

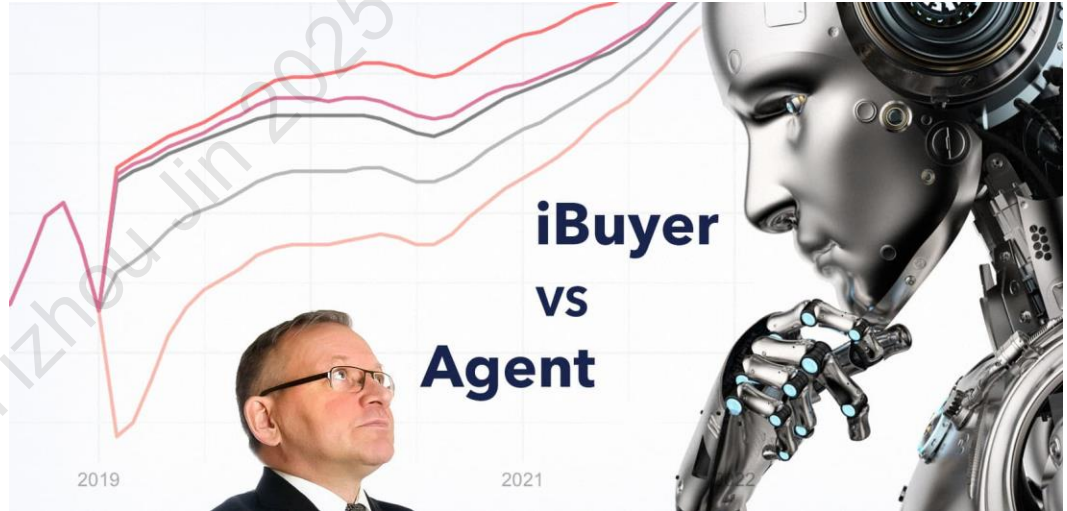
iBuyers

Opendoor

 **Zillow**[®]
Instant Offers


OFFERPAD

RedfinNow



iBuyers: e.g. Opendoor IPO Deck

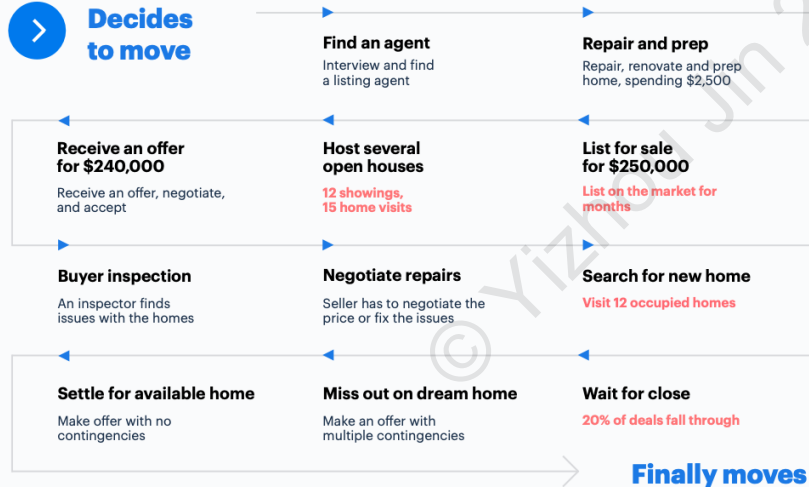


Opendoor

iBuyers: e.g. Opendoor IPO Deck

Process is **complex, uncertain, time-consuming and offline**

Today, **89%** of buyers and sellers use an agent, and this is their experience



Costing as much as **12%+** of the transaction

Item	Cost
Broker commission	\$13,750
Seller concessions	\$3,750
Closing costs	\$3,750
Home renovation/repairs	\$2,500
Double mortgage	\$2,500
Moving costs	\$1,259
Staging	\$1,185
Home warranty	\$936
Total	\$29,630

Note: Agent use, 89%, per National Association of Realtors report
 List days, home visits and fall-through metrics based on analysis of Multiple Listing Service (MLS) and Company data
 Per transaction \$ values indicative based on \$250K home value

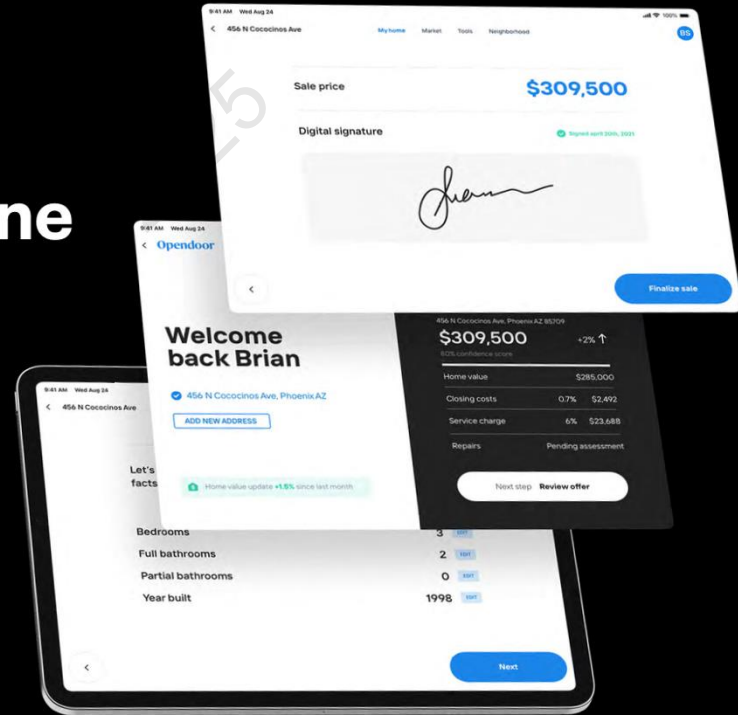
iBuyers: e.g. Opendoor IPO Deck

**Receive an offer
and sell on your timeline**

Online cash offer

Flexible close date

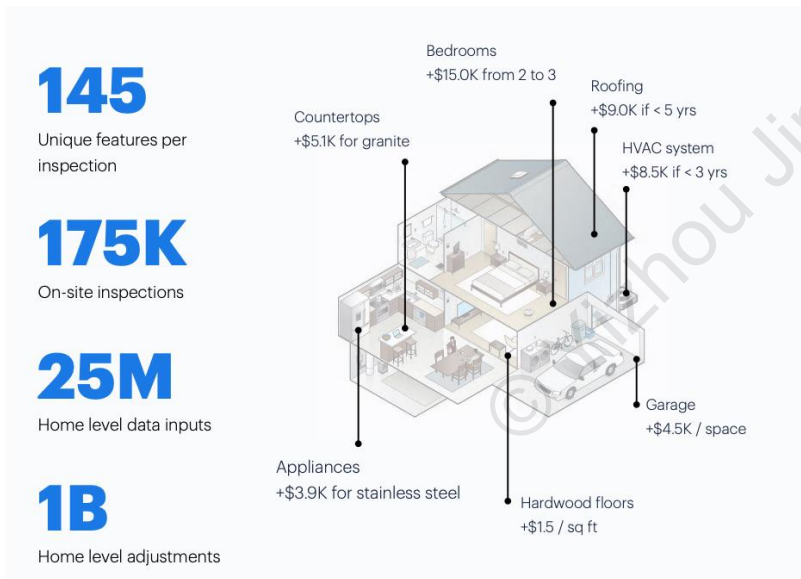
Digital closing



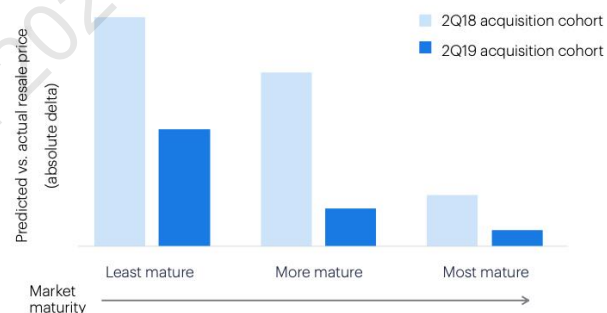
iBuyers: e.g. Opendoor IPO Deck

Pricing advantage: data, accuracy and automation

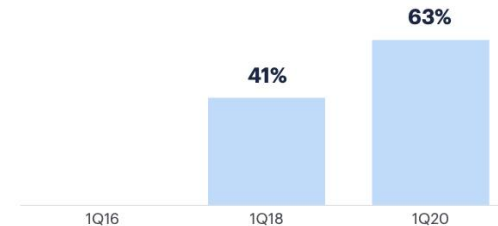
Feature level home data



Meaningful improvements in accuracy



With step-function increases in automation



Note: On-site inspections and home-level adjustment metrics reflect to-date company data as of August 2020; feature price adjustments indicative. Accuracy data based on expected resale price at time of underwriting vs. realized sale price. Automation rate based on percentage of offers sent without human intervention.

iBuyers vs. Traditional House Flipping

iBuying vs home flipping

iBuyers are often confused with home flippers, yet the two business models can be very different. Home flippers want to profit from buying low and selling high. They often target distressed properties, make major renovations, and then sell at a significantly higher price.

On the other hand, iBuyers typically focus on homes in good condition. They aim to make an offer in line with what a reasonable buyer would pay, commonly referred to as **fair market value**. In most cases, they'll conduct minimal repairs to ensure the safety and functionality of the home before finding the next buyer.

Do not
renovate and
focus on
homes in
good
conditions

In the paper

- 3% of iBuyer listings mention “renovation”
- 30% of “flipper” listings mention “renovation”

iBuyers vs. Traditional House Flipping

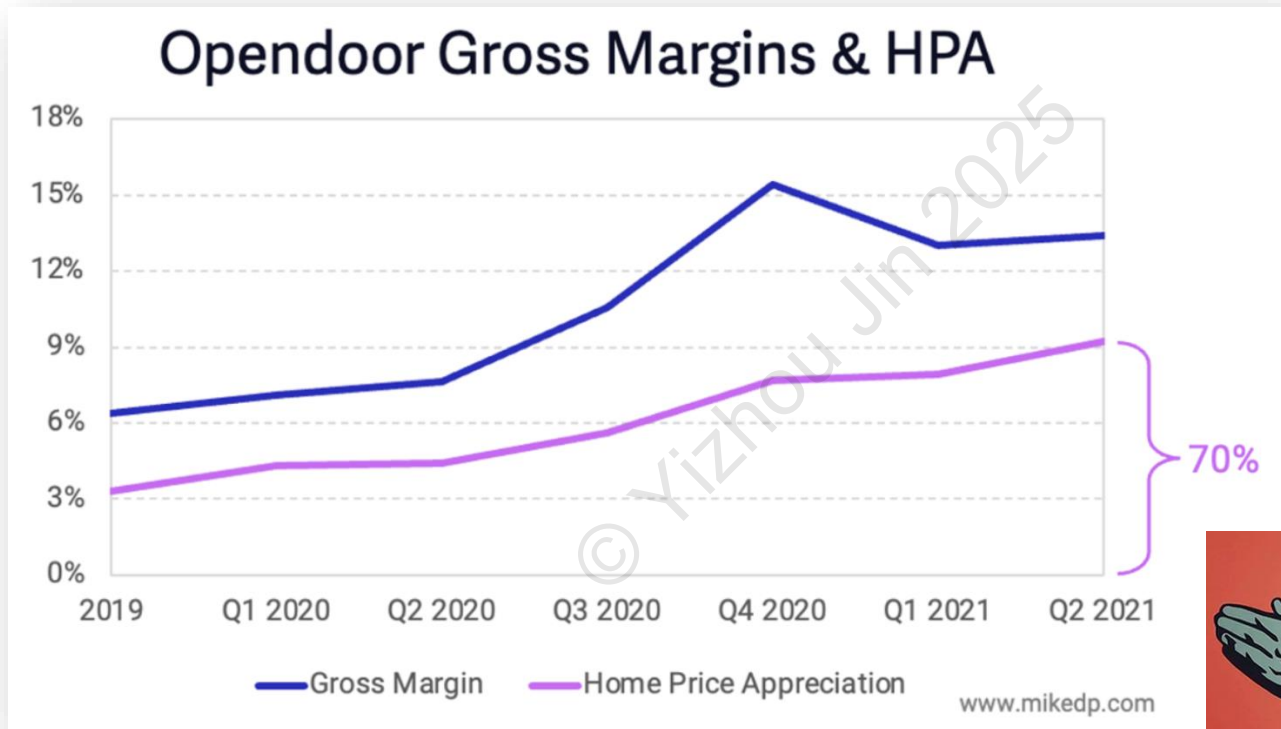
Your next question is probably, "Okay, but how is an iBuyer going to give me a competitive offer, then turn around and sell my home at a competitive price... and stay in business?"

While each iBuyer has a different approach to this question, **our business model is fee-based**. We aim to present sellers with a competitive, all cash offer and charge a service fee similar to the agent commissions in a traditional sale.

Claims to be
fee-based

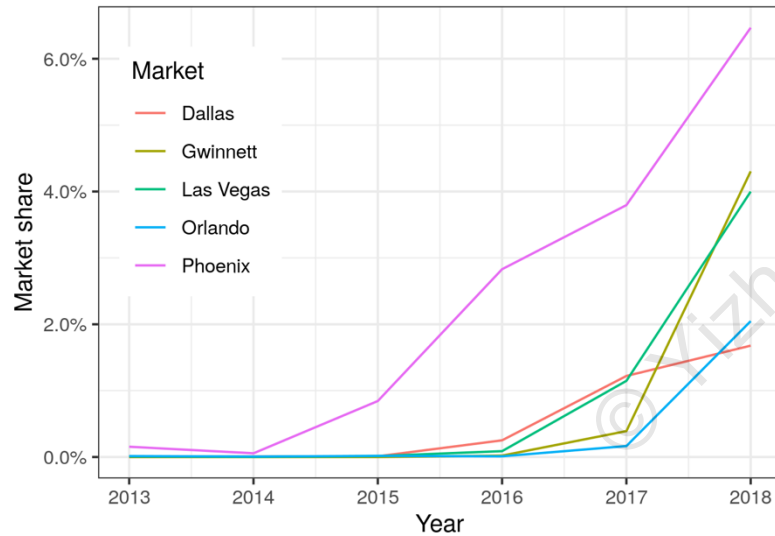


Transaction Fees not a Main Revenue Source

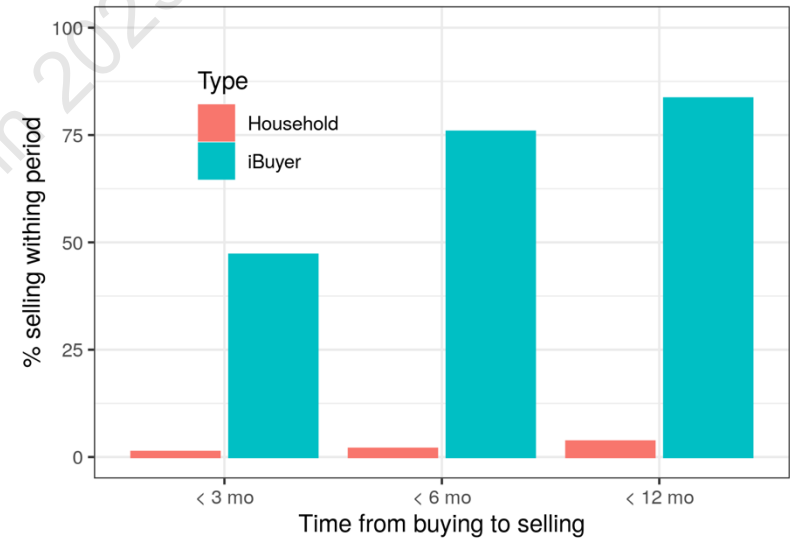


iBuyers are Algorithmic Housing Traders

WHERE ARE THEY ACTIVE?



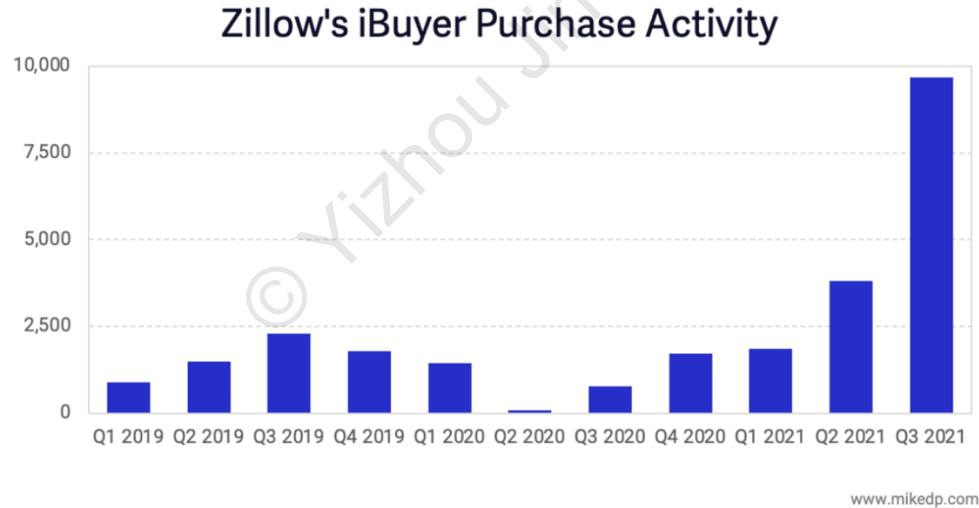
WHAT DO THEY DO?



Out-of-Control Growth

Zillow's Astronomical iBuyer Growth

Zillow's iBuyer business grew so fast, so quickly, that it literally broke the company, forcing an abrupt shut down. In Q3 -- the three months that broke the business -- Zillow purchased more houses than in the previous 18 months *combined*.



The Music Stops

Zillow to exit its home buying business, cut 25% of staff

Anna Bahney



CNN — none

Zillow is getting out of the iBuying business and will shut down its Zillow Offers division, resulting in a 25% reduction in its staff.

In its quarterly earnings report on Tuesday, the company said it will see a total write-down of more than \$540 million as a result of its exit from the business, which buys homes and resells them.

As a result of shutting down [Zillow Offers](#), the company said it will be cutting some 2,000 jobs.

Last month, the company said it [was halting new purchases of homes](#) because supply chain disruptions and the labor shortage were causing it to get backlogged on the homes it was renovating and preparing for sale. However, the company said on Tuesday that the \$304 million inventory write down it recorded in the third quarter from its Homes segment, which includes Zillow Offers, was

TECH

Zillow plunges 25% to lowest since July 2020, after company exits home-buying business

PUBLISHED WED, NOV 3 2021-1:33 PM EDT | UPDATED WED, NOV 3 2021-6:53 PM EDT



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Spectacular Failure of iBuyers

Zillow believed it had the secret to the iBuying world: the Zestimate. Launched in 2006, the highly touted algorithm had been trained on millions of home valuations across the US before it was put to work estimating the possible price of property Zillow itself bought. In theory, it was a natural confluence of two things: Zillow's expertise in pricing homes, and a new method of buying properties that relied on accurate estimates.

“Put simply, our observed error rate has been far more volatile than we ever expected possible,” Barton admitted. “And makes us look far more like a leveraged housing trader than the market maker we set out to be.”

WIRED

Spectacular Failure of iBuyers

Redfin to cut 13% of workforce and shut down home-flipping business RedfinNow

by Nate Bek on · November 9, 2022 at 8:47 am



(Redfin Photo)

Redfin will wind down its home-flipping program RedfinNow and lay off employees for the second time this year as it cuts expenses in response to a slowing housing market.

Opendoor Technologies Inc

\$1.90 ↓ 82.62% -9.03 MAX

After Hours: **\$1.93** (↑ 1.58%) +0.030

Closed: Oct 31, 7:58:55 PM UTC-4 · USD · NASDAQ · Disclaimer

1D 5D 1M 6M YTD 1Y 5Y MAX



Why These Markets?

Our first 6 markets reached **\$2.7B** run-rate revenue in 1Q20

6

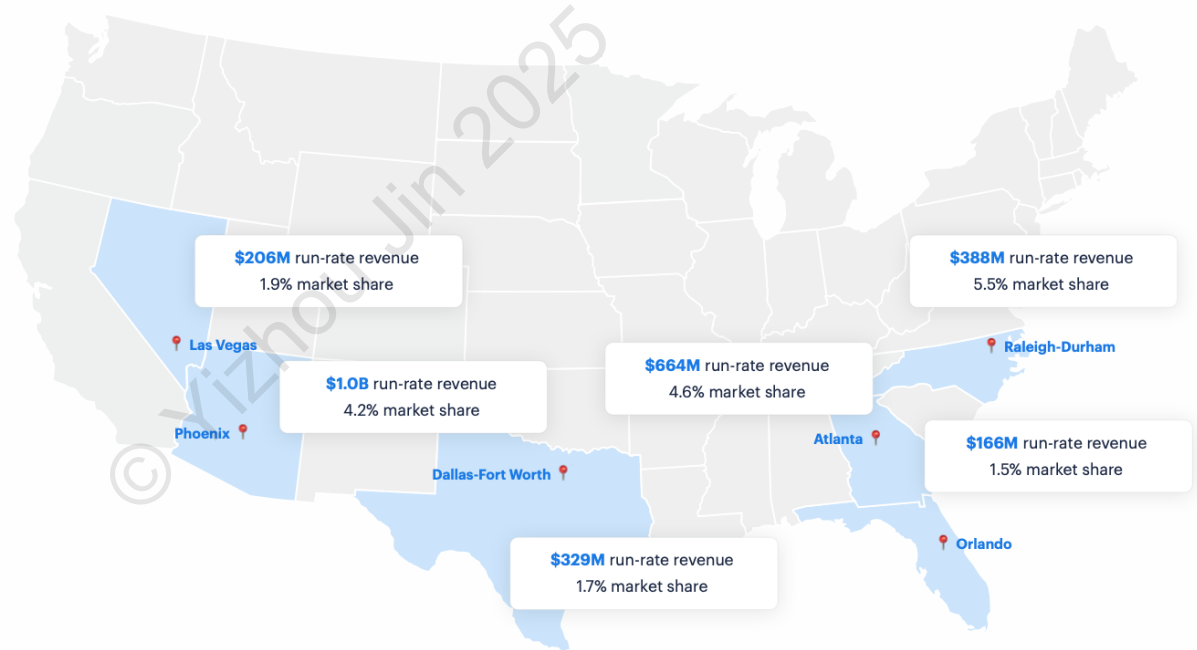
Markets

3.2%

Market share

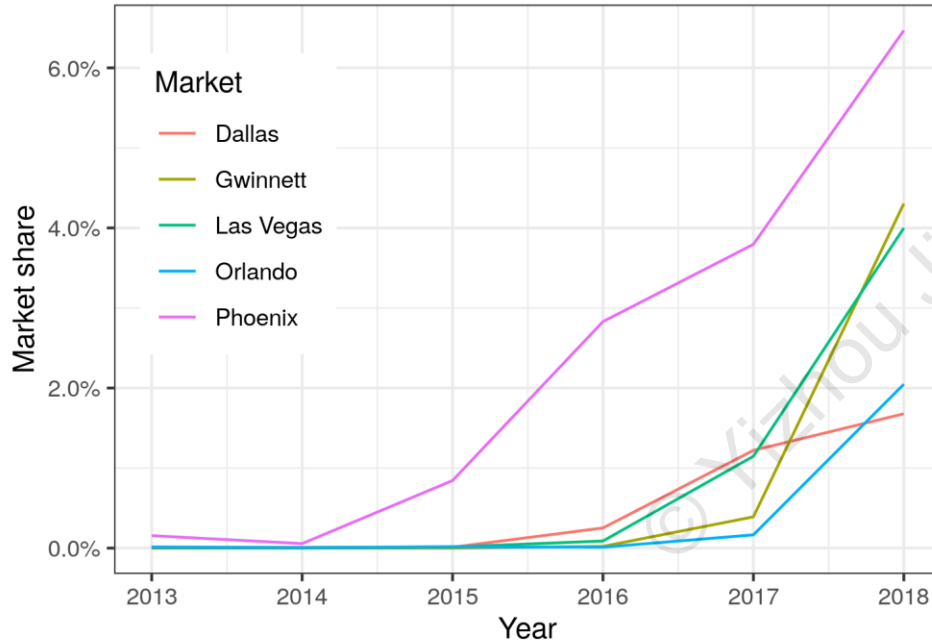
\$2.7B

1Q20 Run-rate revenue



Note: Market share based on Company resales and MLS transaction data for respective markets as of 1Q20. 1Q20 run rates do not reflect the full impact of COVID-19; see Summary Financials for full-year 2020 projections

Why These Markets?



Tech firms chose the Phoenix area because of its preponderance of cookie-cutter homes. Unlike Boston or New York, the identikit streets make pricing properties easier. iBuyers' market share in Phoenix grew from around 1 percent in 2015—when tech companies first entered the market—to 6 percent in 2018,

WIRED



Why Did iBuyers Fail / Lose?

© Yizhou Jin 2025

Adverse Selection

“There’s a danger [in] getting too carried away by artificial intelligence and machine learning without understanding the underlying economics of the marketplace.”

— Amit Seru

An iBuyer may...find that it faces adverse selection: Owners with lemons are more eager to sell to them, increasing its risk of overpaying for houses that it’s going to have trouble reselling without heavy discounts.

Flip Flop: Why Zillow’s Algorithmic Home Buying Venture Imploded

Months before the company quit flipping houses, Stanford GSB res out the risks of iBuying.

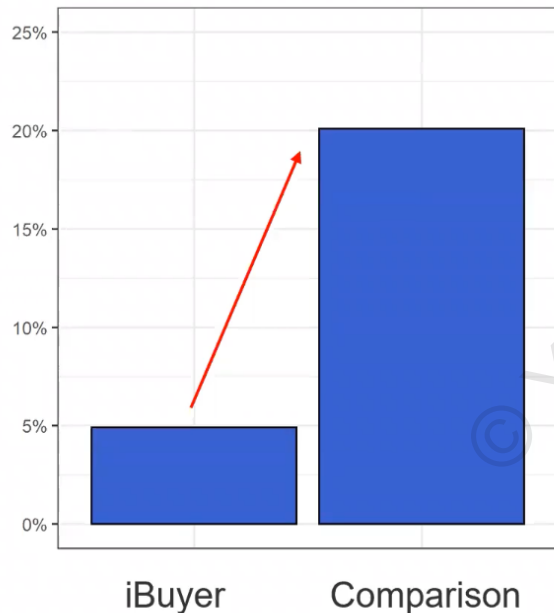
December 09, 2021 | by Patrick J. Kiger

STANFORD
BUSINESS



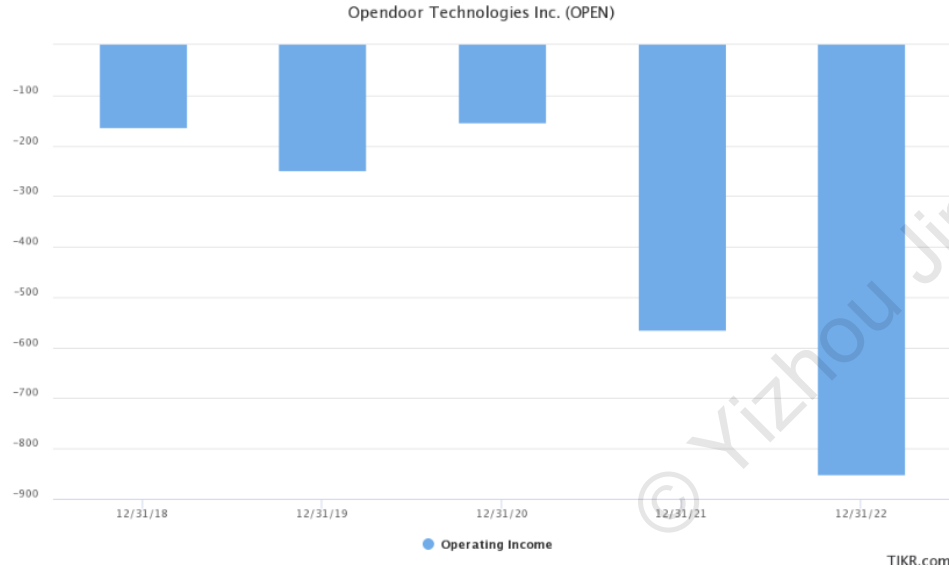
Adverse Selection

INTERMEDIARY MARKET SHARE



The paper estimates that eliminating the information asymmetry would lead to a 4-fold increase in market share of iBuyers and significant increase in margins.

Broker vs. Dealer

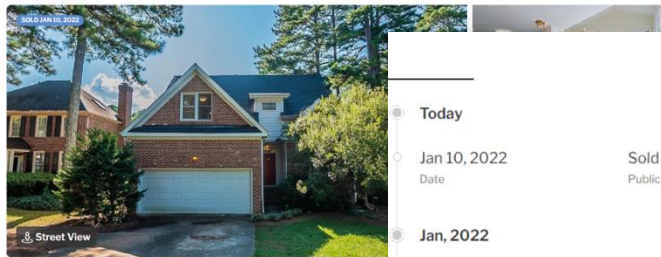


“Why Wall Street Hates Opendoor

...The iBuying business is capital-intensive, requiring lots of debt while carrying low margins and considerable downside exposure if home prices decline. Furthermore, whether Opendoor's pricing model has, any predictive power is debatable. The company has overpaid for homes at multiple points in the post-COVID real estate cycle, leading to losses”



Broker vs. Dealer



2976 Tillinghast Trl, Raleigh, NC 27613
\$497,000 4 Beds 2 Baths 2,609 Sq Ft
Sold Price

Recently Sold
This home sold 5 months ago.

● Today		
○ Jan 10, 2022	Sold (Public Records)	\$497,000 (-1.1%/yr)
Date	Public Records	Price
● Jan, 2022		
○ Jan 10, 2022	Sold (MLS) (Closed)	\$497,000
Date	TMLS #2404845	Price
○ Dec 28, 2021	Pending	—
Date	TMLS #2404845	Price
○ Dec 9, 2021	Price Changed	\$515,000
Date	TMLS #2404845	Price
○ Sep 24, 2021	Price Changed	\$517,000
Date	TMLS #2404845	Price
○ Aug 30, 2021	Listed (Active)	\$520,000
Date	TMLS #2404845	Price
● Aug 2021, Sold for \$499,500		
○ Aug 3, 2021	Sold (Public Records)	\$499,500 (2.8%/yr)

Home prices are subject to correlated risk due to structural/macro changes that cannot be easily hedged away. No amount of data advantage based on historical house prices can adequately address this.

The transition from brokering for which many companies had a strong data competitive advantage (Zillow Zestimates) to dealing is an example of failed vertical integration that did not consider the limit of synergies vs. the added costs.

How Would you Re-calibrate the Business?

Opendoor Stock: An Opportunity Of A Lifetime Or A Tragic Mistake?

Aug. 04, 2023 10:16 AM ET | Opendoor Technologies Inc. (OPEN) | 37 Comments | 18 Likes



Ahan Vashi

Investing Group Leader

In my latest research report on Opendoor, I highlighted OPEN stock as a "generational buy" at \$2 per share:

Opendoor has the right product, capabilities, capital, and team to not only weather the current market cycle but to emerge stronger on the other side of it. As real estate continues to move online, Opendoor's 1P-3P platform is likely to be a big winner. While the near-term business outlook remains uncertain, Opendoor's long-term risk/reward is truly asymmetric in favor of bullish investors. The company made material progress on its path to profitability during Q1, and I expect to see better financial performance in upcoming quarters.

Source: "Opendoor Q1 2023 Review: This Deal Won't Last Long"

Seeking Alpha α

Address Adverse Selection

- Adverse selection will exist as long as prediction error exists.
- Worse – even if prediction errors are typically small, adverse selection amplifies them
 - Lemons (really overpriced houses) will be most incentivized to sell
 - Even mild adverse selection can cause disasters when algorithms moves too fast for the company to act
- Solutions (besides more data to reduce pricing error):
 - Minimize prediction error strategically: especially important to limit over-estimation when buying
 - Humans/experts can be complements, not substitutes to algorithms!

Rethink Corporate Scope

Shifting to an Asset-Light Model

With a massive debt and inventory overhang on the company amid rapidly rising interest rates, Opendoor looks to transition a portion of its business to an asset-lighter model.

The main initiative on this front is their Opendoor Exclusives program, which operates as a real estate marketplace that nicely layers on top of Opendoor's existing business. Essentially, after making an offer to a seller, Opendoor also gives their network of buyers in the Opendoor Exclusives program a chance to outbid Opendoor. Should that occur, Opendoor collects a fee on the transaction without the need to buy the house itself.

