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uSell, iBuy

InFocus: iBuyer programs offer consumer convenience and drive homebuilder sales

Top takeaways



Many Americans are bypassing the traditional home-selling process in favor of a more convenient and less stressful alternative: selling directly to iBuyers.



iBuyers are companies that use online technology to estimate a home's value and make an offer in one to two days. If the offer is accepted and the sales transaction closes, the iBuyer assumes the burden of owning, marketing, and reselling the home.



Homebuilders looking to accelerate new construction sales, provide a better customer experience, differentiate from competitors, and grow market share could benefit from considering partnering with an iBuyer.



For most people, buying a home is likely the largest single purchase they will ever make. Little wonder, then, that about 40 percent of Americans say that home-buying is the most stressful event in modern life.¹ Selling their existing residence as part of the transaction can add to homeowners' anxiety.

Proponents of an emerging trend, iBuying, tout it as a more convenient and less stressful alternative to a traditional home sale. iBuyers—large real estate companies including Zillow, Opendoor, Offerpad, and others—use technology to radically simplify the selling process. Homeowners in participating markets can request a no-cost, no-obligation offer by entering their address online, answering questions about the home, and submitting photos. If the home qualifies, the iBuyer works with local market experts to develop an estimate of the home's value and submit an all-cash offer (at an algorithmically determined "fair market price");² this process can take anywhere from less than an hour to two days. If the homeowner accepts the offer, the iBuyer conducts a free, in-person home inspection. When the sales transaction has closed, the iBuyer assumes the burden of owning, marketing, and reselling the home.

The iBuying process appeals to sellers who want a certain and predictable sale on their timeline;³ for example, to accommodate a new job, impending retirement, or an addition to the family.

In an iBuying transaction, there is no need for the homeowner to hold open houses, consider multiple bids, or wait for a buyer to work out financing.⁴ And, the owner selects the closing date, which can be as soon as a week after signing the iBuyer contract. It also offers advantages to consumers who want to sell their existing home and purchase a newly built one in a single transaction and wait to move out until their new home is completed.

Leading homebuilders recognize iBuying's potential to boost new construction sales and are joining forces with Opendoor, Zillow, Offerpad, and other online real estate companies.



In an early move, homebuilder Lennar and Opendoor launched a program to help consumers build a Lennar home and sell to Opendoor in one seamless experience.⁵ Based on the pilot's success, Opendoor subsequently expanded its New Home Trade-up Program to all builders.⁶ Ramping up competition, Zillow recently announced it is partnering with nearly a dozen homebuilders on Zillow Offers, a program in which homeowners can sell their existing home to Zillow but stay in the house for as long as eight months while their new home is being built. This extended closing period could prevent buyers from having to move into a rental or carry two mortgages. Zillow's service currently is in four US markets and will be available in eight by the end of 2019.⁷



“It’ll be as easy as buying a car”

After working with Opendoor as the company’s New Home Trade-up Program pilot partner, Stuart Miller, executive chairman at Lennar Corp., says the novel approach to new home sales could have dramatic implications for the housing industry.

“When we take friction out of the transaction side of the business and create that transaction with ease in a condensed period of time, we take the fear out of buying a home,” Miller explains. He compares the process to the way that car buyers can trade in a vehicle at a dealership when it’s time for an upgrade. A less stressful home sale will make homeowners more apt to move up to a new home.

“If we can do this seamlessly, it starts to increase the number of people that come to the new home market and the number of transactions,” Miller says. “That will trickle through the entire housing market, all the way up to the new home builders.”⁸

Working with an iBuyer can simplify the home-selling process, but consumers pay for the convenience: iBuyers charge a higher fee than a typical real estate agent, generally ranging from 6 percent to 13 percent of the purchase price.⁹

Also, the price at which iBuyers purchase the house is usually not as much as the house would fetch if it were sold traditionally.¹⁰ Homeowners looking to maximize the sales value of their largest asset may elect to work with a traditional real estate agent/broker.

Although iBuying is still a fairly new segment of the real estate industry—sources estimate it comprised just 0.2 percent of total transactions in 2018¹¹ and roughly 5 percent of sales in the markets where iBuyers operate¹²—it could become a game changer.

According to one analyst, by 2021, iBuyers could account for 10 percent of the existing home sale market.¹³ Opendoor is already expanding its offerings to home-buyers. The company recently debuted an app that buyers in three markets can use to browse homes, schedule a tour, and make an offer, all in one place.¹⁴ As the iBuying concept becomes more mainstream, variations are likely to follow. For example, online real estate startup Knock has a trade-in program in which it buys a consumer a new home and sells the existing one on the open market. The seller can let potential buyers bid up the price of the home and collect the full value.¹⁵

While the home-buying market remains steady due to a strong US economy and job market, a number of headwinds have the potential to exert downward pressure on future activity. These include declining housing affordability, accumulated student debt, Millennials postponing marriage and childbearing, continued tighter lending standards, and more rental options. If, by partnering with an iBuyer, a homebuilder can improve customers' buying experience and simplify their transition from one residence to another, there is tremendous opportunity to accelerate new construction sales, differentiate from competitors, and grow market share.

Endnotes

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