





CAUTION

SMOKE & MIRRORS AHEAD!

*Why Using Opendoor, OfferPad,
Zillow Instant Offers, and Other iBuyer Platforms
May Not Be In Your Best Interest*

Question the Source & Know the Facts

Background: iBuyer is a clever name given to investment buyers who purchase residential property at a discount with the intent of quickly reselling at the market rate. Essentially just the rebranding of a home flipper. They have been around for a long time – one of the first was We Buy Ugly Houses. Adding a technology component, the current iBuyer model emerged in 2014. These companies operate under different names (Opendoor, OfferPad, Knock, Zillow Instant Offers, and others) but their offering is similar (purchase the property below market, charge a fee similar to a typical commission plus carrying costs, charge the seller for repairs, relist with the intent of selling quickly). The most developed iBuyer markets are Phoenix and Las Vegas, but there has been a rapid growth in the number and location of iBuyer companies. Atlanta is considered a prime market for new real estate upstarts due to the high level of market share fragmentation and vibrant housing market.

Who are iBuyers? There are many, but the most established are Opendoor, OfferPad, Knock, and Zillow Instant Offers.



How do they operate? These companies utilize technology to remove human contact (and local market expertise) from the process. The seller submits a request for an offer online and if the property meets the iBuyer's conditions they will receive an offer using an Automated Valuation Model (AVM). The offer is reduced by the typical market place commission PLUS a handling fee (anywhere from 2 - 14%). If the offer is accepted, the property is inspected and the purchase offer is further reduced in an amount equal to the recommended repairs and upgrades. If the seller accepts the heavily discounted offer, a closing is scheduled. Once the seller vacates the property, repairs and upgrades are completed with the intent of selling the property quickly.



Who would sell their home at such a deep discount?

Everyone's situation is different. iBuyers generally appeal to sellers with an urgent need to sell quickly regardless of their return on investment. Atlanta is currently in a seller's market, so homes typically sell quickly. An agent with local market expertise assists sellers with negotiating the highest return and smoothing out the complex selling process.

What does it cost to use an iBuyer? In addition to commissions (typically 6%), fees (anywhere from 2 - 14%), and reductions for repairs and improvements, the seller needs to be aware that the iBuyer's Automated Valuation Model (AVM) may grossly underestimate the true value of the property.

How do iBuyers make money? The companies are funded by venture capitalists. Currently, none of them are making a profit. They hope to make a profit by purchasing homes at the lowest amount, charging fees that cover their carrying costs, and flipping the property as quickly as possible. In addition, they are hoping that the seller will allow them to sell their information to a buyer's agent who is willing to pay the iBuyer a referral fee and that the seller will use their mortgage and ancillary business partners who also pay the iBuyer a fee.



Should I trust an AVMs accuracy?

Absolutely not! The most used AVM is Zillow's Zestimate and even Zillow admits that it is highly inaccurate. The fact is that no automated software takes into account the special features, condition, livability, finishes, and many other non-data driven features that are part of the home pricing formula. If you want to obtain the best estimate of your home's worth, you should either hire a licensed appraiser or a real estate agent that you trust. It will save you time, money, and heartbreak.





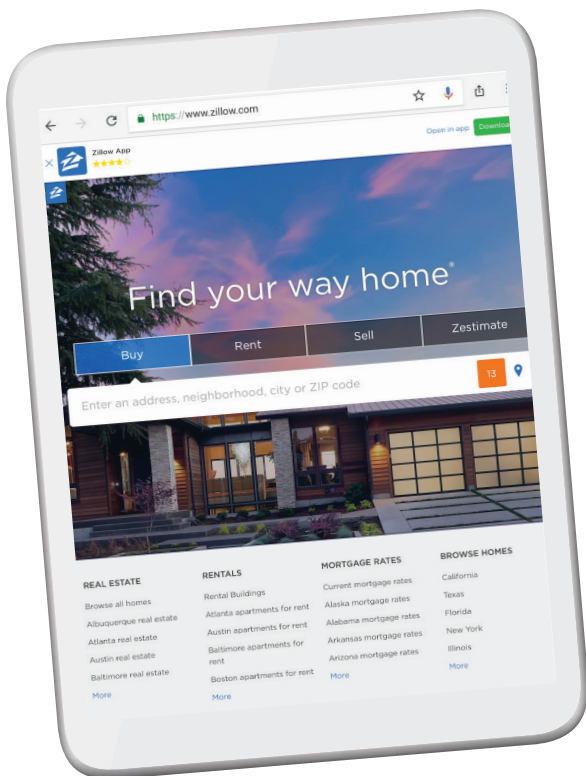
Will iBuyers purchase any residential property?

No, each has a long list of qualifications. For instance, most disqualify properties priced above \$500,000, located in gated communities, older homes, high-rises, and many other conditions.

How does Zillow Instant Offers work?

The program has many qualifications such as price range, age, location and condition. Potential sellers electronically submit a request for an offer to purchase their home and upload current pictures to the website. Zillow, presumably using their inaccurate Zestimate system, will return a conditional offer to the potential seller if their qualifications are met. A 6% commission plus “marketing fee” (at least 2%) is deducted from the conditional offer price. The offer is conditioned upon a property inspection. Once the inspection has been completed, the original offer is reduced to account for the costs of the repairs identified in the inspection (this averages \$7,100 according to Zillow). Should the seller wish to proceed with the sale at a less-than-market rate, they schedule a closing.

If the potential seller does not proceed with Zillow’s offer, the lead is sold to a Premier Agent who contacts the seller in an attempt to obtain the listing. If the seller lists with the Premier Agent, the traditional selling process occurs and Zillow is paid a referral fee (typically 25%) to Zillow. The seller’s information is also sold to a Premier Agent as a buyer lead.



Zillow

How is Zillow Instant Offers different?

It is a program purportedly intended to mimic other iBuyer programs. In reality, Zillow rarely purchases homes via the typical iBuyer model. In fact, the Instant Offers is really a program to strengthen the sales of seller and buyer leads to Premier Agents, and an opportunity to sell more mortgages.

How does Zillow decide which Premier Agent gets the selling lead?

Zillow does not reveal that information, but presumably the one willing to pay the highest fees to Zillow. There is no commitment to provide the most experienced or knowledgeable sales associate to the seller. In fact, there is no requirement that the sales associate has accomplished anything other than paying the monthly Zillow fee and a commitment to pay additional referral fees when they occur.

Typically, sellers prefer to choose a professional sales associate with intense market knowledge and with whom they like and can trust, not simply someone assigned to them. Experience matters.



What is the best way for me to get the highest return on my investment?

Work with a real estate licensee with a high level of local market expertise. Harry Norman, REALTORS® sales associates are highly trained and are subject-matter-experts in their markets. They understand the nuances to effectively price your home to sell at the highest price and in a timeframe that meets your needs.

