

THE DISRUPTORS: UPSTARTS OR STALWARTS?

Which new business models should be on your radar in 2018? These have the biggest potential to disrupt the status quo and capture market share from REALTORS®.

By Amber Taufen

The real estate market is an appealing target for entrepreneurs who see an opportunity to try something new and wrest market share away from the current big players. So it's no surprise that there's a host of upstart business models emerging in the past decade, hoping to capture enough consumer attention to become the next big thing in real estate.

If this sounds like a recipe for disaster for the traditional real estate business models, then talk to those REALTORS® who have been in the industry for some time — they've seen other "next big things" come and go, and they're still around to usher transactions to the closing line. That said, those REALTORS® can also explain that their longevity is partly due to paying close attention to new and different competitors in the market. Skilled real estate agents and brokers who know what the competition has to offer and are willing to adapt their practices accordingly will be able to differentiate themselves and have a greater chance of outlasting the next big thing. But agents and brokers who don't pay attention, who aren't willing to change, and who don't possess some critical skills may find themselves left in the dust.



Illustration By Peter Sucheski

	Compass	eXp Realty	GoldenKey
<p>THE PITCH</p>	<p>Compass is a luxury real estate brokerage startup that leverages technology built in-house. Its focus on developing proprietary platforms has given Compass a foothold with investors. To date, Compass has captured more than \$800 million in investment funding and is valued at \$1.8 billion.</p>	<p>The eXp Realty model relies heavily on technology. It's a licensed brokerage, with a twist: It's cloud-based, so no central offices. Agents meet in the virtual office online to network, and the brokerage does not charge typical brokerage fees. eXp claims that its agents keep between 80 and 100 percent of their sales commissions.</p>	<p>After beginning its life as SoloPro and then rebranding, GoldenKey has gone through several iterations of its business model. Currently it serves as a point of contact between sellers and investors. When an unrepresented seller decides to accept an offer, GoldenKey connects the seller with a listing agent. The process is free for sellers and agents, but investors pay a fee to access the GoldenKey platform.</p>
<p>GPS</p>	<p>Aspen, Boston, Chicago, the Hamptons, Los Angeles, Orange County, Miami-Fort Lauderdale, New York City, San Francisco Bay Area, Santa Barbara-Montecito, Washington, D.C.</p>	<p>47 states nationwide; eXp recently hired several established top-producing agents in the San Diego market.</p>	<p>North Carolina</p>
<p>WHAT'S DIFFERENT FOR CLIENTS?</p>	<p>The proprietary technology Compass offers helps agents market home listings to specific buyer audiences. Compass also offers two apps for the iPhone: One a search portal and the other a market trends platform that allows users to generate local real estate market reports.</p>	<p>Not having a physical office to visit is probably the biggest change from a traditional brokerage.</p>	<p>GoldenKey does not currently work with buyers (except investors). For sellers, controlling the sales price and process can be a big advantage. Consumers still work with an agent to help manage the transaction.</p>
<p>WHAT'S DIFFERENT FOR REALTORS®?</p>	<p>Agents who join Compass have access to built-in-house technology, including proprietary marketing materials that can help capture leads; transaction management software; and more. Compass has also been known to pay signing bonuses to top agents in new markets during expansion, enticing them to leave their current brokerages.</p>	<p>Eliminating overhead means eXp agents share less of their commissions with their broker. Not having a central office can be detrimental for less-experienced agents who may benefit from training, coaching, or one-on-one agent-broker time. eXp makes resources available for agents who need support.</p>	<p>Previously an a la carte service provider, GoldenKey now works with listing agents to close the transaction between sellers and investors/buyers. Listing agents upload a client's home to the GoldenKey platform for free and receive their full commission upon closing. It does not accept homes that have been listed on the MLS. Agents must submit potential listings to GoldenKey prior to listing them on the MLS if they want to use the platform.</p>
<p>INDUSTRY IMPACT</p>	<p>Although Compass did manage to capture several top agents when it first expanded to the Los Angeles and San Francisco markets, those agents didn't remain at the brokerage beyond their contracted periods - several of them returned to their previous brokerages. Compass's focus is heavily concentrated on technology, so its ability to dominate the market will rely on the quality of its platforms and the ability of its agents to adopt its technology.</p>	<p>Do you really need a brokerage office to conduct your real estate business in 2018? That's the question eXp is asking. Its industry impact will be measured by the number of agents who agree that a central office has become a luxury and not a necessity.</p>	<p>Yet to expand beyond North Carolina, GoldenKey's latest "pivot" signifies that the company's executives see more promise in acting as a "connector" between agents, consumers, and investors than as a direct participant in the sales process.</p>

Houwzer	Knock	Offerpad
<p>Houwzer is a startup, full-service, fee-for-service brokerage founded in 2015. Instead of paying an agent's commission on the sales price of a home, sellers pay a flat fee of \$495 and are also responsible for paying the buyer's agent's commission. All agents at Houwzer are salaried, and buyer's agents at the company collect a 3-percent commission on the sales they help transact. The company relies on word-of-mouth/social currency from past clients and the opportunity to represent buyers to make its money. The company has secured more than \$2 million in startup funding.</p>	<p>Knock is an online home-trading platform. Active since 2015, it allows homeowners to sell their homes directly to Knock. It recently launched a trade-in program for sellers where Knock pays all cash for the move-up property, implements any needed repairs, then sells it to the trade-in client in exchange for the client's current home. Knock charges 6 percent for its services to sellers, plus the cost of any repairs, which can be paid upfront by a seller or settled at closing.</p>	<p>Homeowners can sell their homes directly to Offerpad for a fee that ranges between 6 and 9 percent of the sales price. Offerpad pays closing costs. Founded in 2015, Offerpad has captured enough investor attention to raise \$260 million in funding.</p>
<p>Philadelphia and Southern New Jersey</p>	<p>Atlanta, with plans to expand to 10 new cities, including Los Angeles and San Diego by the end of 2019.</p>	<p>Atlanta, Charlotte (North Carolina), Las Vegas, Los Angeles, Orlando, Phoenix, Salt Lake City, Tampa</p>
<p>Buyers and sellers pay flat fees for services instead of a commission. Houwzer also works with a number of new construction partners in its operating markets, giving consumers access to new homes in addition to existing ones.</p>	<p>Knock guarantees sellers will capture the full market rate for their home. Sellers pay a 6-percent commission rate and can control the transaction timeline. Under the recently launched trade-in program, Knock pays all cash for the seller's desired move-in home, manages repairs to both properties, and rolls the repairs into the mortgage for the seller. Buyers can purchase homes directly from Knock.</p>	<p>Sellers can request an offer from Offerpad and sell their home directly to the company. This gives sellers with a reason to rush a powerful incentive to use the platform. Buyers also can purchase homes from the company.</p>
<p>Houwzer's agents are salaried and the company provides them with streamlined transaction processes to make the transaction more efficient.</p>	<p>Knock doesn't work with listing agents unless the seller wants to pay the listing agent's fee in addition to the 6-percent Knock fee. If the seller does not, Knock requires them to terminate any current listing agreements before listing with them. The company works with buyer's agents and pays them a 3-percent commission for bringing qualified buyers to Knock properties.</p>	<p>Agents receive a 1-percent referral fee for unlisted homes, and Offerpad connects partner agents in its "agent-on-demand" program with buyers for a 1-percent commission. If a home doesn't meet Offerpad's purchase criteria, it will refer the listings to partner agents.</p>
<p>Houwzer's reliance on word-of-mouth and social-proof marketing in lieu of traditional marketing methods and its dependence on buyer clients to capture the 3-percent commission are two factors that could cause the model to flourish or to flop in different markets.</p>	<p>Investors are big fans of these "iBuyer" - business models that offer faster, more streamlined transactions by buying and selling homes in-house. In markets where inventory is tight, home prices increase monthly, and home improvements can yield relatively high returns on investment, these business models can conceivably make money. For sellers whose homes conform to the parameters, this can be a convenient way to sell.</p>	<p>The amount of investor interest shown in Offerpad signifies quite a bit of promise in this business model. However, Offerpad carries a big risk: The housing inventory it purchases. If it can sell that inventory at enough of a price increase to make a profit, then there's nothing to worry about. But if the market turns before they can repair and resell the home, then Offerpad could be left with housing stock and no buyers.</p>

	Opendoor	Open Listings	Purplebricks
THE PITCH	Opendoor offers sellers the ability to pick their closing date and sell their home in a matter of days. It offers buyers on-demand home tours and a guarantee on Opendoor homes allowing them to “return” a home if they aren’t satisfied. Opendoor has raised almost \$320 million in funding since it was founded in 2014.	Open Listings is an online brokerage offering a commission refund to clients. It touts its technology as a consumer benefit, using a team model to make transactions more efficient. It works with buyer’s agents, allowing them to submit offers online and collect a 2.5 to 3-percent commission. When the transaction closes, Open Listings refunds buyers 50 percent of the commission. It’s raised more than \$7 million in funding from investors.	Purplebricks first launched in the U.K. and Australia as a discount brokerage, and expanded to the U.S. in 2017. It lists homes for sellers for a flat fee of \$3,200. Sellers are responsible for paying the buyer’s agent’s commission. The company gives buyers \$1,000 toward closing costs.
GPS	Phoenix; Dallas-Fort Worth; Las Vegas; Atlanta	California and Washington	Los Angeles and soon launching in San Diego, Fresno, and Sacramento.
WHAT’S DIFFERENT FOR CLIENTS?	Buyers can tour Opendoor properties at any time without scheduling an appointment. It gives buyers a 30-day satisfaction guarantee under which Opendoor will buy back the home (subject to certain conditions). Buyers working with an outside buyer’s agent pay the buyer’s agent’s commission; buyers working directly with Opendoor pay no service fee. Sellers can request an offer directly from Opendoor and sell their home directly to the company for a fee that ranges between 6.7 and 12 percent of the home’s sales price.	Open Listings does not currently work with sellers. Buyers can use the company website to search for and buy a home online, submitting their financial documentation and offers via Open Listings’ digital platform.	Homeowners who sell with Purplebricks pay a service fee plus the buyer’s agent’s commission. They are assigned a “Local Real Estate Expert” to manage the sale. Buyers receive \$1,000 back from Purplebricks for closing costs. * *Please note that a previous version incorrectly stated that buyers who use the company’s “Local Real Estate Experts” to represent them pay the traditional buyer’s agent’s commission. Buyers do not pay any fees to use the experts.
WHAT’S DIFFERENT FOR REALTORS®?	Buyer’s agents negotiate with the company directly. They are paid the agreed-upon commission at closing. Listing agreements are also honored when listing agents have clients who sell a home to Opendoor. The company offers a 1-percent referral fee for agents who refer listing clients, but don’t represent the clients themselves.	Open Listings uses a team model and agents can use the company as their “home” brokerage or partner with them to earn extra money. They’ll be responsible for one segment of the transaction, whether as a “showing agent” who gives buyers home tours or as a “partner agent” who works with buyers once they’re ready to submit an offer.	The company pays agents a portion of the buyer’s agent’s commission on the buy side or a portion of the \$3,200 listing fee for listing agents. Agents representing buyers on a Purplebricks listing receive their traditional buyer’s agent’s commission.
INDUSTRY IMPACT	Opendoor has collected a significant amount of investor money and has expanded strategically and relatively quickly to new markets. Because Opendoor buys and sells housing inventory directly, it’s potentially more at financial risk during market downturns, especially if it can’t offload inventory before any negative market fluctuations take place.	Commission rebate models can be attractive to consumers in markets where home prices are relatively high. Tech-savvy buyers who don’t see value in working with an agent may be interested in transacting with a company like Open Listings. If a buyer’s offer isn’t accepted on the first (or third or fourth) property that they bid on, however, those consumers will likely become frustrated and try a traditional agent instead, posing a risk for models like Open Listings.	The provision of a single “expert” as a point person for both buyers and sellers is slightly different from the stricter teams models of other “discount” brokerages, and consumers may prefer it. It remains to be seen how consumers in the U.S. have taken to the company, but its focus on California markets make it a player for California REALTORS® to watch closely.

Reali	Redfin	Zillow Instant Offers
<p>Reali is an online brokerage that charges both buyers and sellers a flat fee of \$4,950. Upon closing, buyers are refunded the buyer's agent's commission portion of the sale (2.5 to 3 percent).</p>	<p>Redfin refunds a portion of the buyer's agent's commission, and charges sellers between 1 and 2 percent to list their homes, depending on the services desired. Redfin pays its agents salaries, and also has a mortgage vertical and an iBuyer service, Redfin Now. Redfin filed for its initial public offering (IPO) in June 2017, when it was valued at \$1.2 billion.</p>	<p>Zillow Group launched Instant Offers to serve as a "connector" between sellers, investors, and agents. Interested sellers can request an "instant offer" from investors seeking properties in certain areas. If sellers are interested in one of those offers, Zillow connects them with an agent to represent them in the transaction.</p>
<p>San Francisco Bay Area, Roseville, Sacramento County, and Solano County</p>	<p>More than 80 markets around the country; Redfin Now is in operation in Murrieta-Winchester, California</p>	<p>Certain Orlando and Las Vegas ZIP codes.</p>
<p>Buyers and sellers in markets with high price points, like California, want to maximize every dollar they're spending. So a service that charges a flat fee can be very appealing.</p>	<p>Sellers can pay as little as 1-percent commission on the sale price of their home, and services like Redfin Concierge (in select markets) allow them to pay a 2-percent commission to receive extra services, like deep cleaning, landscaping, and staging for homes priced \$500,000 or higher. Buyers get a portion of the traditional buyer's agent's commission refunded at closing.</p>	<p>Sellers who don't want to deal with the typical sales process can bypass traditional buyers and ask investors to bid on their homes, giving them more flexibility when it comes to the closing timeline. Zillow Instant Offers does not currently work with buyers, except investors.</p>
<p>Reali hires agents to serve in both customer support and "real estate expert" roles, which involve advising consumers on pricing and market conditions, managing the transaction, and other traditional duties.</p>	<p>Redfin employs and pays salaries to agents directly. It also works with "partner" agents in certain areas where it doesn't offer services, referring interested consumers to those partner agents.</p>	<p>Zillow Instant Offers gives Zillow Premier Agents an opportunity to get their names in front of sellers who are interested in alternative sales options. It does not require sellers to contract with an agent for representation, however, and can be a lost opportunity for agents and brokers.</p>
<p>Since October 2016, Reali's consumer fees have increased from \$2,950 to \$4,950. It's an attractive model for both buyers and sellers in markets where prices are well above national medians. Many models offer enhanced technology experiences to compensate for the relative lack of agent guidance.</p>	<p>Redfin's high valuation and national expansion make it a real estate force that should not be ignored. Its ability to experiment with new ideas - like Redfin Mortgage and Redfin Now - could position the brokerage to become a powerful presence in the industry if able to leverage all the components seamlessly.</p>	<p>Zillow Instant Offers may appeal to sellers with specific desires or needs, like controlling the sales process and timelines. By representing a point of connection instead of buying and holding the housing inventory, this business model could be more resilient to market shifts.</p>