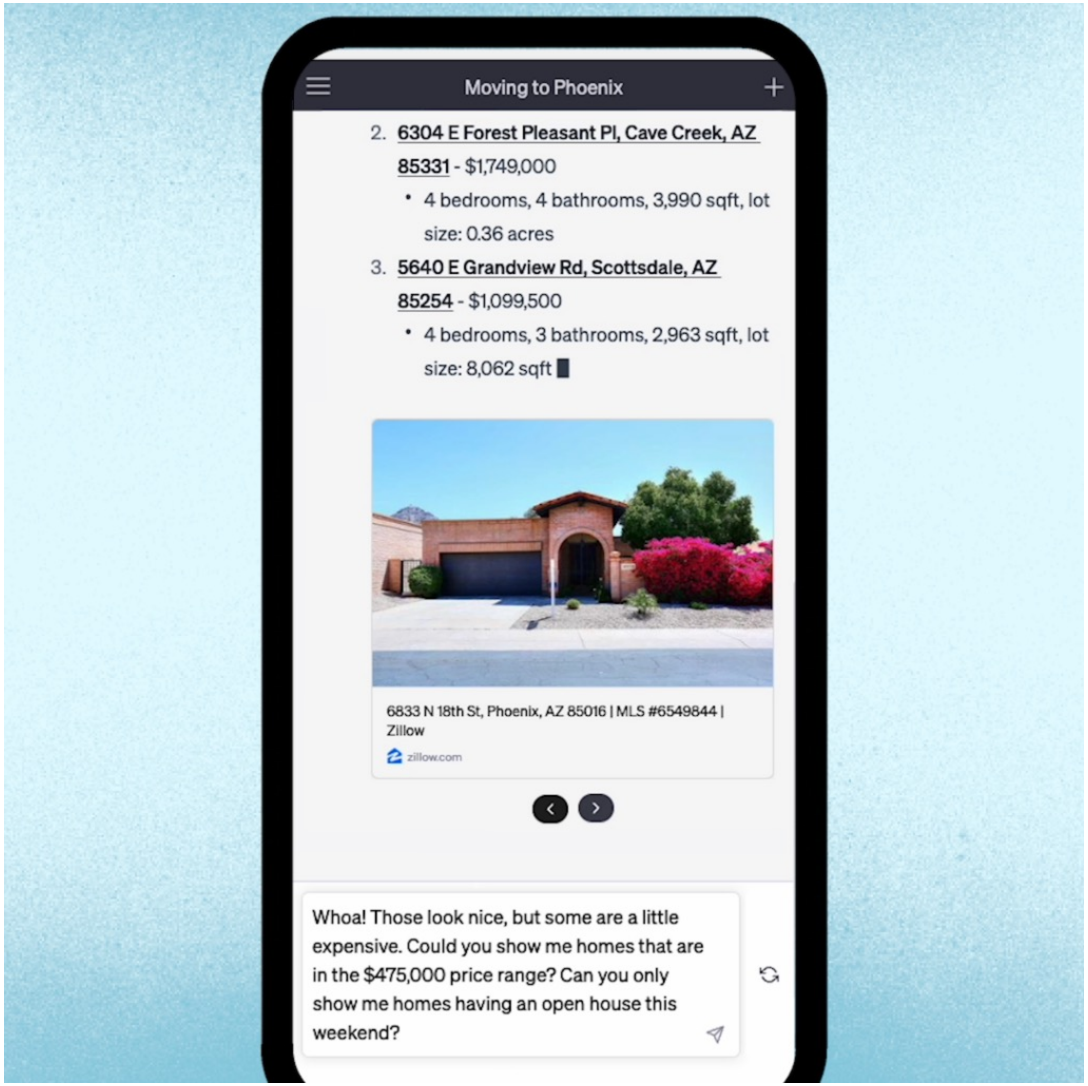
Twenty years ago, another company fundamentally changed the nature of real estate search.



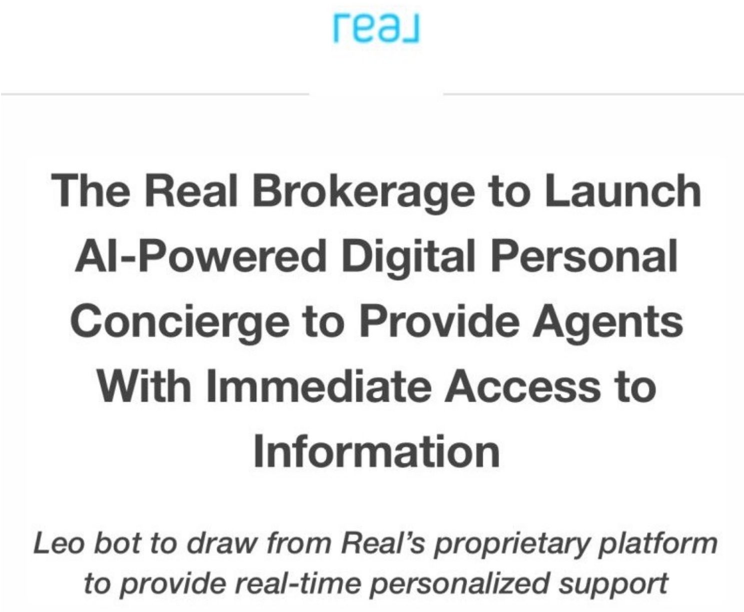
Regardless of the answer, it’s dangerous to immediately dismiss the potential impact of AI.

> “Will it actually change the very nature of search? I don’t think so.”
>
> –Gary Keller

Zillow's ChatGPT plugin is far from revolutionary – but is an important first step that signals intent.



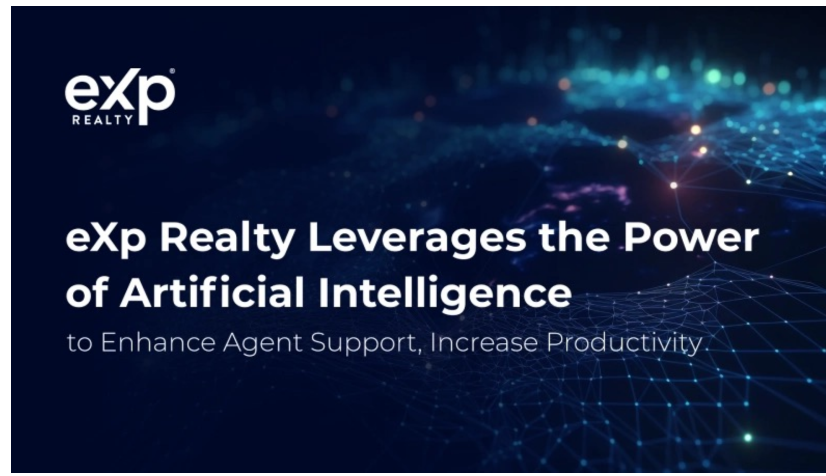
Tech brokerages are announcing agent-facing AI tools that aim to improve productivity.



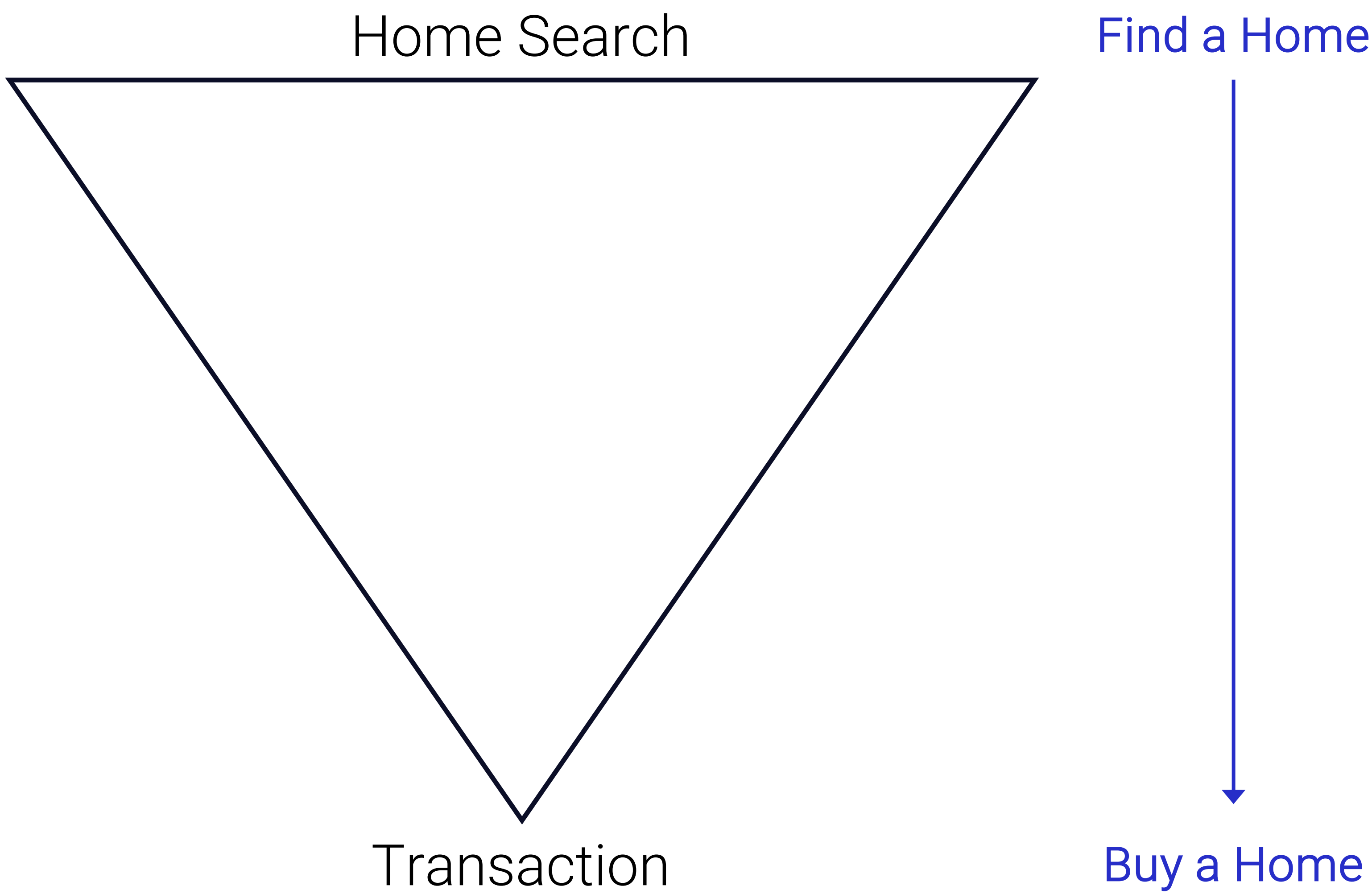
real

The Real Brokerage to Launch AI-Powered Digital Personal Concierge to Provide Agents With Immediate Access to Information

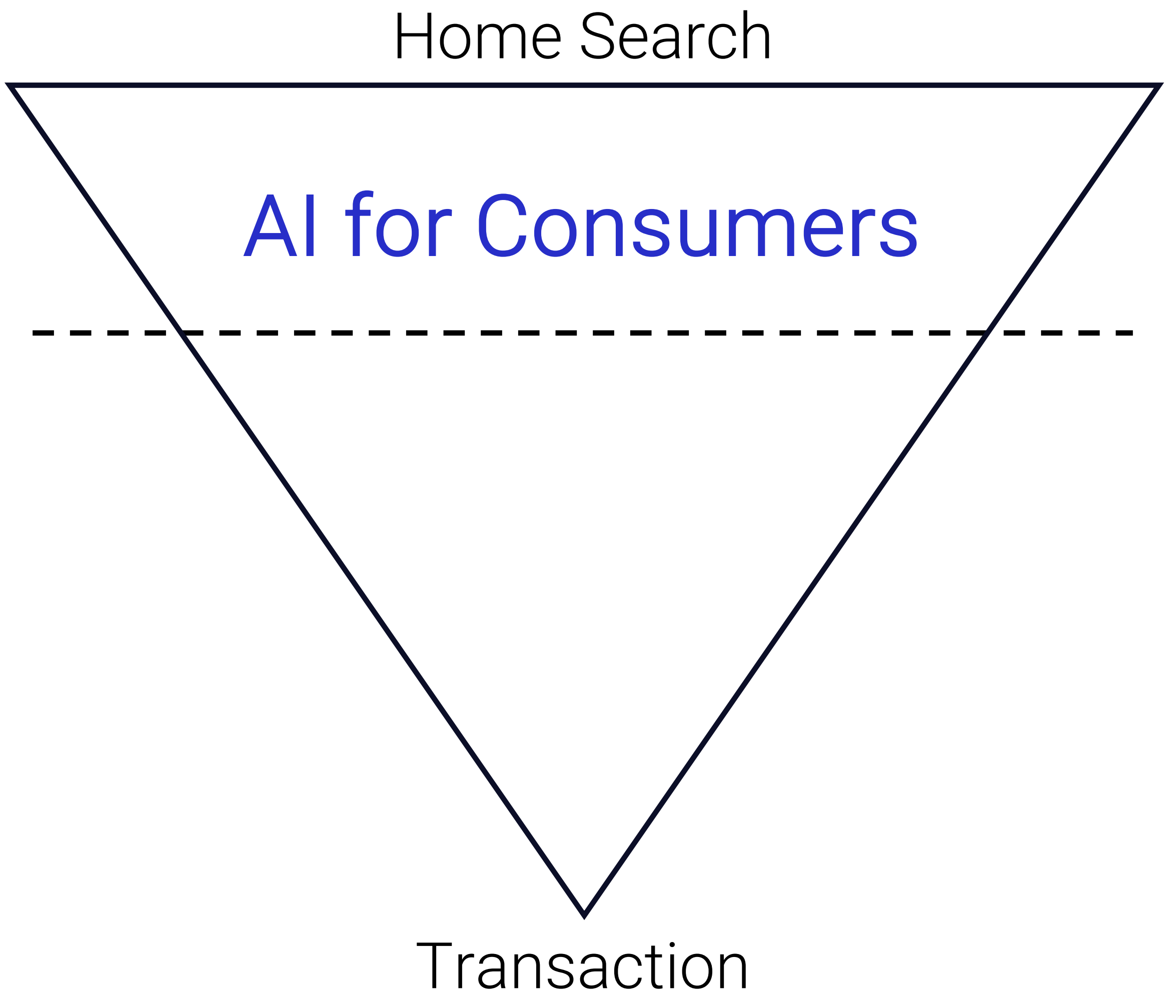
Leo bot to draw from Real's proprietary platform to provide real-time personalized support



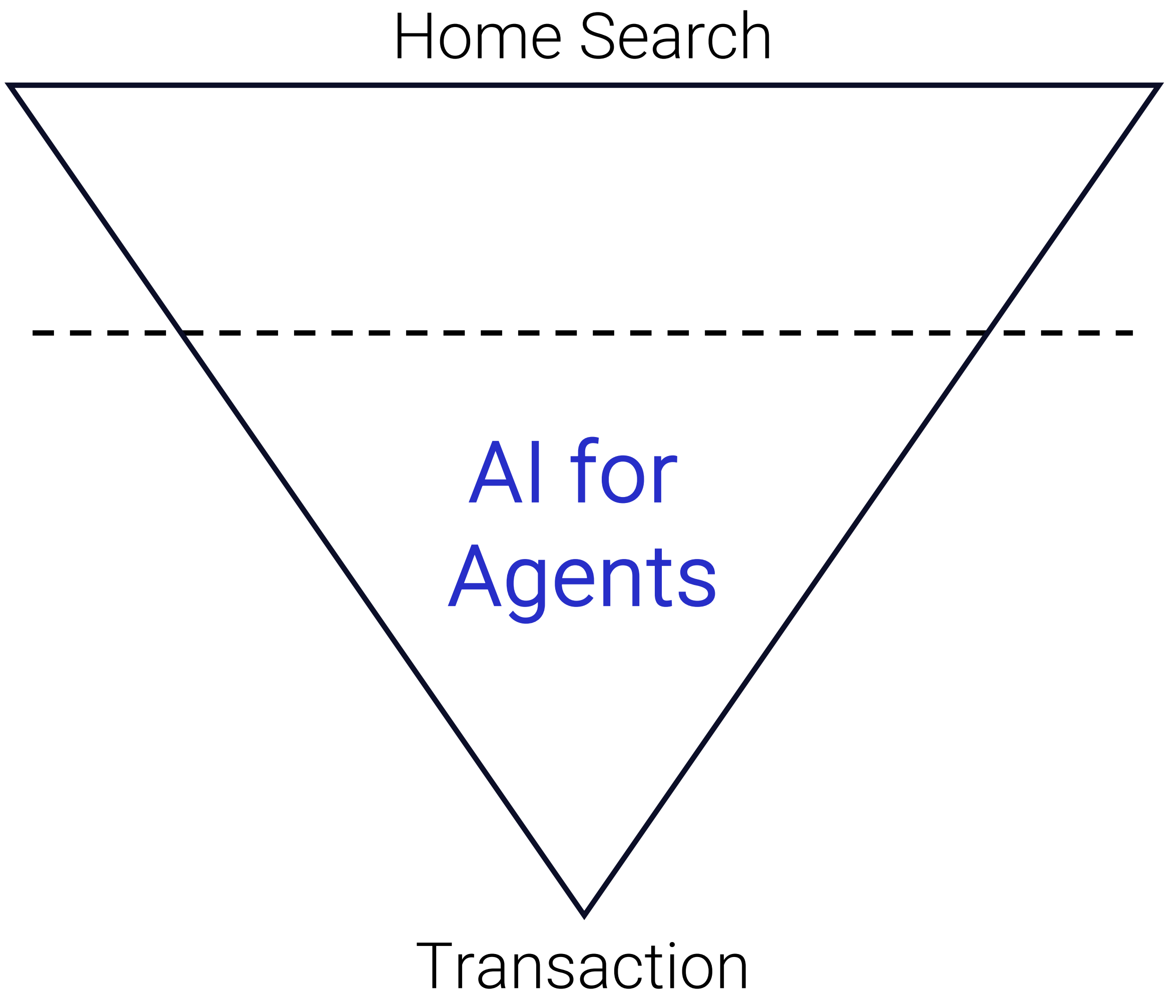
AI has several potential applications across the home buying and selling journey.



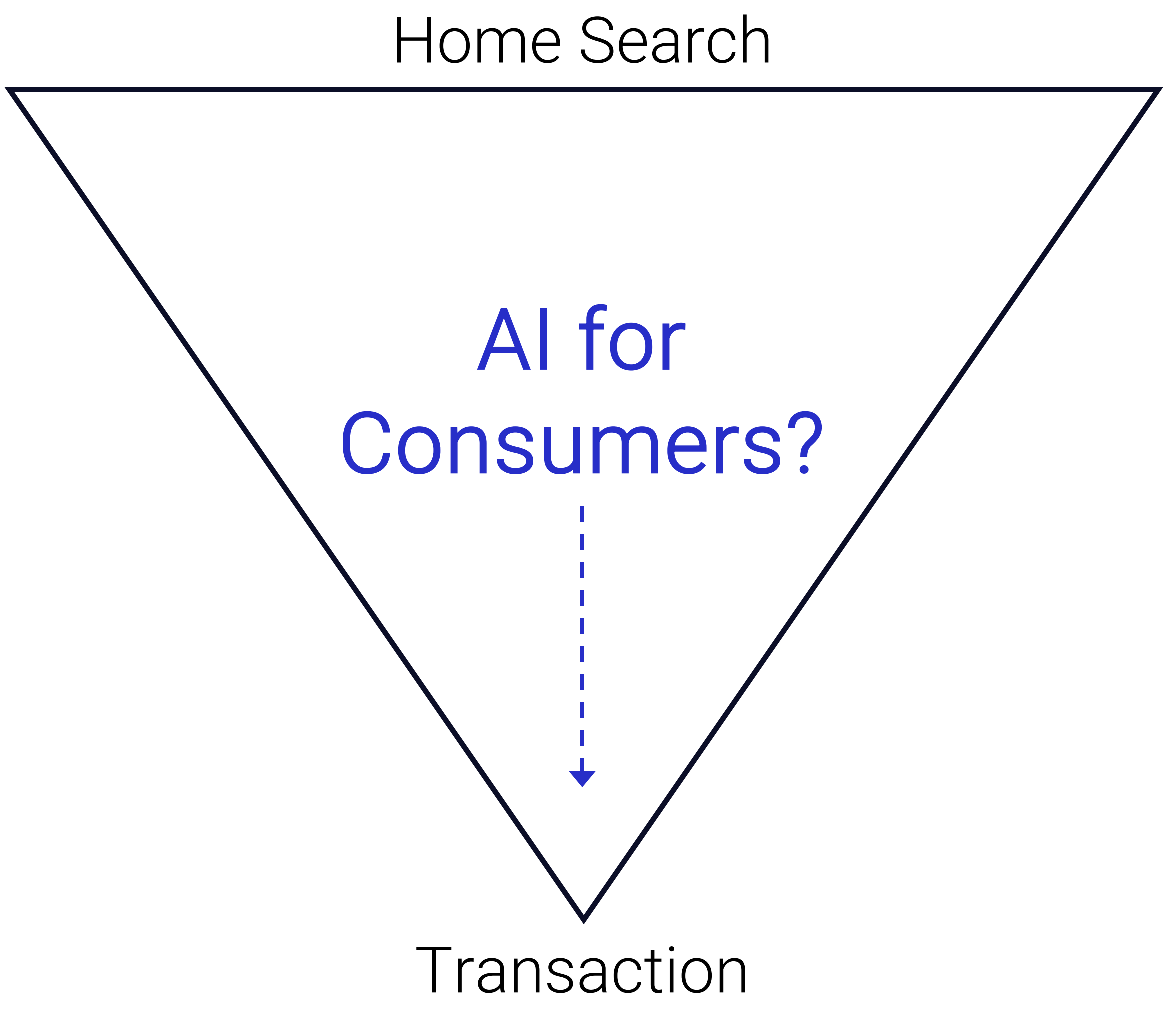
Like the Zestimate, AI is likely to be leveraged by *consumers* during the initial home search process…



...while AI is more likely to be leveraged by *agents* (and brokers) to help close the transaction.



It seems less likely that AI will replace agents in closing the transaction.



For now, the two focus areas appear clear.

AI may give **consumers** a new entry point to home search.

AI may make **agents and brokerages** more efficient.

(Un)profitability

There are many measures of profitability – and not all are created equal.

Adjusted EBITDA

EBITDA

Net Income

Adjusted EBITDA and EBITDA exclude a variety of expenses and may not tell the whole story.

Adjusted EBITDA

EBITDA

Net Income

In 2022, real estate tech companies posted a mixed bag of profitability, as measured by Adjusted EBITDA.

2022

Zillow	$514M
Opendoor	$(168)M
Compass	$(210)M
Redfin	$(191)M
Anywhere	$449M
eXp Realty	$61M

But at a Net Income level, nearly every company was unprofitable – to the tune of $2.5 billion.

2022

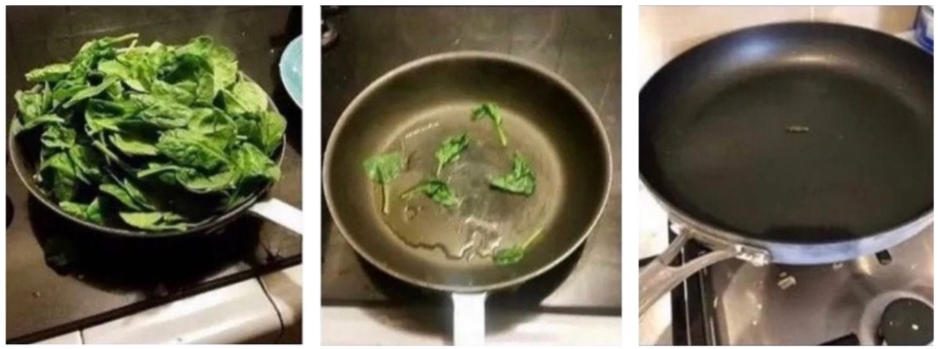
Zillow	$514M	→	$(101)M
Opendoor	$(168)M	→	$(1,353)M
Compass	$(210)M	→	$(602)M
Redfin	$(191)M	→	$(321)M
Anywhere	$449M	→	$(287)M
eXp Realty	$61M	→	$15M

$2.5B

eXp Realty was one of the few companies that managed to post a Net Profit in 2022.

2022

	Adjusted EBITDA	**EBITDA**	**Net Income**



Zillow	$514M	$(101)M
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Anywhere	$449M	$(287)M
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$2.5B

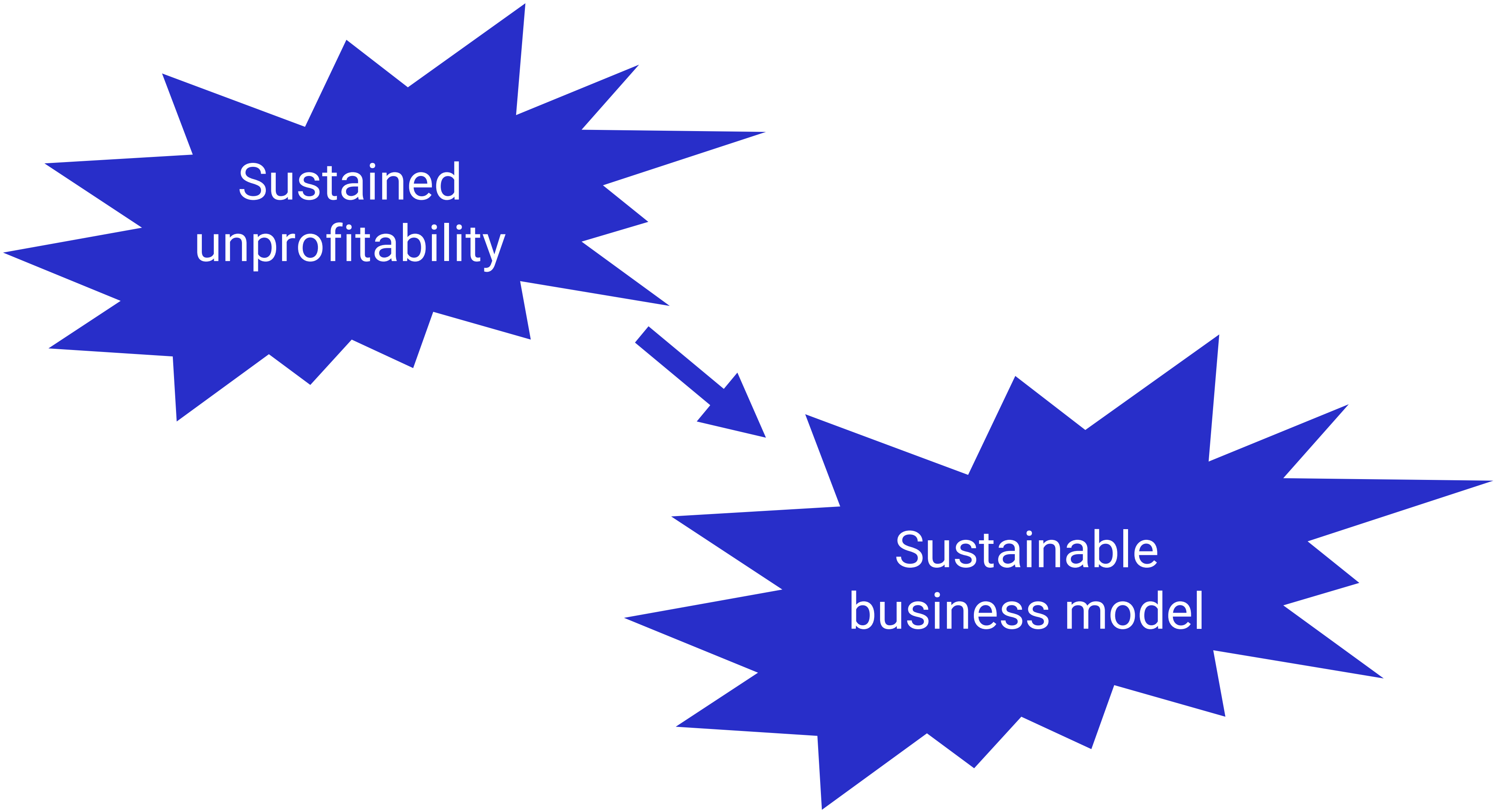
Be informed! Read the fine print to understand how each company measures “profitability.”

Adjusted EBITDA

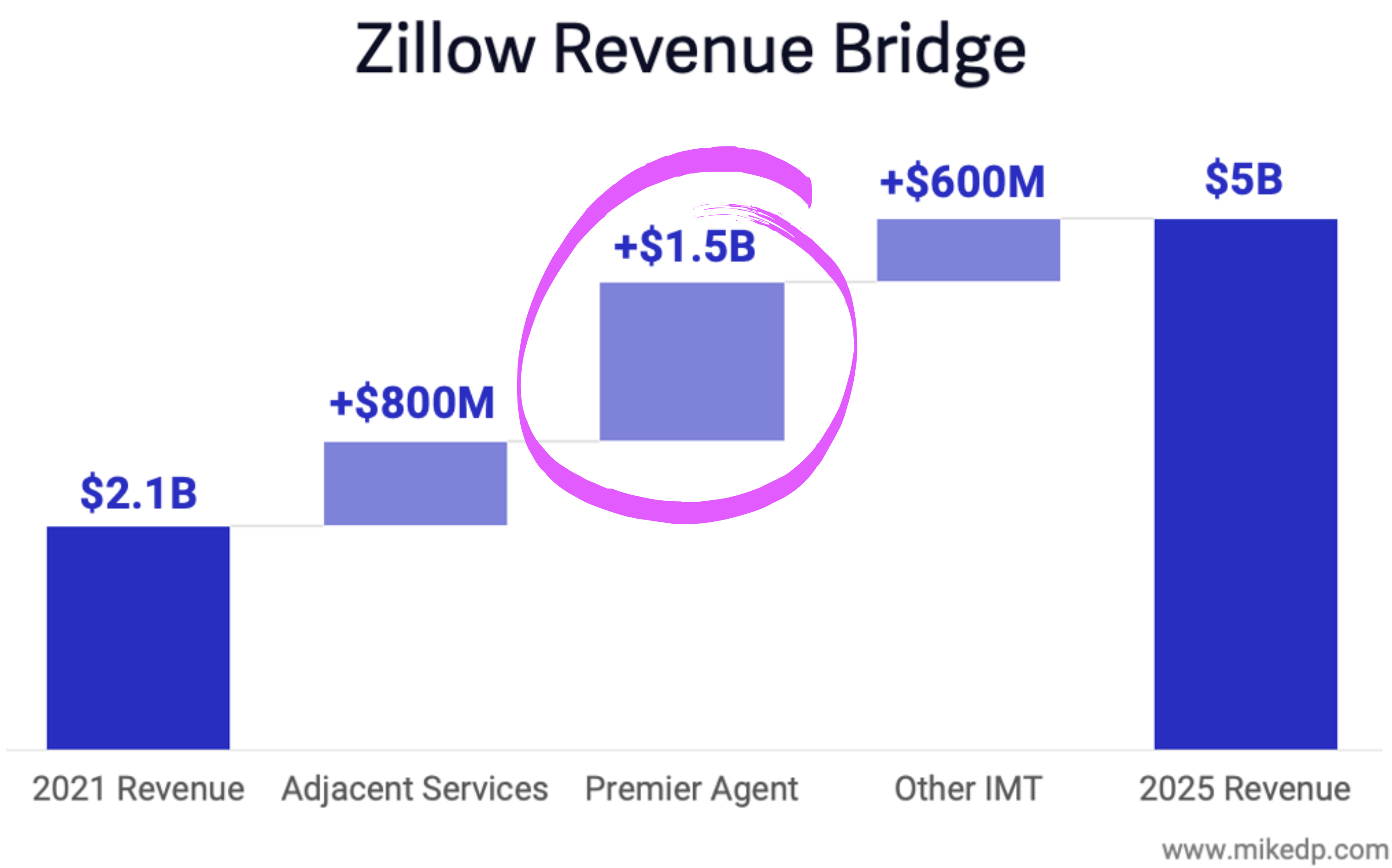
EBITDA

Net Income

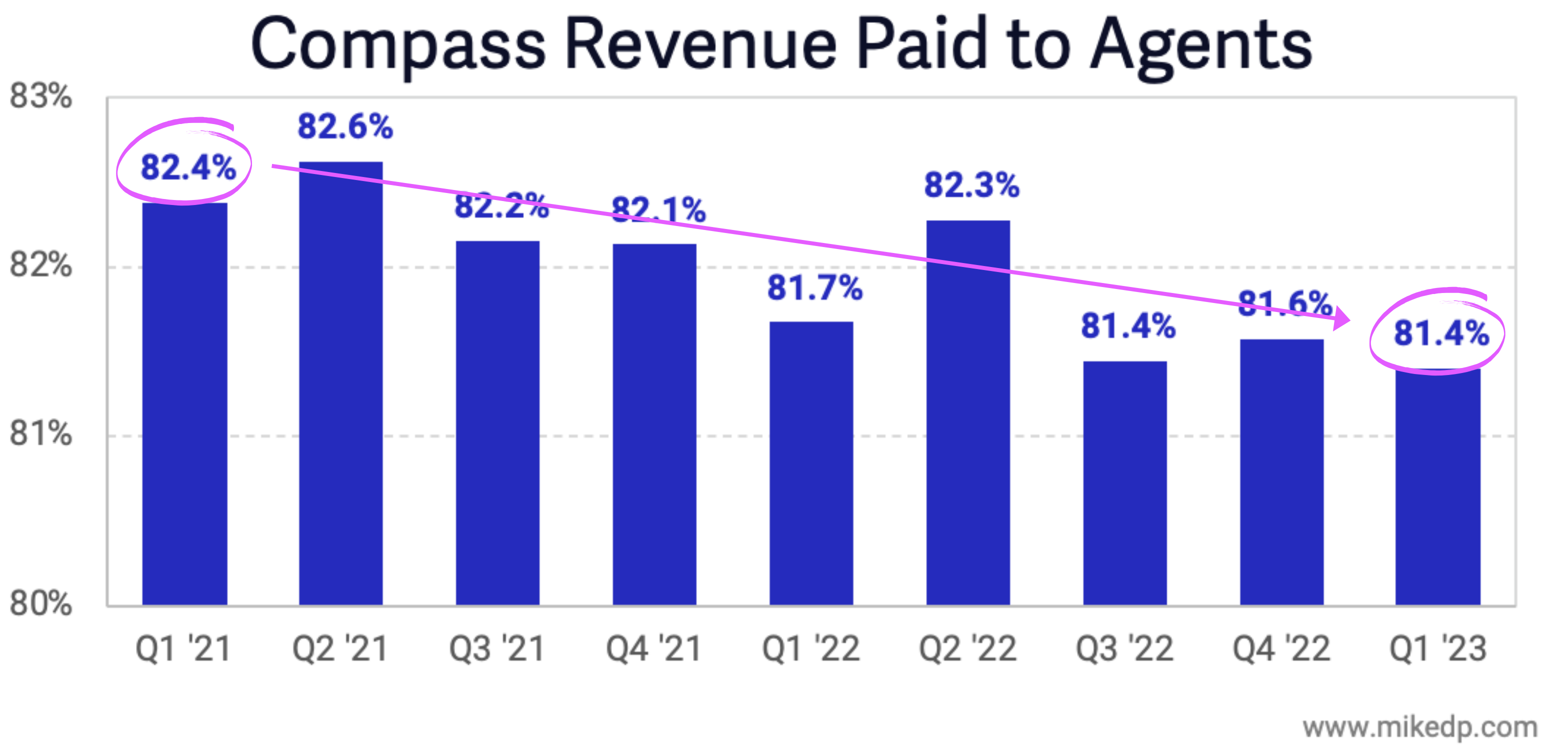
While definitions of profitability may vary, all companies are prioritizing profitable biz models.



Zillow is targeting increased revenue and profits through its Premier Agent program (selling leads).



While, over time, Compass is reducing the average commissions paid out to its agents.



Source: Author's calculations based on public disclosures.

The key to profitability for nearly all real estate tech companies is clear: the agent commission pool.

Source: Author's estimates.

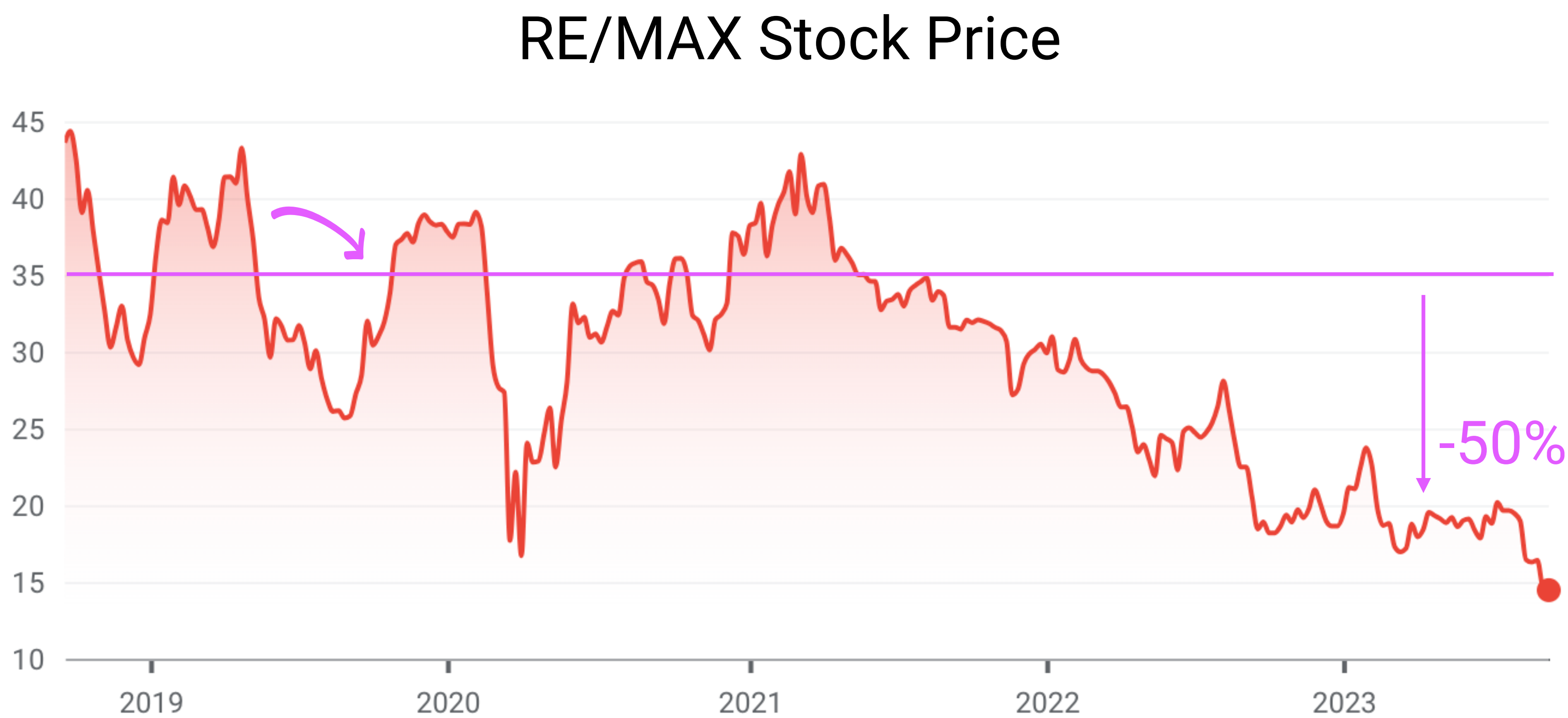
Stock Performance

As a benchmark, the NASDAQ is up about 75% from before the pandemic bump (2020–2022).

NASDAQ Composite Stock Price

Source: Google Finance, September 2023.

Real estate has been hit hard: RE/MAX stock is down about 50% during the same period.



Source: Google Finance, September 2023.

Industry stalwart Anywhere (fka Realogy) is down about 50%.

Source: Google Finance, September 2023.

Tech-enabled brokerage Redfin is also down about 50% after experiencing a massive pandemic boost.

Source: Google Finance, September 2023.

Opendoor, which went public in December 2020, is down about 70% after a big pandemic bump.

Opendoor Stock Price

Source: Google Finance, September 2023.

And Compass, which went public in April 2021, is down about 75%.

Source: Google Finance, September 2023.

On the other hand, Zillow is up about 10% after a pandemic bump and closing Zillow Offers.

Source: Google Finance, September 2023.

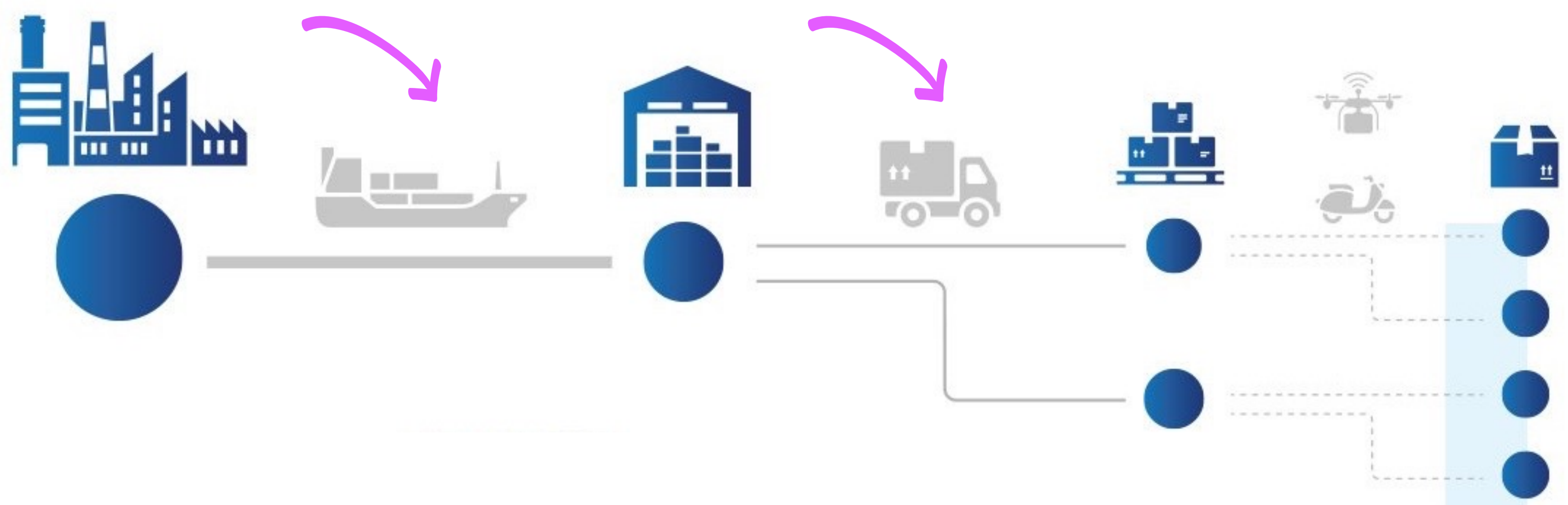
One of the few winners is eXp World Holdings, which is up about 200% from pre-pandemic levels.

Source: Google Finance, September 2023.

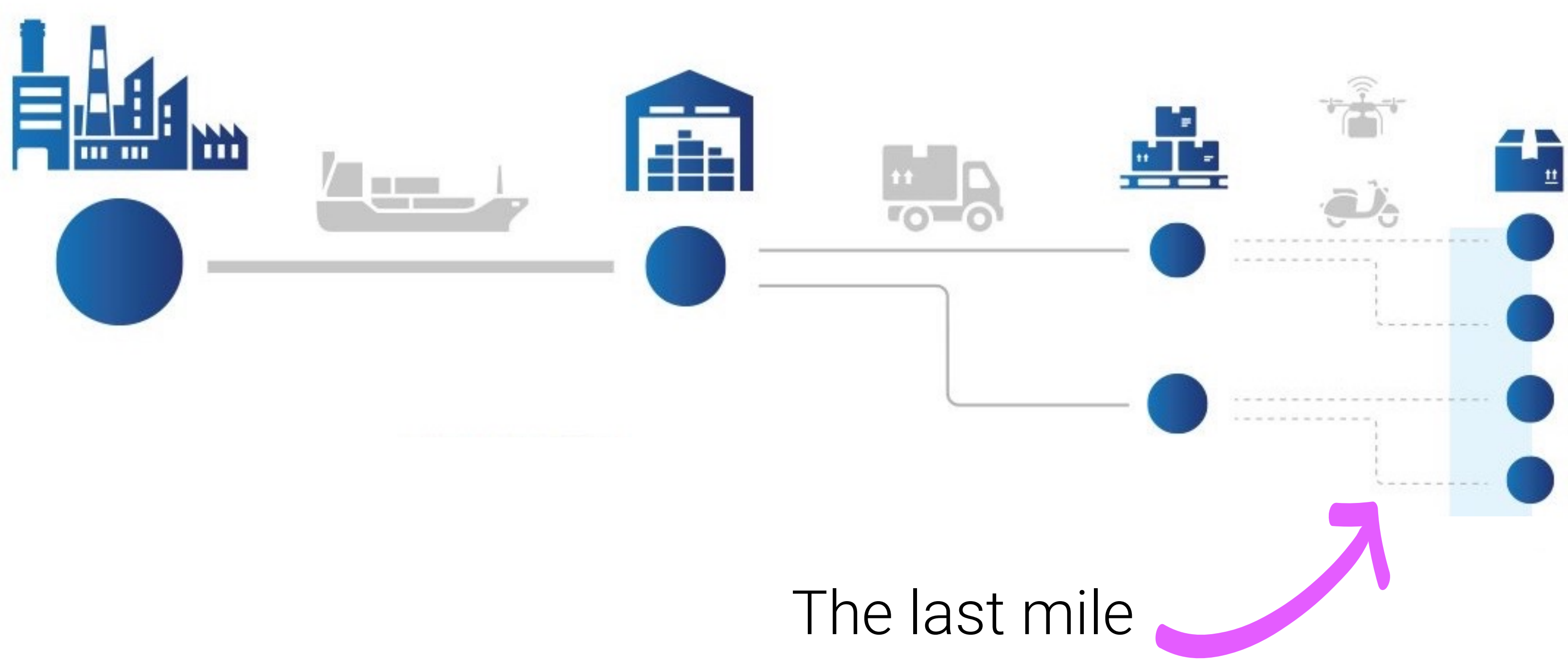
The Last Mile Problem

Real estate has a last mile problem -- a concept that comes from logistics and transportation.

Getting goods from a factory to a warehouse, and from a warehouse to a distribution center, is the easy part.

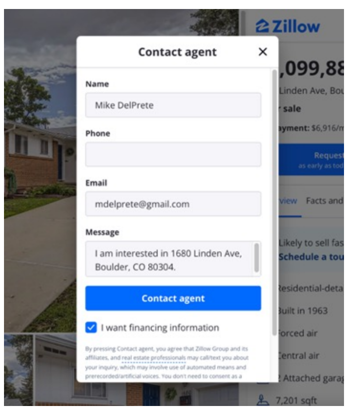


The difficulty comes with the final delivery, where the experience is uncertain, complex, and expensive.

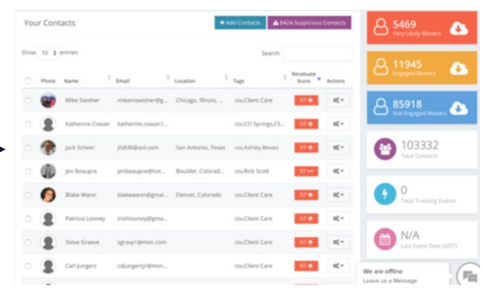


In real estate, there is a proliferation of services to generate and qualify leads.

Buy thousands of online leads

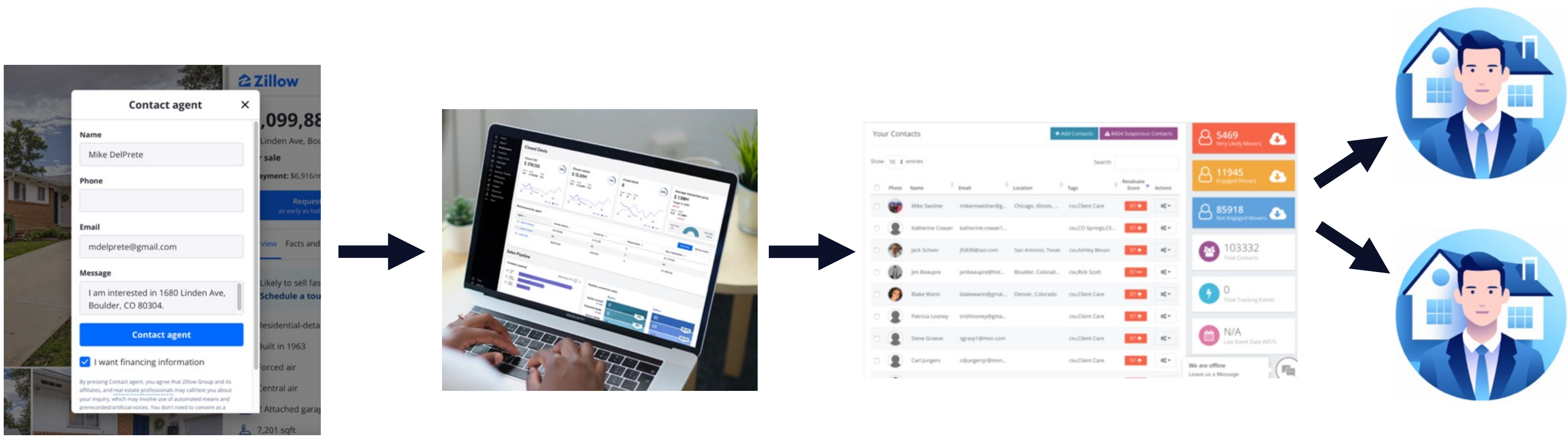


Predictive analytics for lead scoring



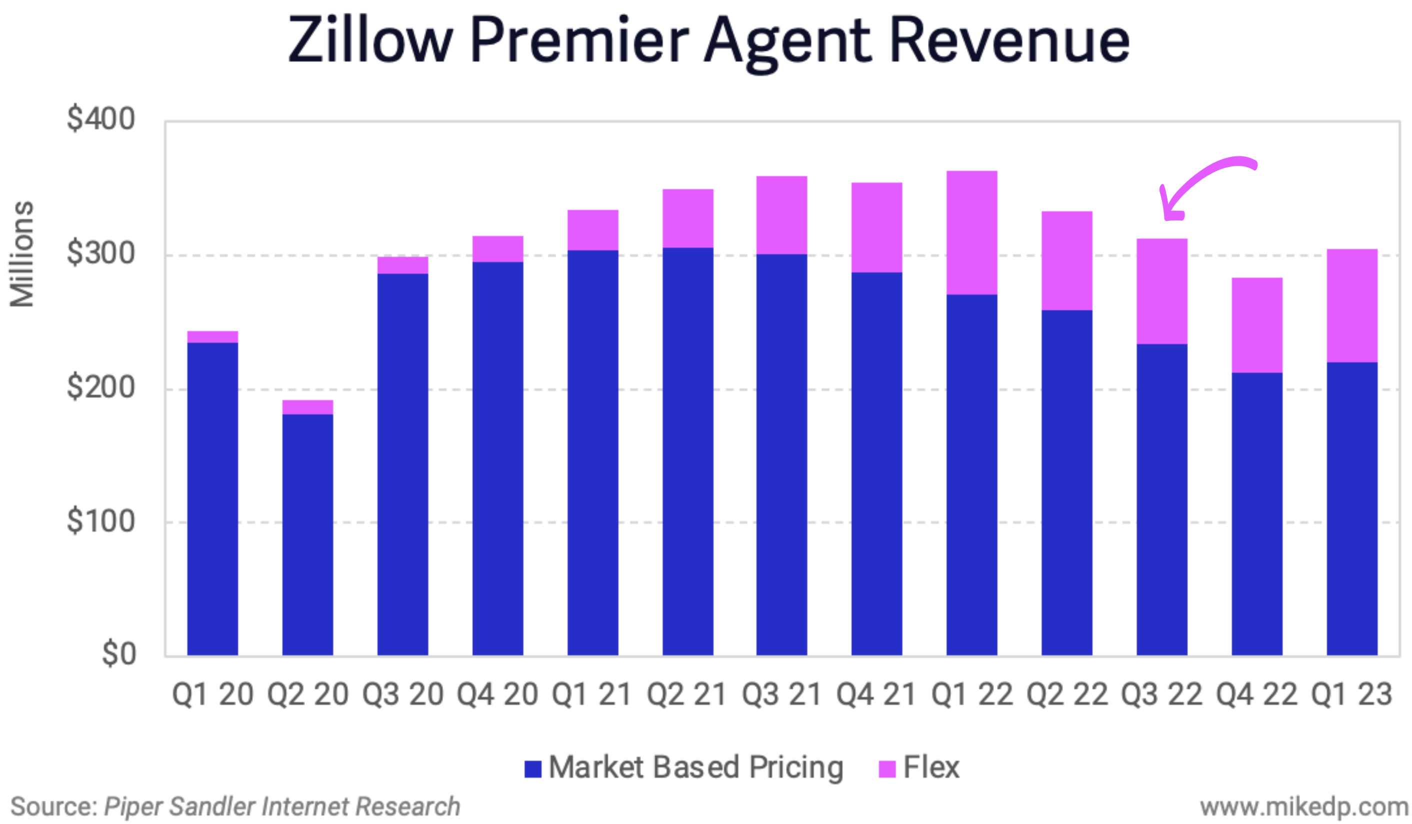
Invest millions into building tech platforms

But an agent still needs to pick up the phone, make a call, and build a relationship with a consumer.



The last mile

That's why the biggest players in real estate are working *with*, and not trying to disintermediate, agents.

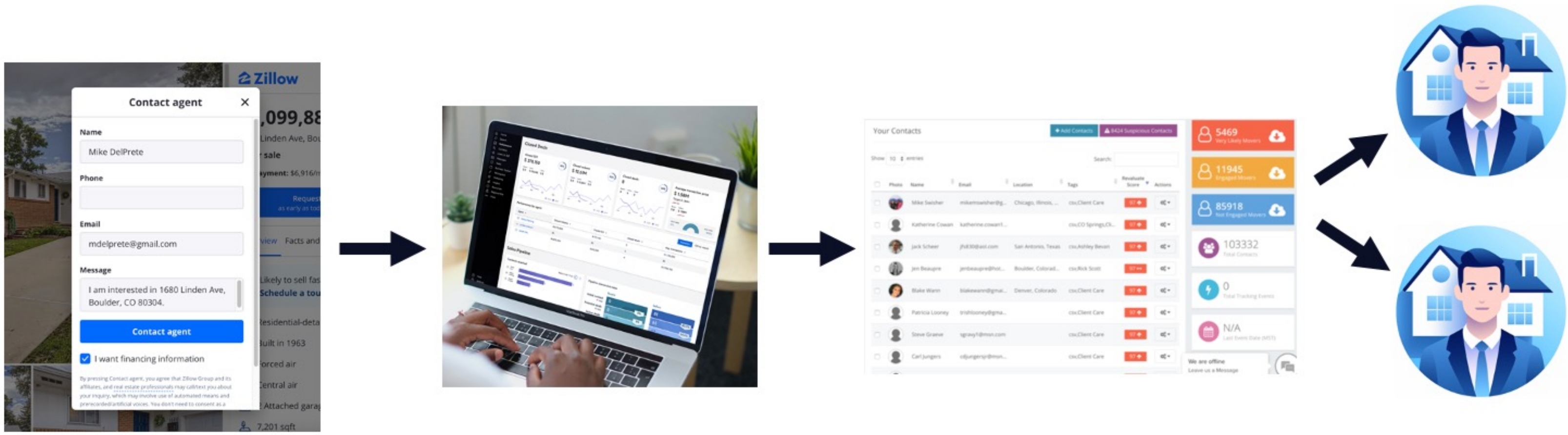


Zillow's Premier Agent and Flex programs keep high-quality agents at the center of the transaction.

Opendoor is pivoting back to agents with a significant marketing and partnership campaign.

Online real estate companies and agents probably wish each other would just go away.

THE LAST MILE PROBLEM

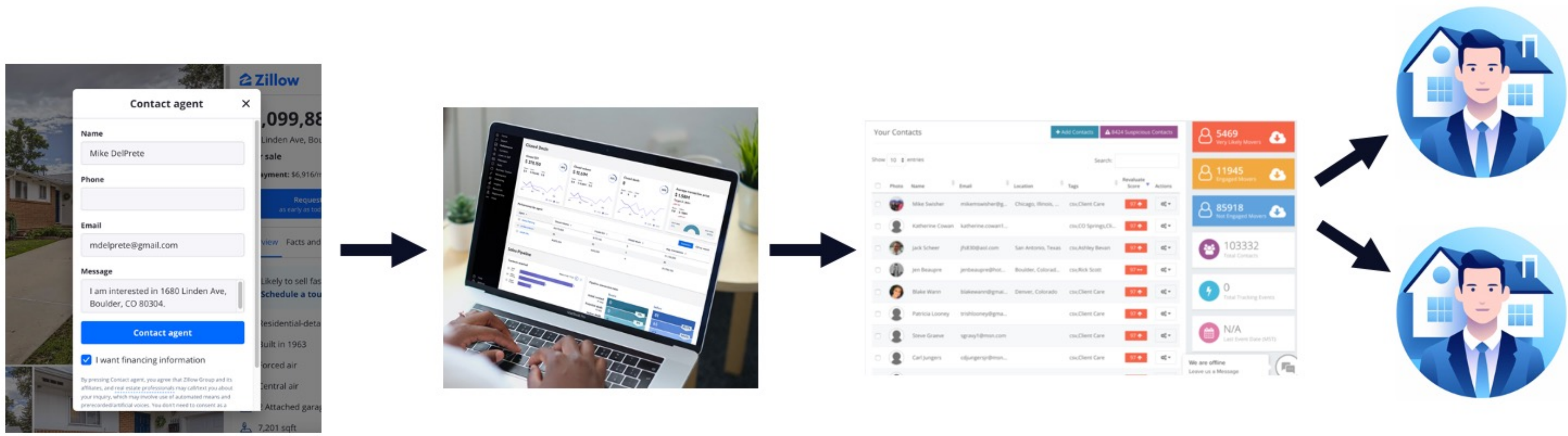


But both forces operate in a tentative equilibrium, not necessarily liking each other, but able to work together to achieve a common outcome.

Which has left agents as the last mile solution – the irreplaceable central part of the transaction.

solution

THE LAST MILE ~~PROBLEM~~



MIKE DELPRETE

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I'm a global real estate tech strategist, and a scholar-in-residence at the University of Colorado Boulder. I'm internationally recognized as an expert and thought-leader in real estate tech. My evidence-based analysis is widely read by global leaders, and I'm a sought-after strategy and new ventures consultant.

My research and insights have featured in the New York Times, Wall Street Journal, Financial Times, and The Economist.

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Strategy Consultant

I'm a strategy and new ventures consultant for businesses of all sizes, with a focus on real estate portals and disruptive models in real estate tech. Learn more ⟶

Start-up Advisor

I advise and invest in a select group of real estate tech start-ups and growth-stage businesses around the world. Learn more ⟶

My New Podcast

Conversations with industry leaders about the businesses and technologies changing real estate.

Available on