Good day, ladies and gentlemen, and welcome to the Redfin Corporation Second Quarter 2023 Earnings Conference Call. Our host for today’s call is Meg Nunnally, Head of investor relations. (Operator Instructions)

I would now like to turn the call over to your host. Meg, you may begin.

Meg Nunnally - Redfin Corporation - Head of IR

Good afternoon, and welcome to Redfin’s financial results conference call for the second quarter ended June 30th, 2023. I’m Meg Nunnally, Redfin’s Head of Investor Relations. Joining me on the call today is Glenn Kelman, our CEO, and Chris Nielsen, our CFO.

Before we start, note that some of our statements on today’s call are forward-looking. We believe our assumptions and expectations related to these forward-looking statements are reasonable, but our actual results may turn out to be materially different. Please read and consider the risk factors in our SEC filings together with the content of today’s call. Any forward-looking statements are based on our assumptions today, and we don’t undertake to update these statements in light of new information or future events.

On this call, we will present non-GAAP measures when discussing our financial results. We encourage you to review today’s earnings release, which is available on our website at investors.redfin.com, for more information relating to our non-GAAP measures, including the most directly comparable GAAP financial measure and related reconciliation. All comparisons made in the course of this call are against the same period in the prior year, unless otherwise stated.

Lastly, we will be providing a copy of our prepared remarks on our website by the conclusion of today’s call and a full transcript and audio replay will be also available soon after the call.

With that, I’ll turn the call over to Glenn.

Glenn Kelman - Redfin Corporation - President, CEO & Director

Thank you, Meg, and hi, everyone. In the second quarter of 2023, Redfin generated $276 million in revenue and an adjusted-EBITDA loss of $7 million, both within the ranges we had forecast in our last earnings call. Our net loss of $27 million was better than our forecasted loss of between $35 and $44 million, due to a $20 million gain from purchasing our 2025 notes at a discount.
But even as our share of online demand has increased sharply, we’re unlikely to get enough second-half sales to earn the full-year adjusted-EBITDA profit that we had forecast coming into 2023. We now expect 2023’s adjusted-EBITDA loss to be about $45 million. This is an improvement of more than $140 million over 2022’s adjusted-EBITDA loss, with similar gains planned for future years. From July 2023 to June 2024, we plan to generate a full-year adjusted-EBITDA profit.

We still expect between 4.2 million and 4.3 million existing U.S. homes to sell in 2023, but Redfin’s market share has been lower than expected. After year-over-year share gains in every quarter since our 2017 public offering, we lost 2 basis points of share in the fourth quarter of 2022, and 1 point in the first quarter of 2023. In the second quarter of 2023, our year-over-year share loss widened to 8 basis points, mainly due to one-time setbacks: agent layoffs forced us to reassign about a third of our active customers, and the closure of RedfinNow eliminated about 12% of our listing demand. We expect market share to improve from quarter-to-quarter by the fourth quarter, and perhaps as early as the third quarter.

Throughout the year, demand largely met or exceeded our expectations, but closed sales haven’t. From 2017 to 2022, between 6.3% and 7.2% of the people who contacted Redfin or our partner agents had closed a sale with us by this point in the year. In 2023, that number is 5.5%. We expect close rates to return to historical norms for 2 reasons.

As customers adjust to higher mortgage rates, our sales will become more predictable. And our plan to recruit and retain a more sales-driven agent, which we’ll discuss later in this call, will help us compete better against brokers who’ve been hungrier than ever before.

Our real-estate-services gross margins have improved from 29% in the second quarter of 2022 to 31% in the second quarter of 2023. Once we stop hosting tours for so many people who cancel their home-buying plans, gross margins will go up more. Eliminating the homebuyer commission refund is 1 source of margin gain, but we’ve also lowered the ratios of managers and support staff to agents, and switched from employees to contractors for listing photography, improving our long-term unit economics.

One factor that will keep lifting margins but at the expense of share is the shift to partners. We estimate that in 2024, as many as 55% of our customer inquiries will be served by a partner agent, up from 45% so far this year and 37% in 2022. A sale, whether from a partner or an employee, has the same contribution to share, but our employees yield 40%-46% more sales from the same homebuying traffic. Since the sales we’re shifting to partners are only marginally profitable for employees to handle, we can’t worry about how many more closings an employee could’ve gotten. The share we’re focused on is our share of significantly profitable sales.

And regardless of how much demand we shift to partners, or how much we limit spending, our growth can continue because its primary source has never been low-cost capital, but building a better listing-search site, and then using that to offer online visitors better service. Even with a drastic reduction in advertising, Redfin.com has been drawing visitors away from rival sites.

According to Comscore, which we use to compare our traffic growth to others, second quarter visitors to Redfin.com increased year-over-year by 9%, compared to a 5% decline for the largest for-sale search site, and a 13% decline for the second-largest. The gap in year-over-year visitor growth between Redfin and these competitors averaged 12 points in the first quarter, and 17 in the second.

We know that this online traffic growth gives our sales force more bona fide opportunities to gain share, because we track the demand from our site all the way through to a sale, whether the customer closed with Redfin or switched to another broker. Comparing the first half of 2023 to the first half of 2022, a higher proportion of the people who bought a home had contacted a Redfin agent 12 months prior to their purchase.

Our investment in artificial intelligence is one reason we’re confident Redfin’s traffic can keep growing. The software we’ve already built for estimating a home’s value or recommending a listing is based on artificial intelligence. Artificial intelligence is why our engineers don’t have to update that software to recognize the growing importance of air conditioning in Seattle, or the increasing likelihood that post-pandemic homebuyers are looking further afield; the software updates itself. We’re now extending this software from for-sale listings to rental listings: in October 2022, for estimating the amount a home will rent for and, in the third quarter of 2023, for recommending apartments that we think our visitors will like.

We’ve also been at the forefront of conversational real-estate search via OpenAI, Google, and Microsoft technologies. But since our company spends so much on labor to interact with customers, prepare offers and underwrite closings, the larger opportunity may be in helping homebuyers who...
have contacted us for service. We’ve explored uses of this technology to make the Redfin employees who book home tours more efficient, or to host conversations with customers years away from a purchase, letting our agents spend more time with the people about to complete a sale.

We believe the efficiency gains that a technology-powered brokerage can get through the engineers we already have, accessing low-cost generative artificial intelligence via the Internet, will over time give us a competitive advantage commensurate with the first disruption in real estate, when Redfin first published listings on an online map.

Even as we expect increasing yields from our technology investments, sales performance should also improve. We expect that our low listing fees, coupled with our unrivaled ability to get online real-estate shoppers out for in-person home tours, can drive share gains for years to come in most U.S. markets. But in higher-priced coastal markets, starting with a pilot in San Francisco and LA, we’re entering 2024 with a different approach to hiring agents.

In the San Francisco Bay Area, our share is below 2%, but the share of people who bought a home and who had earlier contacted our agents for service is nearly 30%. It’s even higher for purchases above $1 million. Anyone launching a brokerage today with that much demand would have a massive advantage in recruiting and retaining the best agents.

Entering 2024, we plan to give San Francisco and LA agents the lion’s share of the commission on self-sourced sales while keeping for ourselves the high margins on Redfin-sourced sales. Our goal is to hire and keep agents who can deliver better service and higher close rates for Redfin-sourced customers buying homes above $1 million, and incremental profits from their own sales too. If this model works in California, we’ll extend it to other coastal cities with higher home prices, driving share gains in our largest, most profitable markets.

Coupling these changes with a normalizing housing market, whether that happens in 2024 or beyond, could have a transformative impact on revenues, gross margins and net income.

Beyond the improvements in our core brokerage business, we’re making progress at broadening our online marketplace, with for-sale and for-rent listings, and at broadening the products we sell to the people using that marketplace, with mortgage and title service. It’s hard to be expansive through a downturn, but the result will be a more valuable company, able to compete at the scale needed to win.

The rental listings we’ve added to Redfin.com are 1 reason overall traffic growth has accelerated. From June 2022 to June 2023, the number of Redfin.com sessions that included a visit to a rental property nearly doubled, all with virtually no ads promoting Redfin’s rentals search.

Aided in part by this new source of consumer demand, and even more so by an expanded product offering, strong value proposition and rejuvenated sales force, Rent’s second quarter revenues increased 19% year-over-year.

More growth is ahead. Rent’s second quarter net bookings, which are the annualized revenues Rent added through sales to new customers less the annualized revenues lost from departing customers, increased more than tenfold from 2022 to 2023, and also grew from the first quarter to the second. Since a price increase boosted first quarter bookings, topping that number in the second quarter has been especially impressive. From quarter to quarter, Rent’s adjusted EBITDA losses narrowed from $9.7 million to $8.7 million, keeping it on track to break-even in the fourth quarter.

But our investment in a larger vision isn’t just limited to our online presence. We also want to offer our customers more service, so that Redfin can earn more income from a visitor than any other real estate company. This will take time to pay off, just because Bay Equity, the lender we acquired in April 2022, is the Redfin business most affected by rising rates. The percentage of Redfin homebuyers who used Bay Equity to finance their purchase increased from 8% in the second quarter of 2022 to 20% in the first quarter of 2023, but that attach rate dipped to 19% in the second quarter of 2023.

We’ve now entered a second, slower stage in the integration between Bay Equity and Redfin, requiring us to address problems market by market to get attach rates to the 28% to 32% levels of places like Atlanta, Salt Lake City or Maryland. Redfin and Bay Equity execs are visiting low attach rate markets, and Bay Equity is hiring loan officers in capacity gated areas. It will take time to increase attach rates from here, but we believe we’ll keep making progress.
Bay Equity’s sales through brokers other than Redfin are projected to increase from the first half to the second, but Bay Equity is now likely to report a small adjusted EBITDA loss for the year. We feel good about its long-term future. Bay Equity’s leaders are disciplined and entrepreneurial, and its service is excellent, so this business will earn significant profits in all, but the most severe rate environments.

Our title business is one reason we’re confident that, as pricing pressure eases on lenders, we can keep lifting attach rates for ancillary services. From the second quarter of 2022 to the second quarter of 2023, title revenues grew 54%, with an attach rate exceeding 60% in markets launched prior to 2023.

Beyond title service, the second major component of our other segment is digital revenue, which in the second quarter grew more than 150% year-over-year, validating our plan to make more money from our online audience. About half of this money came from the ads we run on Redfin.com. Much of the rest came from a mortgage marketplace for connecting homebuyers to lenders other than Bay Equity, which doesn’t have the national sales center to handle online demand.

By the end of the year, we expect a significant increase in the revenue we get from builders who want to promote their listings on Redfin.com. Rather than hiring our own salesforce to sign up builders, we’ve formed a Zillow partnership to add tens of thousands of new construction listings to our online marketplace.

Redfin will only get a portion of the revenue generated from addition of those listings to our site, but that revenue will be almost pure profit. Over several years, Redfin will continue to prioritize digital revenue projects. We expect our digital revenue to grow faster than any of our other businesses, improving overall margins and reducing earnings volatility.

Before turning the call over to Chris, let’s discuss the housing market. We should be careful in the months ahead about claiming victory from any year-over-year gains, as we’ll now be comparing the second half of 2023 to a period in 2022 when the market was in full flight. Sales volume is near rock bottom.

Home prices are stable or even rising due to low inventory, which is likely to remain low. July’s year-over-year drop in active listings was the largest in nearly 18 months. There is enough inflation risk that the Federal Reserve will have to maintain the possibility of another hike through the fall, keeping mortgage rates near 7%. But the almost miraculously good news is this. Most economists once viewed a recession as unavoidable and now see it as unlikely. When rates come down, the housing market will be poised to grow again. For now, the only way Redfin plans to grow is by returning to our long history of methodical, glorious share gains.

Take it away Chris.

Christopher Nielsen - Redfin Corporation - CFO

Thanks, Glenn. We’re pleased with our second quarter results, which were in-line with our expectations. We sold our last RedfinNow houses in the second quarter, and moved our properties business to discontinued operations. To simplify comparisons to prior periods, I’ll be discussing results for our continuing operations, unless otherwise noted.

First quarter revenue was $276 million, down 21% from a year ago. Gross profit was $100 million, down 10% year-over-year. Total gross margins expanded by 450 basis points, from 31.9% to 36.4%. This expansion was driven by mix shift to higher margin businesses, as well as fundamental improvements in real estate services gross margin.

Real estate services revenue, which includes our brokerage and partner businesses, generated $181 million in revenue, down 28% year-over-year. Brokerage revenue, or revenue from home sales closed by our own agents was down 29%, on a 33% decrease in brokerage transactions and a 6% increase in brokerage revenue per transaction.
The increase in revenue per transaction was driven by the elimination of our homebuyer commission refund and as well as revenue from concierge renovations, which more than offset a 6% decrease in average home prices for brokerage transactions. Revenue from our partners decreased 4%, on a 1% decrease in transactions and mix shift to lower value houses.

Real estate services gross margin was 31.1%, up 170 basis points year-over-year. This was primarily driven by a 410 basis point decrease in personnel costs and transaction bonuses, offset by a 110 basis point increase in seller home improvement expenses, 40 basis points in mileage and fleet costs, and 40 basis points in listing expenses.

Total net loss for real estate services in the second quarter was $9 million, up from a net loss of $19 million in the prior year, and adjusted EBITDA income was $9 million, up from a loss of $5 million in the prior year. The increase was primarily attributable to higher gross margins and lower operating expenses, which more than offset lower revenues.

Our rentals segment posted its third straight quarter of growth, with revenue of $45 million and growth of 19%. Total net loss for rentals was $23 million, slightly worse than the net loss of $19 million in the prior year, as higher gross profit was offset by higher operating expenses.

Total adjusted EBITDA for the second quarter was negative $9 million, and we still expect our rentals business to generate positive adjusted EBITDA by the fourth quarter of 2023. Our mortgage segment generated $38 million in revenue, down 28% year-over-year. This result was within our guidance range and better than the industry-wide contraction of approximately 32%, indicating share gains against the market.

Mortgage gross margin was 10.8%, down from 12.8% a year ago, as cost reductions have not fully offset the impact of lower volumes. Total net loss for mortgage was $4 million, an improvement from a net loss of $6 million in the prior year. Total adjusted EBITDA loss was $2 million, an improvement from a $6 million loss in the prior year.

Our other segment generated revenue of $11 million in the second quarter, compared to $6 million in the prior year, as both our title and digital revenue businesses grew. Other segment gross margin was 44.1%, up from negative 0.1% a year ago.

Total net income was $3 million compared to a net loss of $2 million in the prior year and adjusted EBITDA was positive $4 million compared to negative $1 million in the prior year. As Glenn noted, we see an opportunity to continue to grow our Digital Revenue business, which should be nicely accretive with profitability of Redfin overall.

Turning back to consolidated results, total operating expenses from continuing operations were $148 million, down $36 million a year-over-year. The decrease was primarily attributable to $23 million in lower marketing expenses, $11 million in legal, acquisition and restructuring expenses in the prior year that did not repeat in the current year, and $2 million in lower personnel expenses.

Net loss from continuing operations was $27 million compared to a net loss of $75 million in the prior year. The impact from discontinued operations was negligible, so total net loss was also $27 million. This was better than our $44 million to $35 million guidance range due to a $20 million gain on the extinguishment of notes as only $4 million of this gain was anticipated in our guidance.

Our adjusted EBITDA from continuing operations of negative $7 million was in line with our guidance range of negative $9 million to positive $1 million. Diluted loss per share from continuing operations attributable to common stock was $0.25 compared with $0.70 1 year ago.

Now turning to our financial expectations for the third quarter, as well as longer range profitability targets. Starting with the profitability targets, I wanted to underscore what Glenn said earlier. Given the challenging market conditions, we no longer expect to reach our target of being adjusted EBITDA positive in 2023.

While our top of the funnel activity remains strong, our close rates and market share have been lower than we expected. Against this backdrop, we don’t think it would be wise to cut our way into breakeven.
Consumer demand for houses remains strong. We want to make sure that Redfin is positioned to capitalize on market recovery when it happens. So we're pushing out our timeline to achieve this goal, but still remained focused on running the business for profitability. We now expect to achieve adjusted EBITDA breakeven on a trailing 12-month basis in the first half of 2024.

Furthermore, we still expect to achieve net income profitability in 2024. For the full year of 2023, we expect adjusted EBITDA loss from continuing operations to be closer to $45 million and we expect real estate services gross margin to be roughly 27% with the potential for further expansion in future years.

Turning to our expectations for the third quarter of 2023, we expect total revenue between $265 million and $279 million, representing a year-over-year decline between 13% and 9% compared to revenue from continuing operations in the third quarter of 2022.

Included within total revenue are Real Estate Services revenue between $172 million and $182 million; Rentals revenue between $46 million and $47 million; Mortgage revenue between $35 million and $38 million; and Other revenue approximately $12 million. For Real Estate Services, we expect gross margins to increase by 400 to 600 basis points compared to the third quarter of 2022.

Total net loss, including both continuing and discontinued operations is expected to be $30 million to $21 million compared to a net loss of $90 million in the third quarter of 2022. This guidance includes approximately $25 million in total marketing expenses, $18 million of stock-based compensation, and $17 million in depreciation and amortization.

Adjusted EBITDA from continuing operations is expected to be between $4 million and $14 million compared to an adjusted EBITDA loss from continuing operations of $51 million in the third quarter of 2022.

Furthermore, we expect to pay a quarterly dividend of 30,640 shares of common stock to our preferred shareholder. This guidance assumes among other things that no additional business acquisitions, investments, restructurings, convertible note or other stock repurchases, or legal settlements are concluded that there are no further revisions to stock based compensation estimates.

And now let's take your questions.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Your first question comes from Ygal Arounian of Citi.

**Ygal Arounian - Citigroup Inc., Research Division - Research Analyst**

I have 2 questions and I think they’re pretty related, I’ll ask them together. So first on the overall market and Glenn, Chris, you guys I think are, I know, are much smarter on this -- on the housing world than I am, right? You live and breathe it. And you talked about a recovery, you’re talking about not seeing a recession and -- but at the same time, talking about rates coming down.

And I think this is something we’ve been kind of hearing from around the ecosystem, customers learning to adapt with higher rates and all that. But at the same time, you guys put out a lot of things about affordability. Like there’s no real incentive for people to move in the near-term with the rates that they have. And I just struggle to find like where the logjam breaks on a recovery other than waiting for everyone’s rates to just kind of, go away, especially on the adjustable side. And then, there’s not that much more of an incentive to not move, although you still have the affordability problem.

And then, tying that into maybe expanding a little bit on the agent strategy, so with some of the shifts you’re making here, are you going after more partner agents then? Are you continuing to kind of freeze your full-time agents, but not laying people off?
And then I'm not sure I fully caught how the new structure was it in L.A. and Seattle and San Francisco helps kind of improve the financials the way you were talking about. So I know that there's a lot in there, but hopefully 2 pretty important topics.

Glenn Kelman - Redfin Corporation - President, CEO & Director

Great questions. So first of all, in the housing market, we do not anticipate any significant change in the housing market through the second half of 2023. You're absolutely right that high rates are going to limit the amount of inventory available for sellers and for buyers, affordability is just going to be a huge issue.

So we expect 4.2 million units to trade in 2023, which is unchanged. We did say that we want to be prepared for a market recovery, but we also expect to be able to grow in this market just by gaining share, which should start in Q3 or Q4 of 2023. We just have to lapse some onetime setbacks like the closure of Redfin now and laying off about a third of our sales force.

So that is our basic take on the housing market, which is, that's in a jam. It's unlikely to change anytime soon. The only good news is that the rate increase has not sent the whole US economy into a tailspin. So housing should be in a good place as rates ease probably in the first half of 2024. Who knows when. That's always hard to guess.

So the second issue there are 2 elements to our strategy. One, we've already discussed. One is absolutely new. So the first element is that we're moving more of our demand to partners to make the business more resilient.

So a year and a half ago, about 37% of our demand went to partners. By 2024, we expect 55% of demand to go to partners. That's part of a longstanding strategy that we've amply discussed in previous calls. It will affect our market share just because our employees yield about 40% more sales than our partners from the same home buying traffic. But those incremental sales wouldn't have been very profitable anyway, and we don't want to carry the fixed cost. So we are shifting to partners.

Here's what's new. This is what we talked about for the first time today, which is that we're hiring a more traditional type of agents. So usually the trade-off at Redfin when we approach agents is you'll get more Redfin customers, but at a lower split. So you have to close more sales to make the same amount of income or more income.

Now we're trying to offer agents the best of both worlds where we allow agents to close sales from their personal network at a split with Redfin. That's similar to what they would get at a traditional broker, while retaining the high margins on Redfin sourced sales.

So let's say an agent has closed 10, 15 sales in California above a $1 million, they could come over to Redfin and earn about the same income, but we could help them meet customers to close another 10 or 15 sales. And that would be incremental, and that would be at the Redfin margin. This is what our competitors fear we would do. It is what they have always hoped we would not do. And we think it's going to let us close sales at significantly higher rates where we can go out and compete for an agent, who's been very successful in the market, but who still wants a larger business. And that will increase close rates in these coastal markets, where we're seeing about a third of all the customers who end up buying a house, about a third of them contact Redfin for service, even though our share is 1.5% or something like that. And so we can do much better, if we could increase close rates by hiring a better agent, and we think this is going to unlock a lot of growth.

Ygal Arounian - Citigroup Inc., Research Division - Research Analyst

So you're hiring -- just to follow-up on that, you're hiring these agents, or are of the agents that you currently have switching them over to this model. So I'm not clear if you're, if this means you're hiring the good people?
Glenn Kelman - Redfin Corporation - President, CEO & Director

We're doing both. So we are announcing the plan we need to do better in coastal markets where the most lucrative home sales happen. So we have open requisitions in San Francisco that we're going to aggressively start filling in the fourth quarter, especially and we're going to start hiring a different profile of agent with lower fixed cost, more variable pay. This is just a more traditional sales person who wants to augment his or her income with Redfin sourced sales and we're switching our existing agents in those pilot markets to this pay plan.

Operator

Your next question comes from John Campbell with Stephens.

Austin Jay Hayes - Stephens Inc., Research Division - Equity Research Associate

Hey guys, this is A.J. Hayes stepping in for John. So you obviously changed your adjusted EBITDA profit target here, but can you just talk to me about your confidence in hitting this new target of hitting adjusted EBITDA profitability over the next 12 months? And then if things play out as industry forecasters are currently expecting, are there additional cost levers that need to be pulled or are you set to achieve this target without any further cost reduction efforts? Can you just generally just help adjust to this new target?

Glenn Kelman - Redfin Corporation - President, CEO & Director

We've assumed there will be no further cost reductions in setting this target, and we've been careful about the revenue projections that we make. At some point, we do need to return to share gains. But we have a basis for believing that will happen, in part by looking at pending sales. The trends are already positive. But also just based on some of those onetime setbacks we already discussed, the closure of Redfin now accounts for 12% of our listings. We need to lap that. We cut our sales force by a third. That disrupts the sales cycle for about 6 months. We're about to get beyond that effect.

And then we just have really strong traffic growth powering us right now in terms of the top of the funnel. So all those factors combined to make us believe that we can take share, and we're not expecting aggressive share gain when we made this earnings forecast. So Chris, I don't know if you want to add any color, but it's not a rosy forecast when you have to take the number down, you want to give yourself a margin there.

Christopher Nielsen - Redfin Corporation - CFO

2 other comments, I'd make for the rest of this year and into the first part of next year also and that's that our rentals business continues to make progress towards profits. In the fourth quarter of this year, we expect to be adjusted EBITDA positive, and we expect continued growth into next year. So that's a place where the bottom line is changing for Redfin, and that's making a difference, and I expect it to continue to make a difference into next year.

And then the second is something else we talked about on the call today, and that is that our digital revenue has been increasing. We expect it to continue to increase, so that becomes an even more important contributable contributor to profits as we move forward.

Glenn Kelman - Redfin Corporation - President, CEO & Director

A.J., the final thing to say about 2023 is that it's half over. So you always have more confidence in your projections, when you have 6 months on the comm instead of 12, especially when you've got about 40 days of visibility on revenue, a perfect visibility on revenue, at least in real estate services. Mortgage is a little bit...
Austin Jay Hayes - Stephens Inc., Research Division - Equity Research Associate

Got it, great. And then Chris, you touched on digital ad revenue. Kind of just want to explore that a little bit further. Has the introduction of advertisements at all influenced the consumer experience from what you've heard? And then looking more long-term, should we expect this to continue when housing starts, it starts to prep back up and you might not need this additional high margin revenue stream. Just essentially, trying to gauge, is it safe to assume that this is kind of part of the long-term plan and here to stay?

Christopher Nielsen - Redfin Corporation - CFO

It is. So if we run video ads on the site, I think it will affect our standing with Google and other search engines. And that's a tradeoff that we're going to be very careful about just because it's been buttering our bread for so long, getting traffic from Google, Bing, other places like that. So I don't know that we're going to be the absolute most aggressive about monetizing every single webpage with display ads. We have other ways to monetize that customer that can be very lucrative. But it's a long-term component of our strategy. Real-estate services is so cyclical. The margins really get compressed in a down environment. And obviously, digital revenues can be a little bit cyclical, but not nearly as much. And so just having that green money come in month-after-month has been really good for our P&L.

Operator

(Operator Instructions) Our next question comes from Bernie McTernan with Needham & Company.

Stefanos Chambous Crist - Needham & Company, LLC, Research Division - Research Analyst

This is Stefanos Crist calling in for Bernie. Just a quick one on the mortgage attach rates. Is there any more detail there and puts and takes and maybe expectations for the rest of the year?

Glenn Kelman - Redfin Corporation - President, CEO & Director

Mostly what was in the prepared remarks. So we think we can move that number up just because we've seen some markets with a sustainable rate of 30%-plus. But it is going to be hard. So in some areas, the equity just doesn't have enough loan officers. They need to recruit more. In other areas, we need to make sure that we just have really good sales execution by having executives visit those offices. But it's a challenge we're taking personally. I'm flying to markets that have low attach rates to make sure that I understand exactly what's wrong from the equity side and the Redfin side.

And just showing up makes a statement all by itself. So I don't think we're going to see a 7-point jump in attach rates from quarter-to-quarter. But I do think we're going to keep moving up. There is just incredible price pressure on lenders, too, right now. So that's the final issue is that there are still lenders willing to buy the business, willing to loan money at no profit or at a loss just because they're still trying to keep their underwriters busy. So as the market normalizes, I think it'll be easier to drive attach rate, too. We just can't wait for that. So we're rolling up our sleeves and fighting hand-to-hand, door-to-door.

Operator

Your next question comes from John Colantuoni of Jefferies.

Unidentified Analyst

This is [Vincent] on for John. So on web traffic, you're clearly making some nice strides there. Can you help us think about where that growth is coming from, whether it's folks looking for rentals or new homes or financing or if it's really just largely the core portal? And then, as a follow-up,
if you could share with us how you expect the partnership with Zillow to contribute on that front? And then any other thoughts you have on what that partnership means for your business? That would be appreciated as well.

Glenn Kelman - Redfin Corporation - President, CEO & Director

Sure. Well, the main reason we're getting more traffic is that we're competing as a national scale portal. At some level, Redfin had been a regional site where we had very strong traffic in coastal markets, but because of our retail model, we had been slow to launch in places like Cleveland or Kansas City. And so expanding across the United States, offering a better listing search experience, making sure the site loads very quickly, and just being at the center of every real estate conversation in terms of our link building efforts, our public relations, all of that has helped establish Redfin.com as one of the top places to go for sale listings.

And then adding rental listings has just broadened our authority so that when people are searching for housing generally on Google, we are relevant not just for people looking for, for sale listings, but rental listings. So I'd say expansion of inventory on 2 different fronts, geographic and then inventory type for sale and rental, have been a big part of this. And then just offering a better listing search site is another big part of it. It's always been outrageous to me that we're the #3 site for sale traffic when we think our search experience is so good. So that's why we're just going to continue to take search share, we hope.

And then as far as the Zillow partnership, it's just very consistent with that whole thesis that one of the ways to compete for traffic is just to have more listings. And working with Zillow let us get more listings faster. We could have hired our own sales force to approach the builders for all the listings that they don't put in multiple listing services. It would have taken years.

The industrial logic of working with Zillow was really strong. We have to split the pot. They'll get some of the revenue that we help them generate. And they should because they've helped us sign up those builders with their sales force. But we think it gives us better digital revenue now. And even if we model it over 5 years, this is a deal that is more profitable than building our own sales force. So even though, we've sometimes plugged it out with them for traffic, we're glad to be working with them on this. It's been a good partnership in its first 24 hours.

Operator

(Operator Instructions)

Glenn Kelman - Redfin Corporation - President, CEO & Director

All right, everyone. I think that's it. We appreciate you tuning in. We're going to go work our tails off to make as much money as we possibly can. Thanks for everyone's support. And we'll talk to you in a quarter.

Operator

This does conclude today's Redfin Corporation second quarter 2023 earnings conference call. Thank you, everyone, for attending. Have a wonderful rest of your day.