

The Redfin Advantage: One Year of Data

*A Comprehensive Analysis of Redfin's First Year
of Real Estate E-Commerce*

Updated: May 7, 2007



Table of Contents

Executive Summary	3
Methodology	3
Introduction	4
Economics	4
Transaction Volume	4
Commission Refund	5
Negotiating Advantage	5
Analysis	6
The Bottom Line	6
Customer Satisfaction	7
Demographics	8
Why Redfin (And Why Not)	9
Appendix: How to Replicate the NWMLS Report	11
Adjusting the Negotiating Advantage	12

Executive Summary

On February 6, 2006, Redfin launched the first e-commerce service for home-buyers. A year later, Redfin analyzed data from the Northwest Multiple Listing Service (NWMLS), customer survey data and its own financial records. The data indicates that, in addition to a commission refund, Redfin buyers get a better price on a property and better service:

- Redfin King County customers paid on average 99.340% of the listing price while buyers with other brokerages paid 100.233% of listing price for a difference of .893%, for an average savings of \$4,420;
- The total Redfin Advantage, combining the negotiating advantage and an average Washington commission refund of 1.952%, was 2.845%. The total savings for an average Washington customer was \$14,080;
- 170 customers in King County bought a home through Redfin, 200 across Washington state;
- 64% of Redfin's buyers said Redfin was better or much better than a traditional agent;
- 95% would recommend Redfin to a friend; in the most recent survey, the percentage was 97%;
- 48% of Redfin buyers work in high technology;
- 90% are under 45;
- 37% are first-time home-buyers, a number that has doubled over the course of the year;
- 49% come through word of mouth; less than 2% through ads;
- 57% report that a seller's agent offered to represent both buyer and seller;
- 42% describe touring listings as their most important concern, despite a new free home-tour program from Redfin.

Methodology

This paper analyzes three data sets:

- **NWMLS data:** King County data from the NWMLS, which lists properties and records transaction details for virtually all the properties sold by Seattle-area real estate brokers, including 170 King County transactions in which Redfin represented the buyer; the data spans Redfin Direct's launch on February 6, 2006 to February 5, 2007.
- **Financial records:** Redfin financial records for every commission refunded to Redfin's 200 Washington buyers from February 6, 2006 through February 5, 2007. In 2006, Redfin did not track commission refunds by county, so the data includes 30 buyer's refunds for properties in Washington counties outside of King County, and also for new construction not entered in the NWMLS.
- **Customer survey data:** 247 responses from all nine customer satisfaction surveys, distributed at regular intervals from February 6, 2006 to February 5, 2007 by a Redfin executive to every buyer who signs a Redfin offer, regardless of whether the offer succeeds or fails. Redfin uses survey responses to determine the bonus levels for each Redfin agent, and to improve our service. Redfin has not always tracked customer satisfaction by state, so the data includes Redfin's Washington buyers as well as a small number from California.

Because Redfin was not available outside of King County until May 31, 2006, and did not launch its service for sellers until September 6, 2006, the analysis largely focuses on buyers in King County, Washington. Once there is sufficient data, a future analysis will address Redfin's other markets, and Redfin's service for sellers. To assess its service for home-sellers, Redfin will have to use a baseline other than listing price, since Redfin as the seller's agent sets the listing price.

Redfin's customer survey data came directly via export from its online survey service, Zoomerang, and its financial records are audited by a national accounting firm. NWMLS rules preclude Redfin from publishing NWMLS data but the appendix at the end of this report gives instructions for any licensed agent or broker to replicate the data set by querying www.nwmls.com.

Introduction

Redfin's e-commerce service for buyers lets buyers find a property to buy on their own, and then draft the offer paperwork online. A local, experienced agent handles pricing advice, offer presentation, negotiations, inspections, contingencies and escrow, refunding the customer two-thirds of the commission paid by the seller to Redfin.

The service has generated controversy, including Congressional hearings and legal threats, in which the traditional real estate industry has called into question Redfin's business model and customer service. The arguments against Redfin have been:

- Any money buyers save on commissions is lost at the negotiating table;
- Redfin's customer service is worse than the traditional industry's;
- Redfin appeals only to a niche of high-technology consumers.

The first two of these claims have turned out the opposite of the truth; the third claim is true.

Economics

Transaction Volume

From the launch of Redfin Direct for Buyers on February 6, 2006 through February 5, 2007, Washington state consumers bought 200 homes through Redfin Direct.

Area	# of Homes Bought via Redfin
Washington state	200
King County	170

Table 1: Number of Washington State Homes Bought Through Redfin

The 200 Washington customers does not include California customers, or transactions in which Redfin represented the seller.

Commission Refund

Redfin offers most buyers a refund of two-thirds of whatever commission it receives from the seller as a buyer's broker; for some employers, mostly in the Seattle area, Redfin offers a refund of three-fourths of its commission. From February 6, 2006 to February 5, 2007, this commission refund in Washington state has averaged 1.952% of the final home price.

Area	Avg. % of Sale Refunded	Avg. \$ Refunded
Washington state	1.952%	\$9,660.28

Table 2: Average Buyers Commission Refund

Despite industry claims that there is no standard commission on which to base assumptions about a refund, and despite competing brokers' threats to pay a different commission or no commission when Redfin is involved, Redfin customers consistently get the commission refund the company expected.

In our first year of service, there has never been a Redfin customer who was unable to get a commission refund for any reason. Including California customers, the average commission refund for buyers has been greater than \$10,000. Including the reduction in fees charged sellers, Redfin estimates that it has saved consumers in Washington and California more than \$3 million in commissions.

Negotiating Advantage

Beyond the savings in commissions, Redfin likely negotiates a better price. According to NWMLS data for King County residential houses from February 6, 2006 to February 5, 2007, Redfin customers paid an average of .411% *below* list, whereas customers of other brokers paid .186% *above* list:

Brokerage	Average Final Price as % of List Price
Redfin	99.589%
All other brokerages	100.186%
Difference	-.598%

Table 3: Final Price as Percentage of List Price, Redfin vs. All Other Brokerages, Houses

For houses, the difference in price is .598%. For condominiums, where quantitative analysis of comparable units is straightforward, the difference through February 5, 2007 is even more striking:

Brokerage	Average Final Price as % of List Price
Redfin	98.649%
All other brokerages	100.366%
Difference	-1.718%

Table 4: Final Price as Percentage of List Price, Redfin vs. All Other Brokerages, Condominiums

Considering both types of properties, the average difference through February 5, 2007 is .893% in favor of Redfin customers.

Brokerage	Average Final Price as % of List Price
Redfin	99.340%
All other brokerages	100.233%
Difference	-0.893%

Table 5: Final Price as Percentage of List Price, Redfin vs. All Other Brokerages, Condominiums and Houses

For a \$1 million property, this negotiating advantage would be worth \$8,930. For a \$500,000 property, this advantage would be worth \$4,465.

Analysis

Before assuming that every Redfin customer will get such an advantage, we should acknowledge two caveats:

- **Property values:** Listing prices do not reflect the actual property value, because some listing agents price a property too high and others too low. But since Redfin buyers purchased properties from nearly 200 listing agents, we believe such effects average out.
- **Deal sweeteners:** Some buyers' agents contribute part of their commission to the buyer so he or she can win the deal. But with a large commission refund available to sweeten a deal, we believe many Redfin buyers behave in a similar fashion.

What is indisputable is that the only evidence available suggests that, above and beyond the commission refund, Redfin customers pay less, not more, for properties than customers of other brokerages. This result is not surprising, for two reasons:

- **Agents:** Redfin pays its agents bonuses based on client satisfaction, not commissions. Traditional agents are paid on commission, earning more when buyers pay more. Commissions create an incentive for agents to close deals even at high prices. Agents do what you pay them to do; Redfin pays its agents to win deals on the customer's terms.
- **Customers:** Redfin customers are more informed and more price-sensitive than most customers. Redfin arms its customers with data about past sales in the neighborhood, tax assessor reports and third-party appraisals. A more-informed customer negotiates better.

The Bottom Line

The total Redfin advantage for King County customers, combining Redfin's commission refund and its negotiating advantage is 2.845%.

Brokerage	%
Average Washington refund	1.952%
Average King County negotiating advantage	.893%
Total Redfin advantage	2.845%

Table 6: Total Redfin Advantage

Based on the average price of a home bought through Redfin in King County, the total savings for a Redfin customer was \$14,080; this number combines negotiating savings and commission savings.¹

Customer Satisfaction

Redfin customers not only saved money, but also reported getting better service. In nine online surveys from February 6, 2006 to February 5, 2007 of 247 consumers who attempted to buy a home through Redfin, Redfin asked: *Was your overall experience with Redfin Direct better or worse than experiences you've had with traditional real estate agents?* Sixty-four percent said Redfin was better or much better; only 15% said the service was not as good or much worse.

Better or Worse Than Traditional Agent	%
Much better	26%
Better	38%
The same	21%
Not as good	13%
Much worse	2%

Table 7: Redfin Compared to Traditional Agents

On the fundamental customer satisfaction question, *Would you recommend that a friend work with Redfin Direct to make an offer on a property?* Redfin's customer satisfaction rating was above 95%.

Recommend Redfin to a Friend	%
Yes	95%
No	5%

Table 8: Customer Satisfaction

Customer satisfaction was worst in late summer of 2006, when Redfin struggled to keep pace with demand. In the three most recent surveys, Redfin's customer satisfaction has been above 97%.

¹ In calculating the average commission refund, Redfin included a small number of properties sold outside of King County, but in Washington state. The reason for this is that Redfin's financial records have not always identified the county where a sale occurred.

Demographics

One real estate industry claim, that Redfin appeals only to a narrow set of high-technology professionals, has been borne out by Redfin's customer survey data. When Redfin asked, *What best describes your line of work?* nearly half of Redfin's buyers chose technology:

Industry	%
Education	4%
Technology	48%
Legal	5%
Manufacturing	1%
Real estate	1%
Financial services	6%
Professional services	15%
Health-care	8%
Agriculture & forestry	0%
Retail	2%
Retired	0.4%
Other	10%

Table 9: Customers by Industry

This glass can seem half-full of technologists, or half-empty. Given the novelty of buying a house online, at Redfin we were actually surprised that half of our customers in our first year came from outside of high technology. When Redfin asked, *What best describes your age demographic?* more than 90% of customers described themselves as 45 or younger.

Age	%
18 – 24	3.2%
25 – 35	60.1%
35 – 45	27.0%
45 – 55	7.7%
55 - 65	1.6%
65+	0.4%

Table 10: Customers by Age Bracket

A young demographic suggests that time is on Redfin's side: as the Internet generation comes of home-buying age, more seem likely to buy homes online. For the question, *What best describes your home-buying experience*, the most popular type of buyer was the first-time home-buyer.

Type of Buyer	%
First-time home-buyer	37%
Second-time home-buyer	32%
Third-time home-buyer or more experienced	22%
Owner of at least one income-generating property	8%
Full- or near-full-time real estate investor	1%

Table 11: Type of Buyer

Over the course of the year, the percentage of first-time home-buyers Redfin was serving nearly doubled from an initial low of 15%. This belies the conventional wisdom that Redfin's service is not appropriate for first-timers.

Why Redfin (And Why Not)

As a result of its customer service, Redfin has been able to grow while avoiding the significant marketing expenses of traditional real estate brokerages and without having the listings market-share traditionally used to attract buyers. When asked *How did you hear about Redfin?* the most popular response was word-of-mouth.

Source	Total
Friend or acquaintance	49%
Real estate agent	1%
Online search	14%
Search ad	0%
Newspaper ad	1%
Radio ad	0%
Radio news	1%
Newspaper article	23%
Yard-sign	0%
Tradeshow	0%
Employee benefits program	2%
Other	8%

Table 12: How Customers Heard About Redfin

Individual agents have traditionally relied on customer referrals, but the phenomenon is different for Redfin, where customers choose to work with the brokerage, not with an individual agent. Less than 2% of Redfin customers come to Redfin via ads, giving the company more money to invest in technology or to refund to consumers.

The refund isn't Redfin's only appeal. When asked *Which of the following factors appealed to you most when you initially evaluated Redfin Direct?* nearly half of all Redfin buyers identified other factors as "most important," ahead of money.

Factor	%
Money: a refund of two-thirds of the buyer's agent commission	57%
Control: understand and control every aspect of the offer-making process	8%
Peace & Quiet: preference for electronic service	17%
Stick it to the Man: just don't like traditional agents & wanted to do things my own way	18%

Table 13: The Most Important Reason Customers Chose Redfin Direct

For this question and the question about customer concerns, the survey allowed users to rank each factor by its importance, but we report here only on the factor ranked "most important" by each respondent.

The survey question *Which of the following factors concerned you most when initially evaluating Redfin Direct?* revealed that most buyers continue to worry about access to the property, despite Redfin's new program to offer buyers free home tours.

Factor	%
Company: concerned about Redfin because I didn't know much about you	18%
Online service: concerned about making an offer using an online service	12%
Ability to see house: concerned about seeing houses without a buyer's agent	42%
Quality of support: concerned about the idea of only talking to Redfin agents by phone	23%
Prior commitment: felt committed to an agent prior to learning about Redfin	5%

Table 14: The Most Significant Concern Before Using Redfin Direct

When touring properties without a Redfin's buyer's agent, most buyers were solicited by the listing agent. The survey asked: *If you contacted listing agents to see properties, did the listing agents offer to represent you as a buyer, in addition to representing the seller?*

Response	%
Yes	57%
No	43%

Table 15: Buyers Solicited by Listing Agent

At Redfin, we believe it is a conflict of interest for an agent to represent both buyer and seller on one transaction.

Appendix: How to Replicate the NWMLS Report

Northwest Multiple Listing Service rules preclude Redfin from publishing NWMLS data. Below are instructions for any agent or broker licensed in Washington state to replicate the data set by querying www.nwmls.com.

Redfin compiled the 2006 data for this analysis from the NWMLS on February 2, 2007 between noon and 5 p.m.; Redfin compiled the January 1, 2007 to February 5, 2007 data on February 16, 2007 between 10:30 a.m. and noon, and then merged two data sets.

Two sales reported by brokerages other than Redfin differed in final price by a factor of ten from the listing price, suggesting that the agent entering the final price left off a zero. Redfin corrected this apparent error before conducting its analysis.

For MLS #26136978, the Redfin buyer allowed the seller to keep \$15,300 in commissions normally due the buyer's agent. When calculating Redfin's negotiating advantage, this amount should be added to the final price of the home, since that amount is best thought of as a commission refund rather than a negotiating advantage. In no other King County transactions for that time period did a Redfin customer allow the seller to keep part of the buyer agent's commission.

To accommodate different export formats for single-family houses and condominiums, Redfin retrieved records separately for these two types of properties. Since the NWMLS limits exports to 2,000 records, Redfin retrieved records in two-week intervals according to the following procedure:

1. On your computer, open a Web browser and visit www.nwmls.com.
2. The initial screen will prompt you for a *User ID* and *Password*. Only licensed brokers and real estate agents with a user name and password can access NWMLS historical records. Log-in.
3. Click the *Locator* link at top left.
4. From the *Search* menu, click *Standard*.
5. Under *Property Types*, check the *Residential* box
6. Under *Statuses*, check the *Sold* box; uncheck any other status, such as *Active* or *Contingent*.
7. For *Selling Date*, enter *02/06/06* for the beginning date and *02/15/06* for the ending date. You can only retrieve approximately two weeks of data in each query without exceeding the maximum number of records that the NWMLS can retrieve in one query.
8. For the *Counties* field, enter *King*.
9. At the top of the screen, click the *Exports* button.
10. Select *Full Export (2000 listing max)* from the ensuing drop-down menu, then click *Submit* at top left
11. The next window will display the name of a text file which you can click to open or save; a Windows dialog will offer you the choice of *Open*, *Save* or *Cancel*. Choose *Save*, and pick a location on your computer to store the file.
12. Launch Microsoft Excel. From the Excel *File* menu, click *Open*. Browse to the location where you stored the text file. In the *Open* dialog, there is a *Files of Type* drop-down menu; choose *All Files (*.*)*. The text file should now appear; select the file and click the *Open* button.

13. To convert the file, Excel opens a *Text Import Wizard* dialog. Choose the *Delimited* file type, and accept all defaults; click *Finish*, skipping the import wizard's second and third stages.
14. To get a full year of data, repeat steps four through thirteen, advancing the date range by two weeks until you reach the end date of *02/05/07*. Copy and paste data from each file into a master worksheet.
15. Repeat the process for condominiums: uncheck the *Residential* status-box in step five and check the *Condominium* status-box instead, repeating all other steps to get one Excel file with records for condominiums and single-family homes.

Disclaimer: The data from the NWMLS comes from agents and is in a state of constant flux because agents do not always update their transactions in a timely manner. If an agent updates a deal that closed before February 6, 2007 after February 16, 2007 at 10:30 a.m., the numbers will change slightly. A few stragglers will not be material, as the analysis was based on thousands of closed transactions.

Adjusting the Negotiating Advantage

Redfin initially published a version of this paper stating its negotiating advantage was .904% rather than .893%. Factually speaking, NWMLS records indicate that, compared to the listing price, Redfin customers paid .904% less than did customers of other brokerages. But we now believe that it is more accurate to say that our negotiating advantage is .893%.

The reason for this adjustment is that one King County buyer allowed the seller to keep the buyer's agent commission we would normally refund to that buyer, in exchange for a lower price.

The property in question was listed at \$795,950; the NWMLS recorded that the buyer paid \$765,000. But the buyer also allowed the seller to pay a lower commission, saving the seller \$15,300 in commissions normally due the buyer's agent. Using the final price of \$765,000 resulted in a negotiating advantage of .904%.

In calculating the now-adjusted negotiating advantage of .893%, Redfin added the \$15,300 in retained commissions to the final price of \$765,000, treating this property as if it had sold for \$780,300. We did this because it was the most conservative way to handle a commission refund that was applied to the purchase price.

We would have done this originally had we realized one of our buyers used the commission refund in a negotiation.

We are indebted to Kevin Boer for identifying this problem. Mr. Boer is a California broker who reviewed the NWMLS data in an attempt to replicate our results. His question about how we would handle a situation in which the buyer offered to allow the seller to keep part of the commission prompted us to review the files of every King County transaction, so that we could be certain the .893% number was the most conservative and accurate reflection of our negotiating abilities.