

Zillow Getting Out of Home Flipping Business - Good News for Homebuyers

November 3, 2021 - I'm not a real fan of Zillow. In fact, the company is a leach on the real estate industry in my estimation. Over the years, they've made their money by syndicating home listings that appear on the MLS and then charging real estate agents to advertise on those listings. Since most versions of the MLS allow buyers to search for homes directly, Zillow (and companies like it) don't serve a real purpose. They just drive up the cost of transactions by adding another expense that real estate agents have to pay, and which home sellers eventually absorb through commission payments. Again, this is just my humble opinion.

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Zillow didn't have any real skin in the game at all until they started purchasing homes and flipping them. When they started doing that, I had to question their relationship with brokers and agents. Here was a company that was charging those brokers and agents to advertise and then competing with them on purchases and sales. It's a model that really shouldn't be acceptable. But Zillow has such a foothold in the industry that we never saw a lot of public dissent.

One also has to question what a model like this does for home prices? It isn't good... at least not for buyers.

When someone purchases a home to flip it, they are taking a gamble. They are betting that they can purchase the home, make improvements to it quickly and then place it back on the market at a profit. If they get it right, it can be a substantial profit. Flippers will often pay more than the market price for a home because they think it will still be profitable to them after they make their repairs. Unfortunately for buyers who are looking for a home to live in, that behavior drives prices up and often excludes them from getting the house they really want.

When a company like Zillow gets into this business, with basically unlimited cash, it can drive prices up even further. And it makes it that much more difficult for people looking for a home to actually live in. So it is with some glee that we can report that their flipping business has been a bust and that they are getting out of it with a more than \$500 million loss.

Zillow apparently thought that it could predict what the market would do months in advance by using computer algorithms. That didn't work and the company is now in the process of selling the majority of the homes it purchased for less than it has invested in them.

Now you may think it is odd for us to publish a piece reveling in a company's failure. But it is worth noting that one of the

major factors in home prices being as elevated as they currently are is that major investors are purchasing large numbers of houses. In the first quarter of 2021, corporate investors purchased 15% of all of the homes on the market. And they are focused on purchasing the most affordable homes. While that may be great for sellers, it makes it all but impossible for many potential buyers to get their part of the American dream. And we'd like to see that dream come true for more people. So seeing a company that was driving prices up fail in its mission really isn't a bad think in this case. Again, just my opinion.

by Jim Malmberg

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