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Q1 2023 Redfin Corp Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the Redfin Corporation Q1 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Meg Nunnally, Head of Investor Relations. Thank you. You may begin.

Meg Nunnally

Thanks [Patoya]. Good afternoon, and welcome to Redfin's financial results conference call for the first quarter ended March 31, 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 related to our non-GAAP measures, including the most directly comparable GAAP financial measures and related reconciliations.

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 also be available soon after the call.

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

Glenn Kelman *Redfin Corporation - President, CEO & Director*

Thanks, Meg, and hi, everyone. In the first quarter of 2023 Redfin generated \$326 million of revenue, exceeding the \$307 million to \$324 million guidance we gave in our last call, largely on the strength of better-than-expected mortgage and rentals revenues.

Our losses were also better than expected, with net income buoyed by a \$42 million gain from buying \$152 million of our own debt at a discount. Setting aside that purchase, profits still exceeded our guidance. Due to stronger mortgage gross profits and lower marketing spending, first quarter adjusted EBITDA was negative \$67 million, when our guidance for that loss had been \$73 million to \$84 million.

Coming out of the first quarter with profits ahead of our plan, we still expect our full year adjusted EBITDA to be breakeven or better in 2023, an improvement of roughly \$190 million over 2022. We just have a lot of hay to make when the sun shines. Redfin almost always spends more in the spring, on ads telling customers about Redfin and on agents to serve those customers.

Many of those customers take until the summer to close. With homebuyers nervous about the economy and so many starving agents trying to poach our clients, we can't count on these closings until they come through. We'll stay vigilant about the bottom line from week to week. The seasonality of our core business is only one reason we expect profits to improve over the remainder of 2023. Bay Equity earnings should continue to strengthen as we complete our adjustment to sharp rate increases.

We also expect Rent profits to improve as we recognize revenues from the last nine months have increased bookings and due to declining marketing expenses through 2023. Redfin as a whole will in future quarters get the full benefit of cost reductions that have continued through April. We expect second quarter adjusted EBITDA to be between a \$9 million loss and a \$1 million profit and third quarter adjusted EBITDA to be much higher than that. Between the end of the third quarter of 2022 and the first quarter of 2023, our competitive position has significantly improved. We retired \$295 million in debt and reduced RedfinNow inventory by \$291 million. Demand for the agents on our site has strengthened as we've drawn online visitors away from our rivals and more recently increased the rate at which those visitors ask an agent for service.

We expect real estate services gross margins to improve year-over-year for the first time since the second quarter of 2021 and overall monetization to improve even more as we generate additional profit from Redfin.com traffic through Rent and from brokerage customers through Bay Equity.

We've lowered our cost to break even at our current market share, but significant long-term profits depend on returning to market share gains. Accounting for the sales closed by our own agents and from the customers we introduced to our partner agents, our share of U.S. home sales declined by one basis point in the first quarter of 2023. By comparison, we lost two basis points of share in the fourth quarter of 2022. Before then, Redfin had reported year-over-year share gains every quarter since our 2017 public offering. We expect to return to share gains in the second half of 2023 as we recover from layoffs and the closure of RedfinNow.

Of the five RedfinNow homes we still own, all are under contract to sell by June. Another reason for optimism about share is traffic to Redfin.com, which is taking visitors from online rivals and now converting more of those visitors into customers who meet our agents. ComScore, which lets us compare Redfin's online visitors to those visiting other sites, reported a 4% first quarter increase for Redfin compared to a 17% decline for Realtor.com and a 4% decline for Zillow.

As a further point of comparison, Google searches on homes for sale declined 20% in the first quarter. This tells us that though there are fewer people looking online, a higher proportion are using Redfin. Over the last half of 2022, we had an advantage against Realtor, not Zillow, but for the time being, at least, we seem to be competing well against both. These traffic gains should produce more sales. The fraction of our online visits that lead to an agent inquiry had been declining since last spring, but that trend reversed in March 2023 after we increased the pace of online optimization to drive demand.

We also redesigned our website and mobile applications to promote Redfin Premier service to luxury homebuyers. This redesign launched on February 15, and since then the growth rate in luxury inquiries to buy a home has been significantly higher than growth in overall demand. This gives us confidence that we can increase demand more broadly through similar design improvements, highlighting the top producing agents, on-demand service and low fee of our standard service.

Our website and mobile applications are the most immediate source of new customers, but the long-term arbiter of our success is the quality of our service which depends in turn on retaining and recruiting the best agents.

To that end, we're focusing more of our resources on the salespeople who directly serve our customers. On April 11th, we laid off approximately 200 employees, mostly in the brokerage's support organization. From June 30, 2022 to April 30, 2023, the ratio of brokerage managers to lead agents declined by 28%, the ratio of support staff to lead agents declined by 15%, and the ratio of trainers to lead agents declined by 55%.

By eliminating our photography department in favor of vendors, we also project that we'll reduce our cost to photograph a listing by 17%. In aggregate for 2023, these structural changes should reduce our cost to close the transaction by 5% or even 10%, excluding the money

spent on our lead agents and on the contractor network of associate agents for hosting tours and open houses.

Coupling these cost reductions with increases in revenue per transaction will improve real estate services profitability this year and long-term. Because it can take months to close on a home, especially if it's still being built, it won't be until the summer that we get the full benefit of our December 1, 2022 decision to eliminate the commission refund we once offered homebuyers.

Another way to increase revenue per brokerage transaction is by more narrowly focusing our agents on the transactions that drive the most profits, leaving the rest for partners. This is part of a larger strategic shift toward revenues with a digital margin, where Redfin doesn't bear many personnel costs. Redfin.com routed 40% of customers' first quarter requests for service to our partner agents compared to 39% in the first quarter of 2022. Since we usually shift demand to partners in a boom not a bust, a small shift toward partners now should get much bigger as the market recovers. This shift will improve Redfin's corporate income and, we hope, our agents' personal income. Already among the U.S.'s top 20 largest brokers, Redfin rose from number four in agent retention in the fourth quarter of 2022 to number two in the first quarter of 2023. What makes this comparison especially impressive is that at times about 20% of the Redfin agents who leave are asked to do so for performance reasons, which is unheard of at many traditional brokers.

And even though we've mostly stopped hiring agents until the housing market recovers, we've launched a new program to hire at least 50 experienced agents over the course of 2023, each with 20 or more sales in the last two years or 50 lifetime sales. Learning how to compete for the most sought-after salespeople in our industry can, in future years, let us hire hundreds of agents who can quickly drive profits.

As of May 1st, we've hired 39 agents at this level of seniority. The increasing quality of our sales force is one reason that, for the fourth quarter in a row, we've had year-over-year gains in customer retention. Of the Redfin customers who started with Redfin in the fourth quarter of 2022 and went on to buy a home, we project that about one in three stuck with Redfin for the purchase, when a year before that number had been closer to one in four. The sales impact of this service improvement has been offset by market-driven factors, like longer sales cycles and more customers who have had to give up their home search due to high rates. But customer retention is the best measure we have of improving sales execution in a deteriorating market. These gains should improve gross margins as the market stabilizes.

Our first quarter sales execution improved on one other crucial front, the rate at which our brokerage homebuyers use Bay Equity for a mortgage increased from 17% in the fourth quarter of 2022 to 20% in the first quarter of 2023. Attach rates have now increased in three out of the last four quarters. What's even more encouraging is Bay Equity's improving margins. From the fourth quarter of 2022 to the first quarter of 2023, gross margins improved from negative 9% to 20%, and net income improved from negative \$12 million to negative \$1 million, when all of these measures had declined from quarter to quarter throughout the 2022 downturn.

Part of the reason for improving profits is Bay Equity's expense reductions, carried out every quarter since the acquisition closed on April 4th. More recently, competition has started to ease, especially from mid-market banks, which can no longer afford to offer jumbo loans at a loss in order to acquire high net worth customers. We expect Bay Equity to earn full year net income in 2023 and to become a major source of profits in future years. Our title business has had similar improvements, with year-over-year revenue growth of 51% in the first quarter and rising margin.

Our larger ambition is to increase the gross profit we earn from each online visit to our websites and mobile applications. This depends not only on improving monetization from Redfin's brokerage customers, but also on building new digital businesses. In the past year, we've launched ads on Redfin.com and built a mortgage marketplace for Redfin.com visitors to meet direct to consumer lenders. These new digital businesses doubled year-over-year, albeit off a still small base. The centerpiece of our strategy to improve online monetization is Rent, which in the fourth quarter of 2022, had its first quarter of year-over-year revenue growth since 2012. That year-over-year growth accelerated from 5% in the fourth quarter of 2022 to 13% in the first quarter of 2023.

We now anticipate second quarter revenues to grow at a rate between 18% and 20%. Revenue gains can be slow to reflect the value of new, longer-term contracts, so the best measure of our sales momentum is net bookings, which are the annualized revenues Rent added through sales to new customers, less the annualized revenues lost from departing customers.

From the fourth quarter of 2022 to the first quarter of 2023, net bookings increased 18%. In the years spanning the first quarter of 2022 to the first quarter of 2023, net bookings grew by a factor of 10. We expect sales to keep growing on the strength of products for property managers to market their communities on Google, Facebook, and TikTok, but also because a new partnership with Realtor.com has broadened the reach of our own marketplace.

Our rental listings went live February 28th on Realtor.com. According to ComScore data, our March rentals traffic was 39% higher than it would have been without Realtor.com. Realtor.com's rentals audience was already well-established from its long co-star partnership, which ended in 2022. The Rent partnership with Realtor.com should increase sales as our property management customers have expressed early excitement about accessing a broader audience. Surfacing listings from rent onto Redfin.com has already increased the average number of online visits we can deliver to a customer's listing. Even without Realtor.com's contribution, Rent and Redfin together grew rental traffic 29% from the fourth quarter of 2022 to the first quarter of 2023 per ComScore data. This was faster growth than any major listings marketplace.

As Rent revenues accelerate through 2023, we expect the losses from the rental segment to narrow in each of the next three quarters, leading to positive adjusted EBITDA for the rental segment in the fourth quarter of 2023.

Before I turn the call over to Chris, let's discuss the housing market. When we last spoke, we said that sales volume would decline significantly from 5.0 million existing home sales in 2022 to 4.3 million in 2023, but that prices would hardly decline at all. Our overall outlook is unchanged.

In March, sales volume fell 22% year-over-year to an annualized rate of 4.4 million existing home sales, and the median home price dropped only 3%. Inventory increased by about 5% compared to the calamitously low levels of March 2022, but is at roughly two-thirds the levels from this time of year in 2016, 2017, 2018, and 2019. Homeowners have been careful about giving up a 30-year mortgage below 3%. Some couldn't afford to buy the home they live in now, let alone a larger home. Others don't want to sell when so few homes are available to buy.

One of Redfin's LA customers delisted her home after getting a full-priced offer because she couldn't find another home to buy. Low inventory begets low inventory. The unsurprising result is that sales are slow and bidding wars are still common in many parts of the country, especially the southeast. Demand from both buyers and sellers modestly improved in April, but most of this is seasonal. Our experience from past housing downturns is that the public usually sours on housing altogether. But this time around, it seems that folks still want to move. Demand for affordable turnkey homes is the one constant in the U.S. housing market. If rates ease by late in the year without causing a recession, we may see a break in the stalemate between buyers and sellers.

One of our Boise agents, Shauna Pendleton, said that if rates end one week down, buyers come out of the woodwork. If rates tick up the next week, buyers just disappear. Right now, there's no seasonality, Shauna said. All activity is based on rates.

Redfin isn't planning for a second spring in the fall, especially since bank failures, the debt ceiling, and consumer confidence are this economy's lions, tigers, and bears. But it's common now for our managers to talk to their teams about being ready for a rebound whenever it may come. Whereas in the winter, we were mostly gnawing on bones

and worrying about our survival. It's good to be alive. It will be even better to go back on the attack, leaner, hungrier, and in many ways, better than ever.

Take it away, Chris.

Christopher Nielsen Redfin Corporation - CFO

Thanks, Glenn. First quarter financial results were better than we planned, giving us confidence we've taken the right steps in what continues to be a choppy housing market. First quarter revenue was \$326 million, down 45% from a year ago. Total gross profit was \$56 million, down 23% year-over-year, with total gross margins of 17.3%. I'm going to walk through results by segment before turning back to

consolidated results in second quarter guidance.

Real estate services revenue, which includes our brokerage and partner businesses, generated \$127 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 31% decrease in brokerage transactions and a 3% increase in brokerage revenue per transaction. With the elimination of our home buyer commission refund, more than offsetting an 8% decrease in average home prices for brokerage transactions.

Revenue from our partners decreased 14% on a 7% decrease in transactions and mix shift to lower value houses. Partner transactions represented 24% of total real estate services transactions in the quarter, up from 19% in the first quarter of 2022. The mix shift towards partners is impacted by increased collections from partners. Without this, partner transactions would have represented 21% of the total and market share would have declined three basis points compared to the first quarter of 2022.

Real estate services gross margin was 12.4%, down 100 basis points year-over-year. This was driven by a 230 basis point increase in costs from our in-person company event, offset by a 130 basis point decrease in personnel costs and transaction bonuses. We've already made several changes to the business that will result in improved profitability as we move through 2023, including eliminating the refund we provide to home buyers and right sizing the business to match brokerage staff with demand.

Beyond the layoffs previously announced in June and November of 2022, we laid off an additional 200 employees in April 2023, which represented 4% of total employees. The April layoff obviously did not have an impact on first quarter results, but reflects our commitment to running the business for full year profitability.

Total net loss for real estate services in the first quarter was \$58 million, down from a net loss of \$57 million in the prior year. And adjusted EBITDA loss was \$44 million, down from \$43 million in the prior year. The decrease was primarily attributable to lower revenue and gross margins, partially offset by \$7 million year-over-year decrease in operating expenses.

The properties segment, which consists primarily of homes sold through RedfinNow, generated \$113 million in revenue, down 70% year-over-year, as we're winding down this segment. Gross profit losses were \$2 million, slightly below our guidance of flat gross profits.

Total net loss was \$3 million, and adjusted EBITDA loss was \$3 million. We're making excellent progress on the wind down of RedfinNow. As of the first week in May, we have just five homes remaining in inventory and all are under contract to sell. As Glenn mentioned, we've been applying excess cash from the sale of RedfinNow inventory to reduce our convertible debt.

During the first quarter, we reduced the aggregate principal amount on our 2025 convertible notes from \$519 million to \$367 million. Another step on our path to profitability is momentum in our rentals and mortgage businesses, and we're pleased with the progress we made in the first quarter.

Rentals posted double-digit revenue growth of 13% with revenue of \$43 million. Total net loss for rentals is \$23 million, slightly worse than the net loss of \$18 million in the prior year, as higher gross profit was offset by higher operating expenses. Total adjusted EBITDA for the first quarter was negative \$10 million, and we still expect our rentals business to generate positive adjusted EBITDA by the fourth quarter of 2023. Our mortgage segment generated \$36 million in revenue in the first quarter, compared to \$3 million in the prior year.

The increase was due to the acquisition of Bay Equity, which occurred last April. This result was better than our guidance range of \$29 million to \$32 million. Mortgage gross margin was 19.9%, up from a negative 89.1% a year ago. The improvement reflects the performance of Bay Equity in contrast to our legacy mortgage business, as well as stabilizing fundamentals in the mortgage industry.

Total net loss for mortgage was \$1 million, and total adjusted EBITDA was \$1 million. There's still a long way to go to get back to a normalized environment, but it's reassuring to see the great work the team has done increasing attach rates and aggressively scaling the business, having an impact on bottom line results. The second segment that generated positive adjusted EBITDA in the first quarter was our other segment. This segment includes title, digital revenue, and other services. The segment generated revenue of \$7 million in the first quarter, compared to \$4 million in the prior year as both our title segment and display ads business grew.

Other segment gross margin was 26.3%, up from a negative 6.9% a year ago. Total net loss was \$0.2 million, compared to a net loss of \$2 million in the prior year. And adjusted EBITDA was positive \$0.4 million, compared to a negative \$1.5 million in the prior year.

Turning back to consolidated results, total operating expenses were \$160 million, up \$2.5 million year-over-year. Bay Equity which we acquired last April contributed \$8 million. Excluding this, operating expenses decreased by \$6 million year-over-year. The decrease was primarily attributable to \$4.5 million in lower personnel expenses, \$3.7 million in lower marketing expenses, and \$4.7 million in lower restructuring expenses.

These reductions were offset by \$5.9 million in costs associated with the in-person company event, which we held in the first quarter of 2023, but did not hold in 2022, and do not expect to hold next year. Total net loss for Redfin of \$61 million beat the better end of our \$116 million to \$105 million guidance range.

Net loss includes a \$42 million gain on the extinguishment of notes, and only \$7 million of this was anticipated in our guidance. Our adjusted EBITDA of negative \$67 million was better than the high end of our negative \$84 million to negative \$73 million guidance range. Diluted loss per share attributable to common stock was \$0.55 compared with diluted loss per share attributable to common stock of \$0.86 one year ago.

Now turning to our financial expectations for the second quarter of 2023. We expect total revenue between \$268 million and \$281 million, representing a year-over-year decline between 24% and 20% compared to the second quarter of 2022. Included within total revenue are real estate services revenue between \$175 million and \$183 million, rentals revenue between \$45 million and \$46 million, mortgage revenue between \$38 million and \$41 million, and other revenue between \$10 million and \$11 million. We expect to report our properties segment as discontinued operations in the second quarter, and these results are not included in total revenue. It's also worth noting that real estate services revenue includes \$5 million in concierge revenue, a new activity within our brokerage business that helps customers fix up their home prior to listing.

This offering attracts listing customers and adds incremental revenue per transaction, but has low incremental gross margins. As such, we expect concierge activity to be a 2.0% tailwind on real estate services revenue growth in the second quarter and a 100 basis point headwind on gross margins. Even with this headwind, we still expect real estate services gross margins to increase by 100 to 250 basis points as compared with the second quarter of 2022.

Total net loss is expected to be between \$44 million and \$35 million compared to a net loss of \$78 million in the second quarter of 2022. Discontinued operations are included in net loss, but are expected to have no impact on the total. This guidance includes approximately \$31 million in total marketing expenses, down from \$57 million in the second quarter of 2022. The decrease reflects our decision to pull back on the mass media campaign that typically runs in the first half of the year.

Our guidance also includes \$17 million of stock-based compensation, \$17 million of depreciation and amortization, \$5 million in restructuring expenses, and \$4 million of gains on extinguishment of convertible senior notes. The gain assumption reflects the repurchase of \$17 million of convertible notes already completed in the second quarter.

Adjusted EBITDA is expected to be between negative \$9 million and positive \$1 million compared to adjusted EBITDA of negative \$29 million in the second quarter of 2022. Furthermore, we expect to pay a quarterly dividend of 30,640 shares of common stock to a preferred stockholder. The guidance assumes, among other things, that no additional business acquisitions, investments, restructurings, convertible note or stock repurchases, or legal settlements are concluded, and that there are no further revisions to stock-based compensation estimates. And with that, let's open the lines for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now conduct a question-and-answer session. (Operator Instructions) Our first question comes from John Campbell with Stephens. Please proceed.

John Robert Campbell Stephens Inc., Research Division - MD & Research Analyst

I know on the market share, I mean, we're just talking single debt, so it's kind of splitting hairs to some degree. But in 4Q, or excuse me, in this quarter, I mean, you actually declined share at a little bit lower rate than you did last quarter. That's despite having 7% less lead agents. It sounds like the elimination of the rebate was probably a pretty big driver there. Was there anything else you'd call out for the better underlying results, at least, you know, relative to last quarter?

Glenn Kelman Redfin Corporation - President, CEO & Director

RedfinNow would be the other factor, John. So I'm not sure how much the price increase affected demand. We've tested that, and it hasn't had a major impact, maybe on returning customers, but not on new customers. RedfinNow, when it could offer near market value, instantly drove many listing inquiries. And now that we're not offering that on our site, we don't have as much listing demand. It's been hard to replace that. And even when we have an open door partnership, the offers just aren't as compelling because the cost of capital is priced into those offers, and consumers don't respond. You should just remember that most of the people who asked for an immediate cash offer ended up listing their home. So this was a great way to meet homeowners, but it doesn't work in a non-zero rate environment.

John Robert Campbell Stephens Inc., Research Division - MD & Research Analyst

Makes sense. And then on the EBITDA profitability goal this year, obviously, everybody's paying close attention to that. So for 1Q, obviously, a \$67 million loss here. And then on the guide, you're assuming roughly flat. Even if you do a little bit better than that, you've got a pretty big hole to fill in the back half. If you look back at the second half of 2020, you actually put up that kind of EBITDA gain. So it's not -- it doesn't feel like too much of a stretch. But Glenn or Chris, whichever one of you guys want to take this, you guys have talked to some detailed bridge work in the past. I'm hoping we might be able to revisit that if you guys can kind of unpack what you're expecting in the back half.

Glenn Kelman Redfin Corporation - President, CEO & Director

Why don't I start, Chris, and then you can follow? So first of all, it's a seasonal business. We have front-loaded costs and back-loaded revenues. We pay agents to host tours with customers. We pay for marketing campaigns. Then those customers close in the summer. So that's part of it.

But the other part is that unlike in 2020, we now have these two other businesses, rent and Bay Equity, both of which are rapidly improving their profitability. So we expect rent profits to improve every single quarter over the course of the year. And we have the same expectation with Bay Equity. Bay Equity has already demonstrated that progress from the fourth quarter of 2022 to the first quarter of 2023. So if you couple that with the fact that we're going to start improving revenues in our core business at a higher gross margin and we get the full benefit of some cost reductions that extended through April of this year, there's a lot of leverage in the back half of 2023. We haven't put a number out there that we've missed. This one is a doozy, but we feel good.

Christopher Nielsen Redfin Corporation - CFO

I'd maybe add just two more comments there. We do think we'll continue to see the other revenue segment come on during the course of the year, including Title, which is expanding its service. And we're really pleased with the progress made on display advertising. Those are relatively small revenue dollars, but from a profitability standpoint. And then beyond that, it's also typically the case that operating expenses in the form of marketing expenses fall during the course of the year because it's just less valuable to advertise in the second half than it is in the first half. So lots of work to do, but feel good about the efforts and how we have things set up.

Operator

The next question comes from Ygal Arounian with Citigroup. Please proceed.

Ygal Arounian Citigroup Inc. Exchange Research - Research Analyst

First question, Glenn, to follow up on the macro a little bit. You talked about the seasonality. I think the way you phrased it is you're not really seeing regular seasonality. It just depends on rates. At the same time, prices aren't dropping. So it sounds like really the only swing factor that gets the market to open up again is lower rates. Is that how you're seeing it? Do you think there's other things that can get the market moving a little bit more? Is it really just from here on out until rates come back closer to where everyone's locked in right now? Is that the only thing that can open up the market? And are you guys seeing any impacts from some of the issues of the regional banks having a harder time getting mortgages?

Glenn Kelman Redfin Corporation - President, CEO & Director

No. That bad news is good news for us, both because -- sorry, there's an echo. But that bad news is good news for us mostly because we have less competition for jumbo loans, and it also encourages the Fed to just go easy on interest rate increases. But having said that, we have factored into our business the assumption that there will be 4.3 million existing homes sold in the United States this year, which is a conservative assumption. It's about the same number of homes that were sold at the bottom of the great financial crisis when the population was 10% smaller.

So, we don't need the housing market to get better. When it does, and at some point it will as the Fed steps back from these rate increases, we have tremendous leverage. As we get more revenues, we'll hold our costs steady, and we'll have a more efficient real estate operation. So, it should fall to the bottom line. But it's rate, rate, rate.

Ygal Arounian Citigroup Inc. Exchange Research - Research Analyst

Right. As expected. And more within your control. So, right then, now, when the whole buying proposal was something that you just talked about, drove demand, and now it's not there, and that's been a little bit of a headwind for you guys. Do you think about ways to offset that, something you can plug in place to drive demand? Again, you talked about improvements in the site and share gains from these competitors. How do we kind of supplant what we've lost there? Is there anything you can do, or just kind of have to work with what you have? Thank you.

Glenn Kelman Redfin Corporation - President, CEO & Director

I wouldn't characterize the loss of RedfinNow demand as massive. It's a significant factor. We'll be glad when we're a year out from that, because there are just so many ways that cheap capital subsidized demand creation for new real estate companies. And the fundamental way that we want to create demand is just by offering consumers a better deal. Listing a home for a 1% fee and really explaining to consumers that we sell that property for more money, that we're more likely to sell it than traditional brokers, that we sell it faster than our competition. That's the case that we have to make. And every real estate portal, whether it's Realtor.com or Zillow or Redfin, has always had more traffic from buyers than sellers. So, our other challenge is just to make sure that when we meet somebody who wants to tour a property, that we figure out if they have a home to sell and that we execute well on the entire customer relationship, not just the opening transaction.

So, my guess is that we'll continue taking share because we just have a fundamentally better proposition, better results for a lower price. And we just need to make that case better on our site. It was so easy to sell a cash offer. It's harder to explain the 1% fee because people worry about the trade-offs. And we're just going to get better and better at that. We've already seen this improvement in conversion after months of decline in March of 2023. And we've also seen that when we started marketing to luxury customers, there was an increase in home buyer demand from that segment too. So, I know we can do it.

Operator

(Operator Instructions) Our next question comes from Curtis Nagle with Bank of America. Please proceed.

Curtis Smyser Nagle BofA Securities, Research Division - VP

Great. Thanks very much. So, the first one, I'm just kind of curious about the luxury business. It sounds like that's going pretty well. I think that's a pretty competitive and fairly entrenched business in terms of existing brokerages. So, I guess, what specifically in terms of, I guess, the service levels or maybe the marketing is driving that progress? And what is the threshold in terms of, I guess, defining luxury homes in terms of price point?

Glenn Kelman Redfin Corporation - President, CEO & Director

Well, the threshold varies by market. So, a million-dollar home is a middle-class home in San Francisco, whereas in South Carolina, it can be a mansion. But generally, you should think about a million and up as a good boundary for most of America. And I wouldn't say it's going well. I would say that we have encouraging early data that we can drive more demand from luxury buyers. And the reason I say that is that we're just at the beginning. We haven't really made our case. There are other very entrenched brands who have far more equity with luxury home buyers. But the case that we're making is that we have some amazing agents, and we've taken the best of the best. Already, there are more top producers at Redfin on a population-adjusted basis than any other brokerage. We've taken the best of those agents, the ones who have the most luxury experience, and given them special branding on our site. That site gets 50 million visitors. So, many consumers who came to our site with a luxury home to buy or sell just naturally assumed that Redfin wasn't for them. And simply raising our hand and saying, we want this business, we have an agent who sold homes at this price point in these neighborhoods, has made a difference. And it should be no surprise. But to think that we're going to become Sotheby's overnight, that isn't our ambition. There are big incumbent brands who trade just on name. They're on defense. We're on offense, and we're going to go get them. And we're going to spend the next 10, 20 years trying to take share. That's a good place for us to be in.

Curtis Smyser Nagle BofA Securities, Research Division - VP

Okay. And then, Glenn, just another follow-up for you. I'm curious just how, I guess, the continued inventory crunches have factored into assumptions for home volumes for the back half of the year and your EBITDA targets. I guess any concern that once we get past the spring selling season, demand may fall off again, or do you think that just because unrealized demand is so high and, I don't know, maybe rates start to fall, that that should be an offset? How should we think about that?

Glenn Kelman Redfin Corporation - President, CEO & Director

Well, there are puts and takes there. First of all, we have assumed that there will still be a seasonal decline in the back half of the year in home buying demand. That's what typically happens. Seasonal patterns have been disrupted for so long during the pandemic that we've had to baseline 2019 to 2023. And that makes the analysis more speculative. But I think there are several factors to consider. The first is that people just haven't soured on real estate the way that they did in 2008. I was here then. People just didn't want to hear about housing. There is still, in 2023, a deep appetite to move. There are so many people who want to move to a more affordable part of the country. That is unfinished business in America.

And there is this demographic bump from millennials and just prevailing interest in looking at pretty houses. So that feels really different. And then the other factor is just talking to our agents. Some were in the office today for a Seattle City meeting, and they've just met so many customers who say, I'm going to sit it out right now. I have no real sense of urgency. If rates come down, I want to move. Call me then. Maybe that will happen in the back half of 2023. Maybe it will happen next year.

But it's going to happen at some point. And until then, we're going to plan on lower volumes. 4.3 million units is based on this crude assumption that shelter is one of the three fundamental human needs. And that is kind of the bare bones number of people who will move in the United States this year.

Operator

Our next question comes from Ryan McKeveny with Zelman & Associates. Please proceed.

Ryan McKeveny Zelman & Associates LLC - MD

Sorry if I missed some of the detail about this, but I wanted to dig in a little on the real estate service revenue guidance. I think the midpoint of guidance is down 29% year-over-year versus 1Q down 28%. And I know the macro is uncertain, but I think there's at least some indications that year-over-year declines will probably lessen for the industry in total in 2Q versus 1Q. So I'm hoping you could maybe unpack the trends that you're expecting. And I'm sure there's moving pieces, but is the increase in waiting to partner business driving some of that? Is it the listing headwinds you talked about or geographic mix or the market generally? Yes, just hoping you can maybe unpack that a bit.

Christopher Nielsen Redfin Corporation - CFO

Sure. So the way we set our guidance is based on what we can see in terms of revenue bookings into the first month of the quarter, the second month of the quarter. And then as you can imagine, we have less visibility into the last month of that quarter. And so it's always a little difficult for us to tell what's happening in the broader market over that same period of time. But what you see in our guidance is what we think the whole picture will look like. And I do think that you were mentioning that their expectations of second quarter looks a lot better than the first quarter in terms of overall housing volume. I'm not sure we've seen a lot of evidence of that for all the reasons that Glenn just mentioned. And so we haven't made a specific assumption about market conditions, but what you see reflected in the guidance is what we've seen in terms of bookings.

Glenn Kelman Redfin Corporation - President, CEO & Director

And I could add just one piece of color there, Ryan.

Ryan McKeveny Zelman & Associates LLC - MD

Sure.

Glenn Kelman Redfin Corporation - President, CEO & Director

January demand was really strong because rates were close to 6%. And then February and March demand was much weaker. And this isn't just at Redfin. This has to be industry-wide. And if you just do the math around the length of the sales cycle, it's just hard to imagine that at least the first two months of Q2 are going to be boom months because that's when people were first adjusting to rates ticking back up into the seventh.

Ryan McKeveny Zelman & Associates LLC - MD

Yes. No, that's helpful commentary, Glenn. That makes sense. I guess maybe one other question just tying to the mortgage side of things. Given the share you guys have within California and some of the West Coast markets, I guess just any turbulence you're seeing with your customers due to some of the banking dynamics and as there is some of this turmoil in the regional banks, is that potentially helping Bay equity capture some business that maybe otherwise would have gone to a First Republic as an example to get a mortgage? Any commentary there?

Glenn Kelman Redfin Corporation - President, CEO & Director

It's been an advantage for us that First Republic isn't issuing loans at a loss in order to acquire high net worth customers. But there's still so many bigger banks who covet those high net worth customers. The competition for jumbo business is savage. We've gotten more sharp elbowed about it, which will put some pressure on margin for that product. But we want to compete on rate because the loan officers at Bay Equity don't have to work quite as much to meet those customers. And that sales and marketing cost savings should be passed on to the consumer.

Operator

Thank you. There are no further questions in queue at this time. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a great day.

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