

iBuying: WHAT YOU NEED TO KNOW

A REAL ESTATE EBOOK FROM



iBuying: THE GOOD, THE BAD, AND THE UGLY

Knowing the advantages and disadvantages of the newest modern-day home buying system could potentially save your clients thousands of dollars. We bring to light how these iBuying apps can help and hurt users when selling their home.



The Basics to iBuying

iBuying is the latest trend in the home buying and selling industry.
So, what exactly is it and how does it work?

WHAT IS IBUYING?

iBuying is the 21st-century solution for instantly garnering offers for a home and selling within minutes or days of posting. In comparison to a traditional real estate transaction, this app service uses a proprietary algorithm to assess a home's value and create an **Instant Offer**, providing **Instant Liquidity** and moderate convenience to the seller.



“Time is money,
especially when you are
talking to a lawyer or
buying a commercial.”

– FRANK DANE

HOW DOES IBUYING WORK?

1

Users must first download one of the many free iBuying apps to their smartphone. Some notable apps are Opendoor, Turnkey, and Zillow Offers.

2

Next, users create a profile with the intention of buying or selling a home. For this example, we'll explain how it works for a seller.

3

Users upload their home to their profile with the intent to sell. Depending on which app they use, this step may require ample vetting for proving ownership.

4

The app, sometimes within minutes, will provide an **Instant Offer** based off a valuation of the home. This valuation is determined by a proprietary algorithm that considers several characteristics and features of the house, as well as its location.

5

Once the seller accepts the offer, third-party contractors will be sent to their home to assess necessary repairs. Any repair costs will be deducted from the closing sale price.

6

A 6-7% service charge will also be assessed. This covers taxes, utilities, insurance, and maintenance.

7

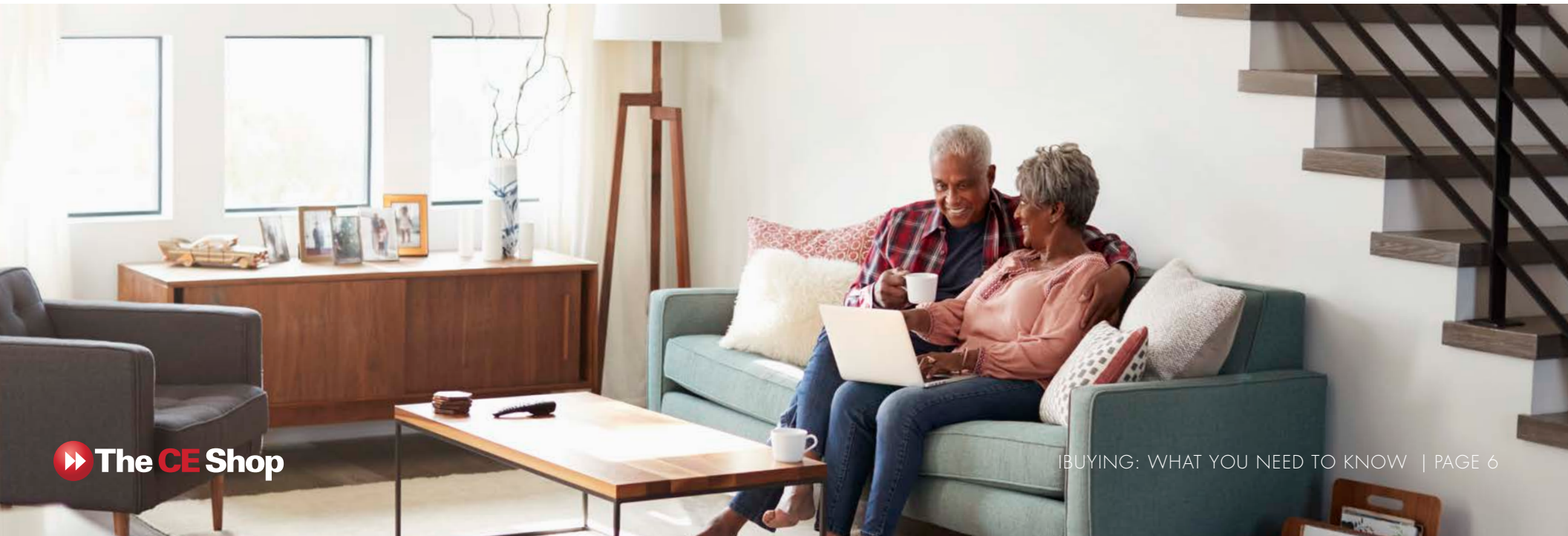
Some apps include a large leeway time between the sale date and move out, providing users some flexibility. Other apps may charge rent for the "grey area" time in between.

8

The app will now sell the home at a higher price to a buyer on the open market, either through their own app or other services.

iBuying's Advantages and Disadvantages

With any residential real estate transaction, the selling side bears the majority of the costs with agent commissions, repairs, and other expenses. Knowing how iBuying apps do this differently can help users become more informed with this new transaction system.



IBUYING: THE GOOD

CONVENIENCE

Probably the biggest reason why people choose iBuying over traditional real estate agents is the convenience of being able to press a few buttons on their phone and within minutes get an **Instant Offer**. It takes minimal effort to unload an asset for quick cash and becoming liquid is enticing to those who aren't concerned with the important details of buying and selling.

TIME

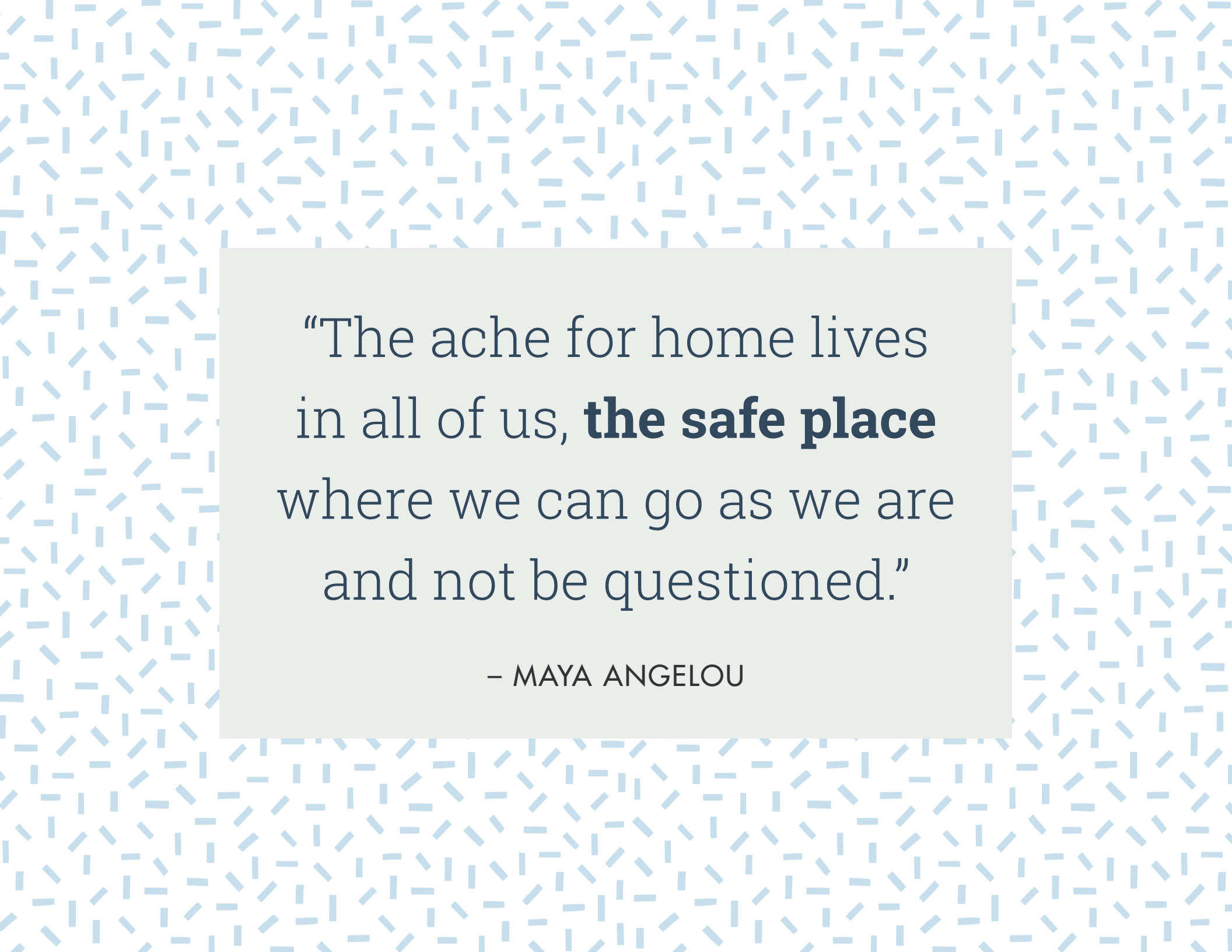
The opportunity cost of time plays a big factor in why someone might pursue the iBuying route. According to Zillow, the average home took 68 days to sell in 2018. With iBuying, a user can technically sell within the day. This **Instant Liquidity** is one of the more enticing features of iBuying.

AVOID SELLER CONCESSION, DOUBLE MOVE-OUT DATES, & DOUBLE MORTGAGES

iBuying apps take care of any last-minute buyer requests regarding repairs or other nuances associated with selling the home. They'll also usually allow users to schedule their move-out date to avoid any double mortgage overlap.

PROVIDES OPTIONS

Not everyone who uses an iBuying app plans to proceed with the transaction. Instead, they want options and a strong indicator of what is the **Bottom Floor Value** of their home. When users do this, the app creates the **Instant Offer** that prevents them from succumbing to underpriced bids for their home while simultaneously receiving a proper selling price estimate.



“The ache for home lives
in all of us, **the safe place**
where we can go as we are
and not be questioned.”

– MAYA ANGELOU

IBUYING: THE BAD



LOSS OF HUMAN TOUCH

When buying a home on an iBuyer app, users end up losing the one component of real estate buying that makes it all worth it: the real estate agent. These heroes are the ones who guide clients through the process, helping them search among the thousands of available listings for the perfect home. Users deprive themselves of this personalized service that elevates the experience while leading to the most optimal outcome.

PURCHASING WITHOUT SEEING IT

It is a little mind boggling that a person could make the biggest purchase of their life without stepping foot onto the property. Viewing a home on the internet doesn't provide tangible evidence of the quality, feel, or intrinsic value clients process when actually seeing a home in real life. There's nothing worse than making a massive investment and feeling buyer's remorse.

IBUYING: THE UGLY

MONEY

While convenience, time, and loss of sanity may seem like stressors users would rather not deal with, the biggest concern is the loss of money when working with an iBuyer.

Where do sellers lose the most? Service fees, premium fees, and repairs.

SERVICE FEES

iBuyers claim they save their customers' money by eliminating real estate agent fees. However, while a 6% agent fee may seem expensive to some, iBuyers sometimes forget to state their 6-8% service fee for covering taxes, utilities, insurance, and maintenance upkeep. Assuming their new home is similarly priced, this is money users would have spent regardless if they're living in the old home or the new one.

REPAIRS

This charge will not be assessed until *after* iBuyers sell the home. Not only can these repairs be overpriced, over-the-top, and potentially unnecessary, they have no say in who does the repairs, nor any ability to negotiate or compare rates. This results in their home's ROI not reflecting these fixes or upgrades.

LIQUIDITY PREMIUM FEE

A built-in discount-to-fair value fee designed to compensate for the risk of instant liquidity, this fee is what the algorithm takes off from the home offering price. Usually, this fee is around 5% of the home's value and is assessed to make up for the risk the iBuying firm takes on when quickly purchasing a home.

HOW USERS LOSE WITH IBUYING

There are many different ways users lose with iBuying. The biggest loss revolves around the hundreds of Benjamins they throw away when not pursuing with the traditional route. Don't believe us? We did the math to show just how much iBuyer users could give up on a home valued at \$500,000.

TRADITIONAL

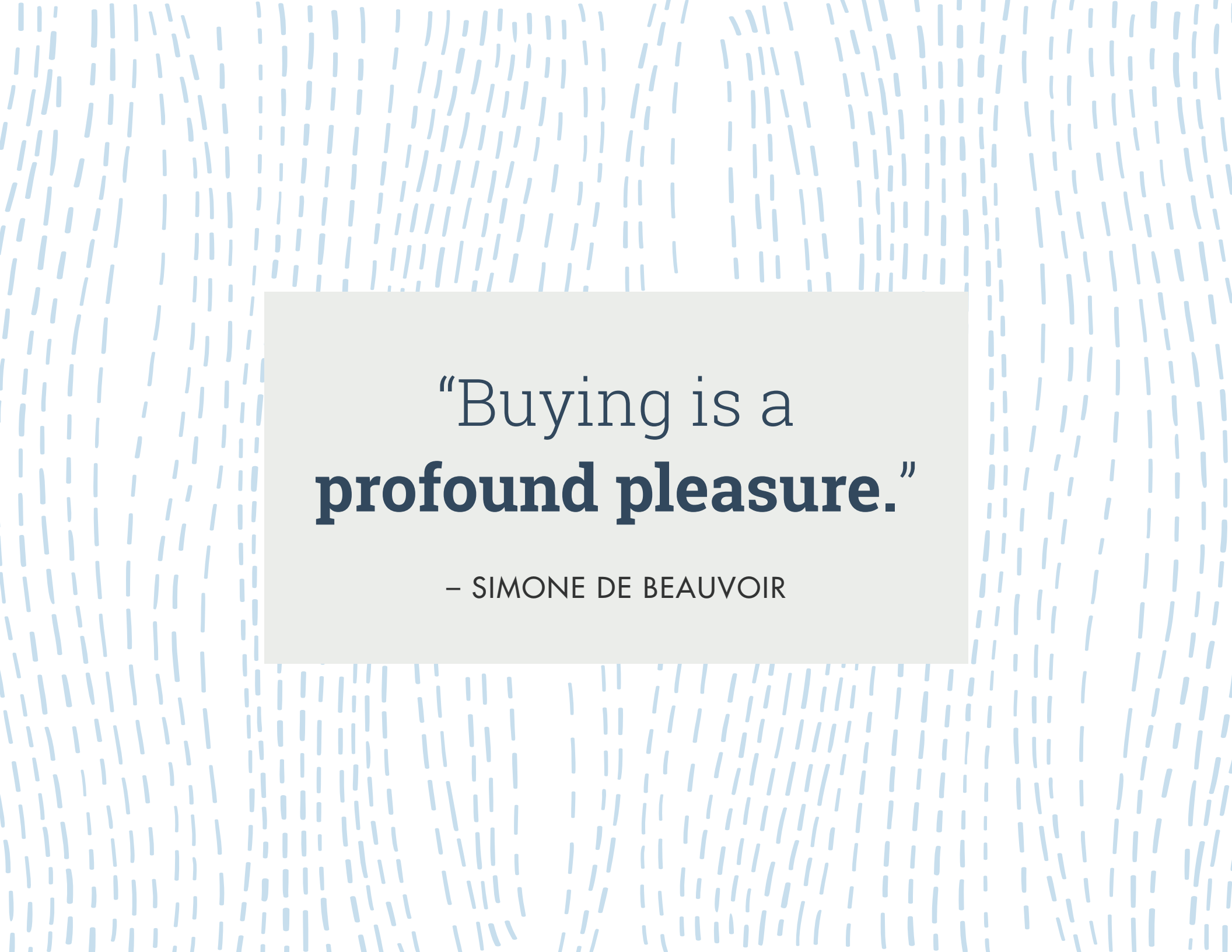
$$\begin{aligned} &(\$500,000 \text{ Home Value}) \\ &+ \$5,000 \text{ Profit Increase from Repairs)*} \\ &- (.06\% \text{ agent fee}) \\ &- (.03\% \text{ Closing Costs}) \\ &= \$459,550 \end{aligned}$$

IBUYER

$$\begin{aligned} &(\$500,000 \text{ Home Value}) \\ &- 5\% \text{ Discount-to-Fair Value Fee)} \\ &- (.06\% \text{ service fee}) \\ &- (.03\% \text{ Closing Costs}) \\ &- (\$5000 \text{ Repair Costs}) \\ &= \$427,250 \end{aligned}$$

Difference: **-\$32,300 (-7%)**

**Assuming a seller invested \$5,000 in repairs to increase their home value by \$10,000, and they'll receive the same necessary service from traditional and iBuying.*



“Buying is a
profound pleasure.”

– SIMONE DE BEAUVOIR

iBuying Apps

Lately, the iBuying space has seen a massive influx of both small startups and billion-dollar companies entering the industry. All of them have one main purpose: to become the one-stop shop for researching, purchasing, and selling a home. Here is a quick rundown of all the apps available in most major cities:

ZILLOW OFFERS

This app is probably the best simply because of the flexibility it provides. Unlike most other iBuying apps, Zillow Offers provides the ability to list a home through trusted real estate agents. This gives users the ability to get an offer from Zillow Offers, while also pursuing the traditional Zillow route of listing a home for sale on their site without them taking ownership.

OPENDOOR VIA REDFIN

In July 2019, these two companies joined forces, combining one of the best iBuying platforms with one of the best online listing agents in the world. Like Zillow Offers, Opendoor will use Redfin to provide actual real estate agents to users who want to put the listing up for traditional offers. Redfin also gives ample information regarding home prices in the area.

TURNKEY

Amazon recently bought Realogy and formed Turnkey. While the app has not yet been fully vetted by app enthusiasts, the company will provide up to \$5,000 in products and services for new home sales when using their services.

OTHER REPUTABLE APPS

Knock, Offerpad

iBuying vs Traditional - An Overview

When it comes to purchasing a home on an app or in real life, buyers and sellers have to weigh the costs and benefits of choosing one over the other. Essentially, if a person doesn't want to invest their time in selling or researching a new home purchase, they should consider the iBuying route. However, if they hate losing tens of thousands of dollars on a long-term investment and fear buyer's remorse, they should stick to an agent they trust.

Sources: *Forbes.com, Wikipedia.com, Opendoor.com, Inman.com, Zillow.com*

Real Estate Agents & iBuying

If you're a real estate agent wondering how iBuying will affect your business, there are many surprising ways you can use these services to your advantage.

HOW TO UTILIZE AN IBUYER AS AN AGENT:

1. PROVIDE A STARTING PRICE:

As an agent, you can use the **Instant Offer** to your benefit. This price gives your client a good idea of what their house is worth, and provides you the opportunity to demonstrate the monetary benefits of using an agent.

2. BECOME THE AUTHORITY:

The more you learn about iBuying, the better qualified you will look to your clients. This knowledge also allows you to point out the disadvantages of the app services.

3. SERVE MORE CLIENTS:

If you have an overabundance of clients, working with an iBuyer to manage parts of the transaction can work to your advantage.

Ways that would work:

- **Request an Offer:** iBuying apps like Opendoor will provide you a commission for this request that is split between you and your client.
- **Refer a Seller:** Don't have time for a seller? Refer them to an iBuying app and receive a 1% fee.
- **Be a Representative on Opendoor:** If your client purchases an iBuying home with your help, you'll receive a commission for your time. This may require having your client tell the iBuyer the services you provided.
- **Partner Up:** As stated earlier, some iBuyers have traditional services that pair the client with an agent. Usually the iBuyer's services are used in conjunction with what you as the agent do best: personal service.

Source: *Opendoor.com*

About Us

Founded in 2005, The CE Shop has become the leading provider of online real estate education through an encyclopedic knowledge of the real estate industry.

Our ever-expanding course catalog of Pre-Licensing, Exam Prep, Post-Licensing, and Continuing Education products are trusted throughout the industry and offer agents across the country the education they rely on.

With courses available in all 50 states and D.C., we're driven by a desire to constantly improve, both for ourselves and our students.

