Zillow's Predictable Failure to Transform the Real Estate Industry Status Quo

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Serving Consumers, Realtors, iBuyers and Institutional Investors

iBuying is an outstanding concept that provides consumer home-sellers choice; alternatives to the status quo of traditionally lengthy, costly and cumbersome sales process and often unnecessary closing services related to the purchase and sale of residential real estate.

The innovation of iBuying in the housing market is relatively new and still developing, and although targeting 10% of the residential real estate market in coming years, is in its infancy. iBuying allows the consumer to avoid lengthy listings, multiple showings, costly repairs, expensive closing costs and the potential for the traditional retail buyer to change their minds, or fail to qualify for a loan.

The iBuyer concept reduces time and costs involved in the "instant" purchase of a home, and for this convenience, a fee is earned. The convenience fee, and the role of certain transaction-closing services, differs within the iBuyer market, and will continue to evolve based on how the consumer votes…with its dollars. However, at the end of the day, the iBuyer concept is tremendous in the manner in which it provides

Realtors the opportunity to offer their seller-customers a choice: the traditional home sale process or an immediate cash sale.

This is an especially important consideration if the Realtor-customer needs money from the sale of their home quickly; and finds the convenience fee irrelevant under circumstances that might include job loss, loan default, home foreclosure, serious health issues or an immediate opportunity for new job that requires the sale in order to purchase a new home out of state.

Zillow Offer's debacle of failing in the iBuyer concept, to bring choice to consumers, is an abject lesson in tone-deaf arrogance. Their considerable success in core MLS function, Realtor services, and advertising services was exposed by the obsession of the up-sell and cross-sell pursuit of home sales and mortgage attachment rates. The strategy of diversification was understandable…but the implementation a disaster certain to be the subject of case studies in business schools for decades to come.

Zillow's fall from grace will become forgettable in the near future, as highly respected competitors such as Opendoor, Offerpad, Redfin, Knock, HomeLight and others expand to absorb market share opportunity abandoned by Zillow Offers.

Competitor's increased volume, superior buy-sell models, more capable executive management and a strategy of reducing home-transfer costs will relegate Zillow Offers to the dustbin of history. How many of us miss other such failures as Kodak, Kmart, Woolworth, Blockbuster, Compaq, Enron, Bear Stearns or Lehman Brothers?

How often do we lament the absence of Oldsmobile, Pontiac, Plymouth, Mercury, Studebaker or the Edsel? Consumers vote for value, quality, service, reliability, leadership and innovation…all shortcomings from recent revelations of failed Zillow Offers. The Zillow Offers debacle is quite easy to understand…but difficult to believe:

1. The mechanics of iBuying are very simple: Buy low and sell high. Buy wholesale and sell retail. Most importantly, pay a fair price, invest in modest refurbishing, earn a reasonable convenience fee and sell at an equitable profit.

2. Critical to the concept is avoiding purchasing at exorbitant prices in a temporarily overheated market, knowing that a cooling trend will soon result in lower prices. Zillow Offers doubled down on their absurd growth strategy by tripling their home buying at the top of the market…assuring that their acquisition, refurbishing, interest-carry and sales costs would absolutely exceed re-sale value during the subsequent "time to sell" market.

3. This market timeframe is where collective costs would obviously exceed the market value. New builder and forthcoming foreclosed inventory entering the market, competitive issues and rising interest rates would clearly increase the re-sale short fall that was predicted by industry observers.

4. iBuyers generally relied on the now-famous algorithms to predict fundamental purchase and sale strategies. For Zillow Offers in particular, it is clear their algorithm was defective, executive management failed to understand basic market functions, they were incapable of properly scaling their operation and their reliance on internal valuation and refurbishing functions proved disastrous.

Zillow's design, implementation and management of these algorithms have resulted in a 48 hour period of November 3rd and 4th in the suspension of Zillow Offer's iBuying operation, staggering third quarter pre-tax operating losses of $428,000, *initial* write downs of $500,000, public reports of the majority of their homes being over-valued by $35-50,000 each, a market cap reduced to $18 billion from a high of $30.5

billion, the reported strategy of Zillow's preposterous second and third quarter 2021 "strategy" of doubling down on asset purchases at inflated prices, and reports of their forthcoming 25% reduction in staff.

- Zillow has stated they are seeking to liquidate 7,000 undervalued and overpriced homes for $2.8 billion. For those experienced in distressed sales initiatives, such assets are generally placed in 3-5 sales tranches and sold at 30-50% of their "market value. Naturally, this is a brutal method of having assets forced into a "mark-to-market valuation"; which dismisses "book value" as meaningless.

- The arbiter of justice and blame to Zillow Offer's incredible fall from grace will be shareholders and institutional investors. The process in failed or troubled corporate operating results that result in significant losses and/or threats to the company's survival, are often class action shareholder lawsuits.

- These law suits generally seek to hold executive management and the board of directors responsible for failed strategy and implementation, and are intended to recover value in the form of cash by establishing blame for the loss of reputation, opportunity, revenue, assets, market share and market cap.

- The result is often executive and board denial, protracted litigation, billions in legal fees and a Chapter 11 Bankruptcy to provide for a reorganization to core functions; and often a sale or merger of assets of the surviving entity. *In the case of Zillow Offer's failed strategies and execution, evidenced by public statements of executive management, the shareholder's case for advancing the claim of obvious incompetence and negligence of the board and executive management is quite predictable.*

There is a profound sadness in witnessing a fine firm such as Zillow Group's mistakes that will negatively affect employees, shareholders and investors for years to come. The silver lining is opportunity for competitors to improve their operational functions, and to focus on providing consumers with choice…alternatives that make great sense to those seeking a quick and simple sale of their home, and who are quite willing to pay a reasonable convenience fee to a well-managed iBuyer.

The iBuyer concept is good, and a very valuable purchase alternative for consumers. iBuyers should continue to improve their value proposition, which should include behaving like a PropTech start-up, created for disrupting the status quo traditional lenders, and overpriced often unnecessary real estate service providers, most of which are unchanged in 100 years. There are low cost alternatives to the closing and home ownership transfer process, and they should be vigorously pursued by the winning iBuyers.

PropTech firm iTitleTransfer, LLC serves Consumers, Realtors, iBuyers and Institutional Investors with Business Plans, Marketing Strategies, Sales Initiatives and Operating Platforms

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