

Residential Real Estate Disrupters

THE iBUYERS

By Carolyn Riegler

The practice of making it easier to buy and sell real estate without the middle man puts fear in the minds of traditional brokers and agents. My motto is, if you can't beat them, join them. Technology is changing the way we will buy and sell homes. These changes will make it seamless to buy and sell one of the largest investments you will ever make. Imagine, no listing, no showings, no repairs. Pick your close date and move date and you're done. A new type of business is making its entrance into the real estate market, these disrupters are known as "iBuyers." They are algorithm-driven home-flipping companies like "Opendoor" and "Offerpad," working with strategic companies like Zillow. If you want to sell and buy a new home in the existing system, you will need a broker to sell it, a broker to find you a new place, and a mortgage lender to finance the purchase. Then you will need to buy title insurance and home insurance, hire a moving company and finally move to your new home. In recent years, iBuyers are emerging to streamline the process for a transaction that closes in days rather than weeks or months. The trend began in the western U.S. (Arizona, Colorado, Washington) and is moving quickly across the country to places such as Dallas, TX, Atlanta, GA, Tampa, FL and the Minneapolis-St. Paul, MN area.¹

The iBuyer will make a cash offer for your home, allowing you to free up your equity to purchase the next home. The iBuyers will clean and fix up your old house and sell it on the open market earning a fee from the seller and the new buyer. Other companies like Redfin and Knock are competing in the same space racing to be the best one-stop shop. In addition, similar competing products are surfacing using new technologies to deliver better service to the customer. Rocket Mortgage (by Quicken Loans) has developed an app which allows you to apply for a mortgage in minutes from your phone. Companies such as Coldwell Banker, Keller Williams, Redfin, and ERA are among traditional brokerages testing out their own versions of an iBuyer type program. These programs, however, set out to ensure the realtor stays at the center of the transaction, no matter which selling option the homeowner wants. The brokerages are seeing that some consumers are tempted by the lower stress iBuyers offer, so they are carefully piloting these programs to assess whether there is enough interest to invest in this approach on a widespread basis.

New products and services continue to pop up almost daily. Recently, Zavvie introduced a national iBuyer instant offer comparison tool which allows home sellers to easily compare offers from multiple iBuyers. A similar program is available through the company, HomeLight's comparison tool "Simple Sale." These new technology services will bring

both benefits and words of caution. The disclosed costs to use an iBuyer service are generally higher than traditionally brokered transactions by as much as 1% to 3%. However, there is a hidden cost in that the selling price to the iBuyer is often lower than what the iBuyer sells the home for. Thus, a portion of the profit on the home sale is not apparent to the consumer. In addition, the costs are bundled differently. It may be difficult to compare the services financially on an "apples to apples" basis. The consumer will decide if the trade-off of less profit is worth the increased convenience and time saved by utilizing this platform. "Zillow says it's making \$1,723 per home flip at a minuscule 0.6 percent profit, which leads one to wonder if this space is really worth getting into if you don't have multiple modes of monetization."²

Consumers are not the only ones impacted by this technology. New home builders, developers, and rental real estate investors will also be impacted by this new business model. For example, some new home builders are currently "listing" their new homes with the iBuyer companies to give consumers the option of a new build, and the option to flip new construction homes quickly. Investors interested in purchasing homes on a large scale to rent to consumers will likely also use this service to find homes and potential renters. The implications will be felt throughout the residential real estate industry.

The bottom line is new and exciting things are happening in the residential real estate space which will make consumers' lives easier and create business opportunities for those who can keep up with the pace of change. If you choose to explore this route, do your research, speak with both traditional realtors and the new iBuyer, get an attorney involved to understand the risks you are taking and what the implications are if something goes wrong. As for myself, it is an intriguing prospect both personally and professionally.

¹ <https://www.curbed.com/2019/3/21/18252048/real-estate-house-flipping-zillow-ibuyer-opendoor> accessed May 24, 2019

² <https://www.curbed.com/2019/3/21/18252048/real-estate-house-flipping-zillow-ibuyer-opendoor>



Carolyn Riegler

CPA, CFE, CTP, Managing Director, specializes in litigation support, dispute resolution, forensic accounting, real estate, and business valuations.