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Education Series

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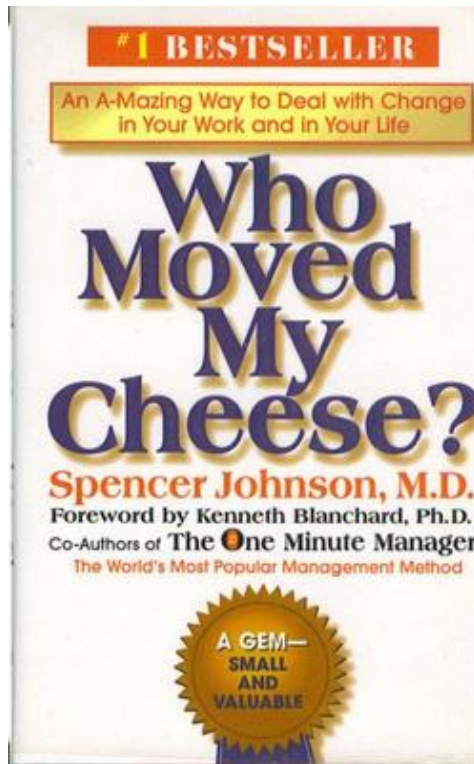
Initially Presented - Dec 2018

Updated March 2019

UNDERSTANDING IBUYERS

Know their history, who backs them,
their operations and how to
compete, and how to insure sellers
keep their EQUITY!

<https://www.youtube.com/watch?v=VsSNMzgsE7U>



1. What do you do for a living?
 - Write the answer down
2. Are you a agent in it for the money or are you a business building agent?
 - Keep that answer to yourself but do answer
3. Would you hire yourself as a realtor?
 - Keep that to yourself as well

What is an ibuyer?

Companies that will make an offer on your home within a few hours or days sight unseen based on their proprietary valuation model.



The companies are for profit so offers for homes would by necessity be under market value or the seller would have to pay some time of fees (sometimes both) for the company to make a profit.



These companies are backed by venture capitalist or private equity firms who have supplied them tens of millions of dollars.



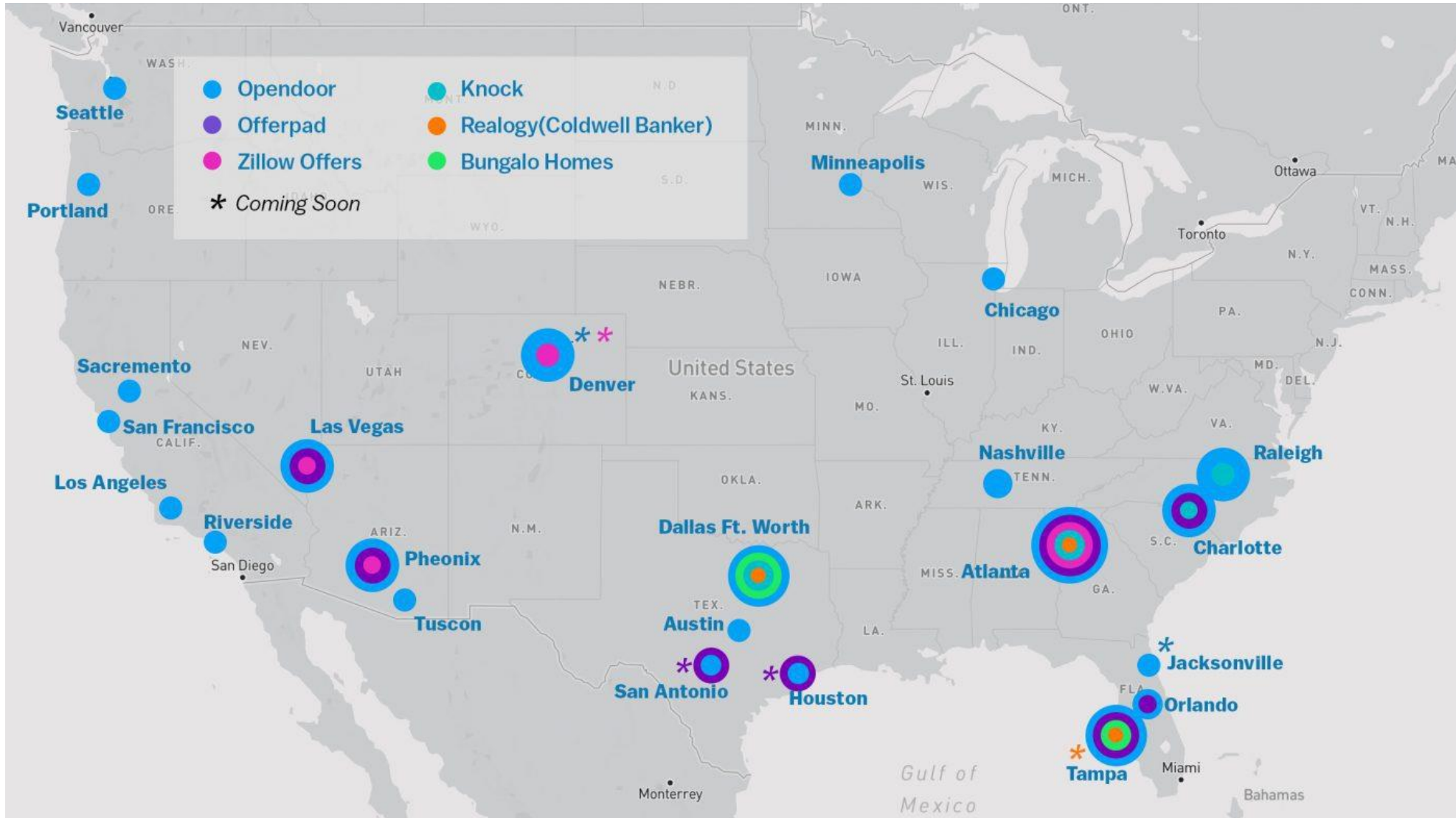
Ibuyers “flips” / perform some rehab and relist the property for a higher price to make a profit.



What is their market?

- Target middle class homes built after mid 20th century
- These individuals are primarily located in the Sunbelt/South
- These sellers want a quick sale, convenience or both
- Owners are frustrated with the selling process and motivated to move
- Ibuyers also target institutional rental investors (Opendoor/Offerpad state 1 out of every 10 homes are sold to these type of investors)
- One analyst believes by 2021, they will have captured 10% of the housing market

Ibuyer Operations



What is the growth model for ibuyers?

- While market share varies from city to city, ibuyers in the Phoenix, AZ area purchased 3,635 out of 90,312 homes between Jan – Oct 2018 thus capturing 4% of houses sold
- This is up 1.5% percent from 2017.
- In Raleigh, NC, ibuyers had a combined 2.8% of the market from Jan-Oct 2018 up from 0% in 2017.
- The four biggest ibuyers bought nearly 11,000 homes between Jan – Oct 2018.
- Opendoor told Inman they are doing more than 2000 deals per month (buying/selling) and have served 27,000 customers since launching
- Offerpad state they have grown 276 percent since June 2017

Fad or the Future?

- Margins are low and have been decreasing over time, out of the price difference, they have to recoup costs
- However, consumer interest is high thus making the companies sustainable over time, i.e. they have staying power
- All believe they can survive and downturn and believe a soft market would benefit their model and analysts agree.
- As of now and for the near future, ibuyers are a niche service and market share in various cities are still in the single digits
- Their limited target market may hamper future growth.
- Ibuyers are expected to have a lasting impact and transform the industry, although what that impact would look like is uncertain
- The real threat may come if ibuyers evolve (one would assume they would) beyond what it is today with various models which would significantly impact the majority of real estate transactions.

Will Traditional real estate join the dinosaurs?



RIP MR. REALTOR

- Most consumers still need and want help to understand the market and their options.
- Some believe the transactional agent is going away
- Some agents believe ibuyers can be used as tools for all agents. That is shop your clients properties to them and present multiple cash offers to your clients.
- Ibuyers claim they want to work with agents.. as of now
- Some brokerages plan to roll out their own Ibuyer program (Realty companies, KW)

SWAT.... NO.... SWOT

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- Quick closes
- Chose close date
- No showings/repairs
- Helps distressed sellers
- Sellers who have equity to give
- Sellers with multiple mortgages
- Access to millions in cash
- Consumer demand for this type of service
- Agents are buying into the concept
- High volume allows iBuyers to make less money on each home and stay in business

- Low ball offers
- Higher transaction costs
- Ibuyer needs for profit/thin profit margins
- Potentially inaccurate valuations
- Seller loss of equity
- Sellers market negate some of the need
- Unable to determine market value if home is not on the market
- Multiple instant offers in the same area may depress market values
- lack of affordability and its volatility.

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- Charge full commission plus fees
- 90% of Zillow offers sellers decide to use an agent
- Local knowledge is invaluable
- Chance to beef up branding/service roles
- Pay agent to work for you vs pay company work against you
- Advise seller of true worth of their home
- Allows agent to showcase their service ability
- Show seller how to price repairs in list price

- Loss of clients
- Some sellers don't mind losing equity
- Some agents refer clients to ibuyers
- Some agents are in the ibuying business
- Agents leaving market as can't compete
- Future ibuyer models may bring better seller pricing

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Opendoor (ODGB01)

- Launched as Project Homerun in 2014 by former PayPal executive Keith Rabois and Eric Wu
- The company is worth over \$3.3 billion dollars and continues to expand nationwide
- Currently operating in 19 cities and plans to be in 50 by 2020
- They are raising money by the hundreds of millions
- **Charges 6% commission AND a “liquidity premium” ranging from 6-13% (average is 7% on their website. For a home valued at \$250,000, it equates to \$32,500 cost to the homeowner)**
- May use cash or lines of credit to purchase homes
- Target homes built after 1950 and cost between \$100,000 - \$500,000
- Purchases about 1,400 homes/month across all markets
- Opendoor believes their model is a compliment to brokers, i.e. call them if the deal falls through
- Pays their agents 1% on the sell side and offers 3% commission on the buy side
- Will pay agents a 1% referral fee to refer sellers via their preferred agent profile
- Have their own mortgage company and discount brokerage service.
- Focusing on automation and a stop by for all things related to home buying/selling
- Opendoor offers a 2 percent discount off the service fee it charges sellers when they accept Opendoor’s cash offer, if those [sellers turn around and purchase an Opendoor home](#),
- Have to submit questions about your business and your value proposition you provide to clients

Wu is not shy about Opendoor’s ultimate goal: dominance of the real estate market

Opendoor – Making an offer



- Seller has to complete an assessment and send to Opendoor
- Makes an offer sight unseen and schedule inspection based on their algorithm
- During inspection, termite, HVAC and home inspector will inspect home
- Seller can then proceed or back out of the deal
- If repairs are needed, seller can choose to do them or take an even lower amount to allow for Opendoor to do the repairs (supposedly cheaper than retail)
- If repairs exceed a certain amount, Opendoor will pull their offer and cancel the contract
- Claim to save seller on average 50 days of being on market until closing
- Sellers are responsible for their share of applicable closing costs

	Selling to Opendoor	Traditional home sale
	7.0% average service charge*	7-10% average costs*
Offer price (example)	\$200,000	\$200,000
Selling process		
Average days to close transaction	Choose from 10-60 days	50 days
Average days to prep and stage home	0 days	10 days
Average number of showings	0 showings	10 showings
Transaction costs		
Average Opendoor service charge	7.0%	—
Estimated real estate agent fees	—	6%
Estimated seller concessions	—	2%
Estimated home ownership and overlap	—	1%
Repairs needed to sell home	TBD	TBD
Estimated cash before closing	\$186,000	\$182,000

- * Dec 2018 average Opendoor service charge. Charge varies for each property and can range from 6-13%.
- Cost and selling process estimates are based on internal and industry data for the markets in which Opendoor operates.
- **PER PHONE CONVERSATION WITH OPENDOOR 2/4/19, THE ABOVE DOES NOT INCLUDE REAL ESTATE COMMISSION**

Hi _____, here is our estimate of your home's value. **\$148,900**

We considered your home features, neighborhood, comparable home sales, and market trends in your area when preparing your offer. This number has not yet taken into account repairs, service charge, and closing costs — we'll list those out on the next page.

 3 bedrooms  2 full, 1 partial bathroom  1,706 ft²  2 garage spaces

Below find the values when the same home is priced by a Realtor

Quick Comps Summary Statistics

Status	Count	List Price				Sold Price				Days On Market	
		Min	Max	Ave	Median	Min	Max	Ave	Median	Ave	Median
Sold	3	\$150,000	\$155,000	\$153,333	\$155,000	\$154,000	\$160,000	\$156,333	\$155,000	12	5

Opendoor – Cost of deals

	<u>Realtor</u>	<u>Opendoor</u>	<u>Seller Gains</u>	<u>Seller Loss</u>
List Price / Opendoor purchase price	\$155,000	\$148,000*		\$7,000
Mortgage Balance	\$90,000	\$90,000		
Commission (6%)	\$9,300	\$8,880	\$420	
Service Fee (7%)	0	\$10,360		\$10,360
ENTS	\$55,700	\$38,760		\$16,940

Actual OpenDoor Offer

Net offer details:

Purchase Price: \$166,000

Open Door Service Charge: \$13,280

Please note that the Open Door Service Charge is inclusive of the buyer's agent co-broke of \$4,980 as well as seller concessions for operational costs in the amount of \$8,300. Learn more below.

Net offer price: \$152,720

Seller's agent commission: (from your listing agreement, paid by your seller)

Repair request: (to be confirmed post assessment)

Seller closing costs: (provided by you)

Loan pay-off: (provided by you)

Net to seller at close: Net offer less above fields

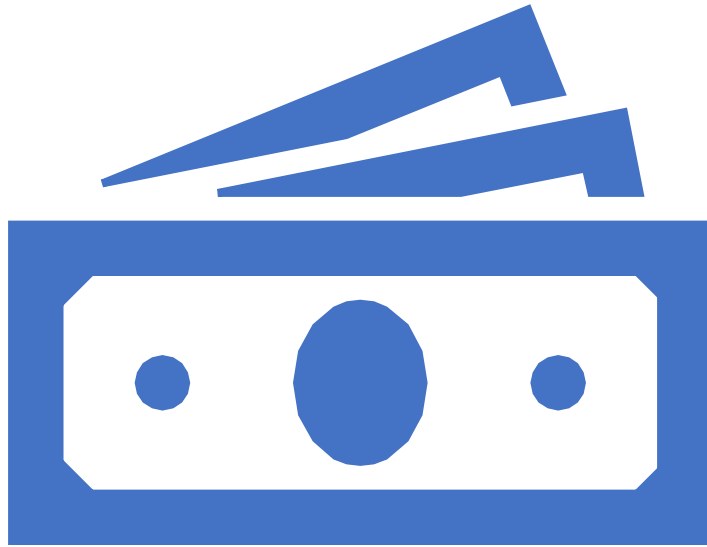
THIS HOME APPRAISED AT \$187,000

Opendoor – Example of deals

- **4998 Lake Hollow (6092212)**
 - purchased 10/23/2018 for \$263,000
 - originally listed at \$293,000
 - five price reductions, currently at \$281,000
- **4694 Mill Water Crossing (6077531)**
 - purchased 09/10/2018 for \$251,400
 - Originally listed at \$286,000
 - Sold at \$273,500
- **4059 Springbrook (6104376)**
 - purchased on 11/9/2018 for \$115,600
 - originally listed at \$126,000
 - sold for \$126,000

https://www.yelp.com/biz/opendoor-scottsdale?sort_by=date_desc

How can you as a real estate agent use this to help a seller?



Offerpad (OFFE01)

- founded in 2015 by Jerry Coleman, a cofounder of Blackstone's Invitation Homes, and Brian Bair, a top-selling real estate broker
- based in Gilbert, Arizona, relies on technology to make offers to homeowners who value the certainty of a sale and the ability to close within days over getting the highest price
- They have the financials to survive a downturn in the market
- Announced in March 2019, they have raised nearly one Billion dollars in 3 ½ years
- This includes Series C funding - business considered "young mature" and have convinced investors of the business of their long term success.
- Pick your own closing date and can change it as needed
- Markets no showings, open houses or life disruptions
- Pay to move is limited to 50 miles from home zip code up to \$2500, 2,800 SF home, and must have sold home to Offerpad amongst other criteria
- Initial offer and fees are less than market value and more expensive than real estate agent
- Any needed repairs will further reduce Offerpad's offer resulting in less money to seller
- Average service charge is between 6%-10%
- Have loan programs, and trade in program, (find a house then get an offer on a house and Offerpad coordinate both deals)
- Offerpad will pay title fees up to \$2000
- Seller has to certify septic tank
- Seller has to pay half of buyer's HOA initiation fee
- If seller does not have agreement with agent, Offerpad will pay agent 1% referral
- <https://www.youtube.com/watch?v=bdkPmBvhtDQ>
- Plans to double cities in 2019 and again in 2020 using Series C funds
- <https://www.offerpad.com/pricing/> (Review, they use their offer when compared to realtor, not fair market value)

Offerpad – Making an offer

Pricing details

We are committed to providing you a competitive offer and a better selling experience.

Selling to Offerpad

Offerpad offer	\$235,000
<u>Service fee</u>	-\$17,625
<u>Seller concessions</u>	-\$0
Repairs requested by Offerpad	TBD
Overlap ownership costs	-\$0
Net cash to seller	\$217,375

- 😊 No need to keep a spotless, show-ready house
- 😊 No strangers walking through your home
- 😊 No worries about the cost of owning two homes
- 😊 Cash buyer (no appraisal contingency)
- 😊 Pick your own closing date
- 😊 Free local move from professional movers

Traditional offer

Sales price	\$235,000
<u>6% agent commissions</u>	-\$14,100
<u>2% seller concessions</u>	-\$4,700
Market-ready improvements	TBD
Overlap ownership costs (1%)	-\$2,350
Net cash to seller	\$213,850

- ☹️ Frequent showings with strangers in your home
- ☹️ Uncertainty while waiting for offer
- ☹️ Stressful negotiations
- ☹️ Last minute buyer cancellation
- ☹️ Potentially spending thousands to make your home market-ready and saleable

The above example is based on average seller experiences at Offerpad and is not representative of the exact fees you would pay in either selling to Offerpad directly or listing your home traditionally. Closing costs are not included, as they can vary significantly. An Offerpad Homeowner Consultant can help you understand typical closing costs in your area.

Offerpad – Making an offer

I will get the team to resend the offer --- do you know when you want to close

okay

I understand

Was the offer acceptable

You were offered \$268,000

estimated net offer is \$245,220

Yes, the first number is what we are offering and the estimated net is after our fees

Unsure at the moment, a lot will depend on the offer and some other stuff I have going on

I can't fully remember all the details tbh

what about the terms

What is the difference between the two? Are you guys cash buyers?

Press Enter to Send a Message

HOME OWNER TESTING OFFERPAD

What is the offer for my home?

You were offered \$268,000

Your net would be \$245,220

What is the difference between the two?

Are you guys cash buyers?

Yes the first number is what we are offering and the estimated net **after our fees**

This owner's home appraised at \$300,000!!

Realtor: Homeowner sells home for \$300,000. Homeowner pays commission and closing costs totaling \$23,000. Home Owner nets \$277,000*. (*Pre state/county fees)

The homeowner nets \$32,000 more using a realtor. What can you do with \$32,000?

Offerpad – Case Examples

REAL WORLD OFFERPAD DEALS

<u>FMLS</u>	<u>Purchased*</u>	<u>Date Purchased</u>	<u>OLP</u>	<u>Sold</u>
6107020	\$156,636	11/14/2018	\$174,900	\$178,000
6079334	\$239,086	7/30/2018	\$264,900	\$251,000
6096250	\$132,258	10/3/2018	\$154,900	withdrawn

***THE PURCHASED PRICE DOES NOT REFLECT CASH PAID TO THE SELLER**

In examining real world examples in comparison to their Pricing Analysis, it is clear the seller loses a great deal of equity.

- Cortney Read, a spokesperson for Offerpad, told Inman that about 10 percent of the analysis on homes is done by people. Machines handle the rest.
- “Our product that delivers our offers is about 90 percent technology and data based,” she explained. “Our algorithm gets us to about 90 percent.”

**Does this sounds like a competitive “Pricing deal” as advertised?
How will you inform your SOI?**

Knock (KNOK01)

- founded by former executives at Trulia, has a slightly different twist, guaranteeing that it will buy your home if it doesn't sell in six weeks, started in Atlanta
- Can sell to Knock immediately or wait 6 six weeks, will purchase at a agreed upon rate
- Help someone find a home, get a loan and then sell the one in which they are currently living
- Will advance up to \$10,000 to make repairs in new home
- Charge 6% commission
- Seller will pay closing costs on the purchase and sell of both homes
- Will purchase homes at 95% of value (do you know what you net your sellers) although will try to sell it at market value on a \$250,000 seller loses \$12,500.
- Buy homes between \$150,000 - \$5,000,000, owner-occupied/vacant, clear title and built after 1980
- Not in age-restriction communities, no major repairs, nor un-permitted conditions
- Expected to do 2000 transactions in Atlanta during 2018, did 16 in 2016
- Started in Atlanta, plans a 10 city expansion by the end of 2019
- Its agents are salaried employees

Knock - Making an offer

- Go online and enter information about your home
- Knock will provide a wide range of possible home value
- Knock uses tax records and comps to obtain pricing
- Comparables may or may not be appropriate for the home
- A “local expert” will contact you to further discuss (will not give guarantee price over phone)
- Knock will take pictures of your home
- Knock will send list of repairs for current home
- Seller can either fix or take more off the price of the home
- There is not any negotiating on the repairs
- Charges a minimum 8% interest rate as part of the holding costs to sell home owner’s current home.



Knock - Case Example

Your Knock Offer * Appraised value (AV) \$495,000

Offer for 3680 Ashwood Dr ...

- Overview
- Comparables
- Offer
What happens next
 - Home Consult
 - Final Offer
 - Sign Listing Agreement

Suggested List Price	\$373,000
Guaranteed Sale Price	\$348,500

To maximize offers, we will prep and market your house extensively for 6 weeks.

A flat 6% fee applies at closing. Schedule a call to discuss how you could save half of this fee by working with Knock.

Next Step to Finalize Your Knock Offer

SCHEDULE A CALL

75% of AV

93% of SLP
69% of AV

- Still had to pay \$22k in fees
- Holding costs while they resell your home
- Knock experience fee

Knock - Case Example

Breakdown of Knock vs. Traditional Realtor

Knock

Purchase price - \$373,000

Fees - ~\$22,000

Total - \$351,000 – not including repairs

Difference from appraisal and final price - \$122,000

Traditional Realtor

Purchase price - \$495,000

Fees – 6% commission - \$29,700

Total - \$465,300 – not including repairs

Difference from appraisal and final Price - \$29,700

Difference between the Knock offer and a traditional Realtor - \$114,300

Knock - Trade Program

1. First, submit your home for a free market price estimate on Knock.com
 - Understand quickly how much your current house will sell for with Knock.
2. Schedule your phone consult
 - You will be paired with a Knock Licensed Local Expert that specializes in your neighborhood to get your questions answered.
3. Your Licensed Local Expert will help you find your new home
 - We get you fully underwritten for a new mortgage so you know how much new house you can afford.
4. We buy your new house with OUR CASH
 - As an all cash, non-contingent buyer on your behalf, we often win bidding wars and get an average 5% discount off the listing price.
5. We manage and pay for improvements on your new home
 - We manage and pay for up to \$10,000 in improvements before you move in if you like, then you can roll the costs into the new mortgage.
6. Move into your new house
 - Move into your new house before we list your current house for sale.
7. Only pay one set of bills
 - You keep paying your old mortgage and Knock will pay the bills on the new house and settle with you when your old house is sold.
8. We manage and pay for repairs on your old house to maximize offers
 - We manage and pay for up to \$10,000 in repairs on your old house and settle with you at closing.
9. SOLD!
 - We transfer your new house into your name as soon as your old house sells.

Knock - Trade Program - Example

1

The subject home was \$800,000

Knock will purchase that home and then sell the home to you and charge you fees.

These are typical types of fees but some of them are high.

2

Knock Orig Fee (1% loan amt) - \$6,080.00

- Interest ((8% of Loan Amount/365) X 60 days) - \$9,994.52 vs Current rates?
- Estimated Knock Closing Costs - \$4,757.00
- Other Cost Assumptions (Insurance, utilities, etc that you have to pay on your home that you are selling - \$2,115.40

3

Total Acquisition and Hold Costs during Temporary Occupancy - \$22,946.92

Summary of all Three

Program Features	Traditional Realtor	Knock	Offerpad	Opendoor
How they Price	Based on comps and experience	Tax records and comps	Tax records and comps	Tax records and comps
Accuracy of pricing	Very accurate	Very Low	Very Low	Very Low
Fees (commission)	6%	6%	6%	6%
Other fees	Typically none	Seller pays closing costs on both homes, guaranteed purchase price is about 95% market value as determined by Knock, repairs and holding fees reduce final purchase price	Holding costs to sell home. Repairs further reduce final purchase price if made by Offerpad	Repairs, closing costs and service charges (customer experience fees)
Repairs	Negotiated by Realtors between buyer and seller	Not negotiable - are not included in fees – this is additional costs	Not negotiable - are not included in fees – this is additional costs	Not negotiable - are not included in fees – this is additional costs
Advantage for each	Experience, pricing, and negotiating	No hassle selling	No hassle selling	No hassle selling
Place in market	Work with all sellers	Small but growing	Small but growing	Small but growing



How can “Traditionalist” compete?

- Arrange for an offer from one of the three on a home in the market you serve and use that with sellers in the area
- Research their past deals to show what those sellers could have sold their homes for and how repairs can be priced into the home
- Use companies like Equimaxit, Curbio to help address repair issues
- Focus on absorption analysis if your price point is in a sellers market
- Value analysis – how much money is lost by not having your home shown
- Know your “Value Proposition” and show sellers why they should use you and not ibuyers
- You must not only know your numbers but need to articulate them into something meaningful to sellers

How can “Traditionalist” compete?

How to compete against iBuyers (from Inman News)

- show sellers how much they would be likely to net using the traditional commission model.
- The second step is to recommend that the sellers obtain offers from several iBuyer companies. These offers are usually good for 30 days.
- compare how much they will net with each iBuyer offer as well as the net they would achieve with you using a traditional commission model. Please note that most iBuyer models do charge for repairs in their bid, so it's important to do an apples-to-apples comparison with or without the repair costs.
- The next step is to ask for a 29-day listing. If you haven't sold their property by that date, the seller has the option to take one of the iBuyer offers or to extend their current listing with you.

Summation



The cheese has moved and it is up to you if you will starve or not



Your homework -- look up Redfin Now & Zillow Offers



Study what they do and how you can compete.



Determine your value proposition, enlist your brokers help if needed (if they are no help... then maybe....)



Keep watch over news stories that will impact the market



Spread the word to your SOI, your database, your farm



Stop focusing on how much money you can make and focus on how much value you add. Costs only matters in the absence of value

Source information

- Sources inman.com, forbes
- <https://www.forbes.com/sites/forbesnycouncil/2018/06/05/ibuyers-is-the-convenience-worth-the-cost/>
- <https://www.totalatlantagroup.com/blog/what-is-knock-offerpad-and-opendoor-and-why-you-could-potentially-lose-a-lot-of-money/>