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WHAT IS THE MODERN MARKETPLACE REPORT?

The new zavvie Modern Marketplace Report is the first of its kind, covering the range of innovative home selling and buying solutions becoming increasingly available throughout the United States. The report continues to provide deep insight into iBuyer activity but expands to include an analysis of the current activity of leading options, including the Power Buyer “cash offer” and “buy before you sell solutions,” “rent to own” programs (we call them Homeownership Accelerators), and presale renovation services.

The report presents information about the availability of these services, including market locations, business volume and trends, and eligibility requirements. The zavvie report also examines the consumer experience, including offer strength and acceptance rates, service fees and other costs, and customer satisfaction.
SUMMARY

In recent years, the availability of new options for selling and buying residential real estate has increased dramatically. No longer are sellers and buyers limited to listing on the open market and financing with a traditional mortgage.

New solutions for selling and buying - including Power Buyers, iBuyers, Listings Concierge, and Homeownership Accelerators - are bringing increased financial liquidity to the Modern Marketplace, generating more transactions, and finding high consumer acceptance.

BUYERS AND SELLERS NOW HAVE A MYRIAD OF OPTIONS TO CHOOSE FROM WHEN ENTERING THE REAL ESTATE MARKET.
THE MODERN MARKETPLACE

Not long ago, options for home sellers and buyers were scarce. Sellers had one way to go: list on the open market, see what happens, and do their best to synchronize their sale with the purchase in order to move. For buyers, options were to either get a traditional mortgage or pay cash.

Today, the landscape is markedly different as “fintech” has begun to penetrate the $1.6 trillion residential real estate space, bringing new options that increase liquidity for sellers and buyers.

In the past few years, new services such as Power Buyers, iBuyers, Listings Concierge, and Homeownership Accelerators have raised billions of dollars in capital, served tens of thousands of consumers – spreading rapidly across the country – and created the Modern Marketplace. These solutions deliver high customer satisfaction. All indications are they are here to stay.
The Past Quarter

In the first quarter of 2022, the residential real estate market was characterized by limited inventory, record-high home prices with continuing strong appreciation, and a rapid jump in interest rates. In short, it was a very difficult market for buyers and a tricky market for the 55-70% of sellers who also needed to buy. According to a recent Fannie Mae survey, only 24% of consumers thought it was a good time to buy a home - a record low.

It was a challenging and stressful period for all involved – including brokers and agents.

At the same time, new ways of selling and buying real estate enabled some sellers and buyers to navigate the market successfully. In addition, real estate brokerages and agents who represented their clients while using these solutions enabled them to move or buy their first home.

Those solutions are summarized below.
In Q1-22, the new solutions continued to roll out coverage across the US, including into markets that are more challenging to operate in due to their higher home prices and more heterogeneous housing stock. California, New York, Massachusetts, and New Jersey were among the new markets launched by the iBuyers. Entrance into these markets suggests the solution providers are becoming more confident in their operational capabilities. At this point, most of the new solutions are now available in most states.

A few highlights of expansion:

**Power Buyers:**
- Knock expanded into Seattle and four surrounding MSAs, bringing Knock to a total of 75 market areas.
- UpEquity began operations in California.

**iBuyers:**
- In California, Offerpad launched in Riverside, San Bernardino, and Sacramento.
- Opendoor made the bold step of opening in San Francisco, along with New York and New Jersey.

**Listings Concierge:**
- Curbio launched in San Antonio, Austin, and Nashville.

**Homeownership Accelerator:**
- Landis launched in Florida.

Also, the solution provider “buy boxes” for eligible properties continued to expand, making the new solutions available to more consumers and at higher price points. For example, Opendoor announced that in San Francisco, it will purchase homes built since 1940 for up to $2.5 million - that's by far the biggest buy box expansion we've seen. In addition, Knock added jumbo loans to its offering, allowing them to serve clients in higher priced markets such as Southern California and Seattle at price points up to $3 million. And Landis increased its budget limit for first-time buyers to $500K.
MARKETS

With the geographic and buy box expansion, the new solutions experienced strong growth in Q1-22, the Power Buyers in particular:

- EasyKnock reported customers served increased by 200% in 2021
- Homeward cited 375% growth in homes under contract
- Knock reported their transaction volume was up 307%
- UpEquity reported 500% year-over-year revenue growth

At the same time, the iBuyers came out of 2021 having purchased 70,000 homes - a breakthrough year of growth - then stepped on the gas in the first quarter of 2022, buying about 2X the number of homes they purchased in Q1-21.

There are numerous national and regional Listings Concierge companies, including Curbio, Freemodel, Punchlist, and Revive Real Estate, in addition to dozens of services affiliated with brokerages such as Coldwell Banker, Compass, along with many local firms. Listings Concierge is on its way to becoming ubiquitous.

Homeownership Accelerator programs are available in the major market areas of nearly all states.
Sellers and buyers continued to utilize the services offered by a range of companies that are fundamentally changing how residential real estate works. The details of their programs vary, but one common denominator is they dramatically increase the consumer's power as a homebuyer, creating a massive advantage for those who need to buy in order to sell. Hence our preferred term for these companies, "Power Buyers."

We believe that Power Buying - including “buy before you sell” bridge and “cash offer” solutions will eventually become the norm in residential real estate. These services provide massive advantages of competitiveness and convenience at little or no cost to the consumer.

**TOP SERVICES**

**Buy Before You Sell**
Enables home sellers to secure their next home with no financing contingency before listing and selling their current home.

**Sale Leaseback**
Enables homeowners to unlock the equity in their home by selling it to the Power Buyer and then temporarily leasing it from the Power Buyer, enabling the homeowner to purchase their next home without a loan contingency, or use their equity for other purposes.

**Cash Offer**
Enables home buyers to make offers that are backed by the Power Buyer and therefore have no financing contingency.
Power Buyer transactions grew 3x from Q1 to Q3 in 2021, then stabilized in the seasonally slower Q4 and Q1. Heading into the spring season, we expect to see Power Buyer transactions surge as they did in 2021.

From Q4-21 to Q1-22, the average home price in power buyer transactions rose dramatically as power buyers completed more “buy before you sell” transactions which tend to be at higher price points than “cash offer” deals that often involve first-time buyers.
In Q1-22, offer acceptance for Power Buyers remained consistent with past quarters, around 35-40% range. Considering the advantages of being able to buy before selling and making an offer without a loan contingency, it’s not surprising that many consumers are willing to pay fees ranging from 0-3% for these services.
iBuyers are tech companies that make cash offers on eligible homes, usually about 40% of all houses in markets where they operate are eligible. In contrast to the homebuyers that target distressed sellers and homes needing substantial renovations, the iBuyers aim to provide a better experience to sellers who value increased speed, certainty, and convenience in selling a home.

Notwithstanding some controversy, the iBuyers have created a robust business.

Three key points to keep in mind:

1. iBuyers managed to thrive despite the headwinds of the strongest seller’s market ever. One would expect a seller’s market to stifle iBuyers. After all, who needs an instant offer from a tech company if you can sell your house on the open market faster than you ever thought possible for more money than you ever expected? Nevertheless, iBuyers have managed to achieve very legitimate national scale.

2. Consumers find selling house the traditional way highly stressful, and welcome the iBuyer alternative.
   In a comprehensive survey, 1000 Watt consulting found that:
   a. Over 70% of sellers found the process either “stressful” or “very stressful”
   b. 77% of respondents said they would be “probably” or “maybe” willing to take 5% -10% less for their home to avoid the hassle of a traditional sale.
   c. While 62% of sellers said getting the highest price was what matters most, that means nearly 40% of sellers reported other factors as being more important.
   d. Over 80% of sellers said they would react positively to receiving a cash offer on their house from a credible company.
   Customer satisfaction scores for iBuyers, as measured by zavvie, are consistently around 9 out of 10.

3. Opendoor and Offerpad were both net profitable in Q1-22.
   For these reasons, we don’t see any reasons why the iBuyers won’t continue to offer appealing and viable solutions to home sellers, especially when the sellers market winds down and the iBuyer value proposition becomes even stronger.
iBuyer transactions peaked in the summer of 2021, then dropped during the less active winter season. But, it’s impressive that in Q1-22 purchases are about 2X what they were in the first quarter of 2021. It could be another big year for iBuying.

In 2021, the iBuyers Opendoor and Offerpad accounted for nearly 120,000 transactions (buy and sell), or 1.3 percent of the U.S. market. It should also be recognized that in addition to Opendoor and Offerpad, numerous other institutional buyers also acquired tens of thousands of single family homes in 2021. These companies, which include Amherst, Invitation Homes, Tricon, and First Key homes among many others, buy properties which they then hold as rentals for several years. In 2021 large investor companies collectively purchased about 5% of homes in America, which is about 4X in comparison with iBuyers. Cash offers are far more common than most people realize.
The tapering in the average purchase price is partly attributed to Zillow Offers winding down operations. Zillow Offers had been making remarkably strong offers above estimated market rates. Without Zillow Offers in the marketplace, average offer amounts dropped.
iBuyer offers peaked at 104.1% of market value in Q2-21 before tapering to 98.7% in Q1-22(1). Evidently the iBuyers’ algorithms – and the humans who use them – are becoming highly accurate at pricing acquisitions to the market. And, they may be finding they don’t need to pay above market to acquire properties.

(1) Based on analysis of iBuyer purchase prices compared with Automated Valuation Model prices for the same properties. AVM provided by Attom Data.
Offerpad and Opendoor service fees are currently 5%, which compares favorably with real estate commissions, typically 5-6%.
This is the average amount iBuyers charged sellers for "prep and repairs," which is received from the seller as a concession. Sellers don't learn about this total amount until the iBuyer has completed a thorough inspection of their home, which happens after the seller has accepted the iBuyer's initial offer.

In Q1-22, the average seller concession dropped to 2.9%, down notably from 3.5% in Q4-21. It will be interesting to see if this trend continues.
For iBuyers, acceptance rates continued a downward trend to 3.2% for the quarter, continuing the decline from 5.7% we saw in the first half of 2021. Evidently, the decrease in offer strength has had a tangible impact, despite the lower Seller Concessions.
LISTING CONCIERGE

In the past three years, these presale renovation and repair services have spread like wildfire across the country. Essentially, Listing Concierge companies enable home sellers to easily finance the repairs and renovations they need to maximize their net proceeds on a home sale. Using these services, sellers typically don’t pay for the work until their house sells, so the seller doesn’t need to go out of pocket. And, data provided by these companies supports that smart renovation projects yield positive return on investment, which means the seller can significantly increase their profit without going out of pocket. That’s a compelling value proposition.

Project amounts vary widely, ranging from hundreds of dollars for everything from minor repairs to the tens of thousands of dollars for major renovations.

AVERAGE LISTINGS CONCIERGE PROJECT AMOUNT

$42K
Essentially, these companies enable people to work with an agent, choose a house they want to live in, and then rent it with an option to buy the home later. This can be a great solution for buyers with lower credit scores or lacking a down payment. It can also be a smart fit for people who would rather rent a house than buy a home or rent an apartment.

Considering that the path to homeownership for many first-time buyers has become increasingly difficult, it’s not surprising that these services have grown and expanded rapidly. Homeownership Accelerator solutions are now available in 36 states and aren’t slowing down.

Divvy Homes reported closing more homes in 2021 than in the four years since its founding in 2017, and increasing its customer base by 140% from 2021 to 2022. In addition, Divvy customers have exercised their option to purchase their homes at a rate of approximately 47%. Impressively, the leading new entrants Divvy, Halo, and Landis have raised over $1.8 billion.

Home Partners Of America, the well-established category leader offering a “lease with the right to purchase program,” was acquired by Blackstone Group in June of 2021 for $6 billion. This capitalization places it among the largest residential real estate firms of any type.
HOMEOWNERSHIP ACCELERATOR

As home prices increased, the Homeownership Accelerators have improved their ability to purchase more expensive homes on behalf of the customers. For example, Landis increased purchase budgets up to $500K.
At the end of the day, it’s customers who determine whether or not a business is delivering good value. Going back two years now, we have seen consistently high scores for Power Buyers and iBuyers, both consistently scoring around 9 out of 10 for customer satisfaction. We are not surprised that Listings Concierge and Homeownership Accelerators are rated similarly.

The bottom line: the vast majority of sellers who used one of the Modern Marketplace solutions are glad they did and would do it again.
zavvie is a software technology company that provides real estate brokerages with a marketplace for buying and selling solutions via their own white-labeled platform. The platform connects agents with solutions and allows them to present all options to their clients while remaining at the center of the transaction.