

Internet/e-Commerce

Real estate expert call takeaways #4; no sign yet of rates sapping home demand

Industry Overview

Home-buyer demand remains undeterred

We co-hosted an expert call with home building and building product analyst Rafe Jadrosich and real estate industry experts Andrew Doyle and James Wexler (veteran brokers in Atlanta and Phoenix, respectively). Overall, the tone and commentary from the speakers was optimistic about home price stability but showed concern for affordability and a potential pullback in volumes. The biggest takeaways were that despite still challenging home affordability driven by near 7% mortgage rates and elevated home listing prices: 1) underlying homebuyer demand is very high; 2) buyers are still very much accepting of higher mortgage rates; and 3) the spring selling season started earlier and stayed stronger than each expert had anticipated. The experts agree that the lack of inventory is likely the main driver for home-buyer “desperation” and it would take a material increase in pricing and/or rates to dent demand. Our experts pointed to a slight cooling in recent weeks, but by no means to a slowdown.

1Q likely marked a trough but rates could impact 2H vols

We continue to believe real estate trends troughed in 1Q23 and expect transactions to improve from -25% YoY in 1H to -11% in 2H. However, we cannot rule out that the recent decline in affordability impacts volumes in 2H, particularly as demand is historically weaker in the second half of the year. Based on BofA 10yr rate forecasts and a normalization of spreads, we estimate 30-Yr mortgage rates could decline to 5.80% by the end of 2023. From 6.80% for the week of 6/8. However, potential rate hikes and elevated interest rate volatility could keep mortgage rates higher for longer. We continue to see Buy-rated Zillow as best positioned.

Phoenix continues to rise

The read on the market was significantly more positive than we expected and pent-up demand appears to be very high. In one of our prior expert calls in October, Mr. Wexler predicted pricing could fall 10-20% but it seems that the market has stabilized since. Volumes are trending closer to pre-pandemic volumes, buyers are undeterred by higher rates, and the market overall has held up well.

Atlanta stays the course

Overall, trends remain resilient and are supported by positive net migration, solid economic trends, and healthy affordability on a relative basis. Demand in the spring season in particular has been strong, despite higher rates and near record prices.

iBuyers keeping a low profile in Phoenix and Atlanta

Readthrough to iBuyers was unchanged from our previous expert call ([Real estate expert call takeaways #3](#)). Both experts noted that iBuyers have virtually disappeared from the market (in terms of bidding for homes). This is consistent with Opendoor’s strategy for this year which focuses on trying to protect margins over growing rev. by increasing bids and being selective on home purchases. We believe iBuyers and institutional investors alike are taking a cautious approach to the market. Per press reports, Starwood Capital is looking to sell more than 2,000 of its 3,210 single-family rental homes.

15 June 2023

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United States

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Refer to important disclosures on page 5 to 9. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Timestamp: 15 June 2023 05:00AM EDT

Exhibit 1: Stocks mentioned

Ratings and price summary

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
OPEN	OPEN US	Opendoor	US\$ 2.94	C-3-9
RDFN	RDFN US	Redfin Corp	US\$ 10.52	C-3-9
ZG	ZG US	Zillow A	US\$ 45.22	C-1-9
Z	Z US	Zillow C	US\$ 46.12	C-1-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**Opendoor Technologies (OPEN)**

Our \$1.50 price objective is based on 1.25x 2024E EV/gross profit. This is below other low margin online companies including real estate fintech peers. We believe a discount is warranted given much lower gross margins which limits long-term profit potential and the high cyclical nature of OPEN's underlying industry.

Downside risks to our PO are: slower than expected conversion of home inventory, weaker gross margins on slowing home price appreciation and limited home service attachment and a softer than expected housing market.

Upside risks to our PO are: greater than expected shares gains as OPEN expands into new markets, better than expected pricing spreads as OPEN improves its pricing models, higher growth post Zillow's exit of the iBuying market and stronger attachment of high margin home services.

Redfin Corp (RDFN)

Our \$4.25 price objective is based on a 1x 2024E EV/sales multiple. We believe a 1x sales multiple is warranted given significantly lower revenue growth than prior years and it is inline with other high sales growth eCommerce names with gross margins in the 30's range

Upside risks: 1) faster than expected new product uptake expanding long term margins, 2) faster market share growth in core markets, 3) new product announcements driving stronger automation, and 4) better than expected housing market trends.

Downside risks: 1) housing market recession, 2) stronger price competition from traditional brokers, and 3) slower market share growth in core markets.

Zillow (ZG / Z)

Our \$55 price objective for both Class A and Class C shares is based on a 21x EV/EBITDA estimate. This is inline with ZG's average historic EBITDA multiple of nearly 21x (excluding Zillow Offers) given continued industry volatility but opportunity for meaningful market share expansion over the next several years. Our 21x multiple is above the peer lead generation average of 15x which given our forecast for double digit EBITDA growth in 2024-25.

Downside risks are: 1) a more prolonged U.S. housing market downturn, 2) potential for multiple compression and 3) execution risk around new growth initiatives and 4) increased competition from Costar's new residential advertising marketplace.

Upside risks are: 1) faster-than-expected growth and S&M leverage, 2) better than expected trends in the US existing home market, and 3) faster than expected progress in ZG hitting its new long term targets.

Analyst Certification

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US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ACV Auctions	ACVA	ACVA US	Nat Schindler
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	Arhaus, Inc	ARHS	ARHS US	Curtis Nagle, CFA
	Bumble, Inc.	BMBL	BMBL US	Nat Schindler
	Chewy Inc	CHWY	CHWY US	Nat Schindler
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	Duolingo	DUOL	DUOL US	Nat Schindler
	Expedia	EXPE	EXPE US	Justin Post
	Fiverr	FVRR	FVRR US	Nat Schindler
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	LendingTree	TREE	TREE US	Nat Schindler
	Match Group	MTCH	MTCH US	Nat Schindler
	Meta Platforms Inc	META	META US	Justin Post
	NerdWallet Inc	NRDS	NRDS US	Nat Schindler
	Peloton	PTON	PTON US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Shutterstock	SSTK	SSTK US	Nat Schindler
	Squarespace Inc	SQSP	SQSP US	Nat Schindler
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Curtis Nagle, CFA
	TripAdvisor	TRIP	TRIP US	Nat Schindler
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Nat Schindler
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Nat Schindler
	Xometry	XMTR	XMTR US	Nat Schindler
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
NEUTRAL				
	1stDibs.com	DIBS	DIBS US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beachbody	BODY	BODY US	Joanna Zhao
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Carvana Co	CVNA	CVNA US	Nat Schindler
	eBay	EBAY	EBAY US	Curtis Nagle, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	LegalZoom	LZ	LZ US	Nat Schindler
	Overstock.com Inc	OSTK	OSTK US	Curtis Nagle, CFA
	Pinterest	PINS	PINS US	Justin Post
	Snap	SNAP	SNAP US	Justin Post
	Upwork Inc	UPWK	UPWK US	Nat Schindler
	Viant	DSP	DSP US	Nat Schindler
UNDERPERFORM				
	AdTheorent	ADTH	ADTH US	Nat Schindler
	Cardlytics	CDLX	CDLX US	Nat Schindler
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	PLAYSTUDIOS, Inc. Class A	MYPs	MYPs US	Omar Dessouky, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Purple Innovation	PRPL	PRPL US	Curtis Nagle, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	System1	SST	SST US	Nat Schindler
	The RealReal	REAL	REAL US	Michael McGovern
	Trivago NV	TRVG	TRVG US	Nat Schindler
	Upstart	UPST	UPST US	Nat Schindler
	Wish	WISH	WISH US	Michael McGovern

US - Internet Coverage Cluster

Investment rating Company BofA Ticker Bloomberg symbol Analyst

Disclosures

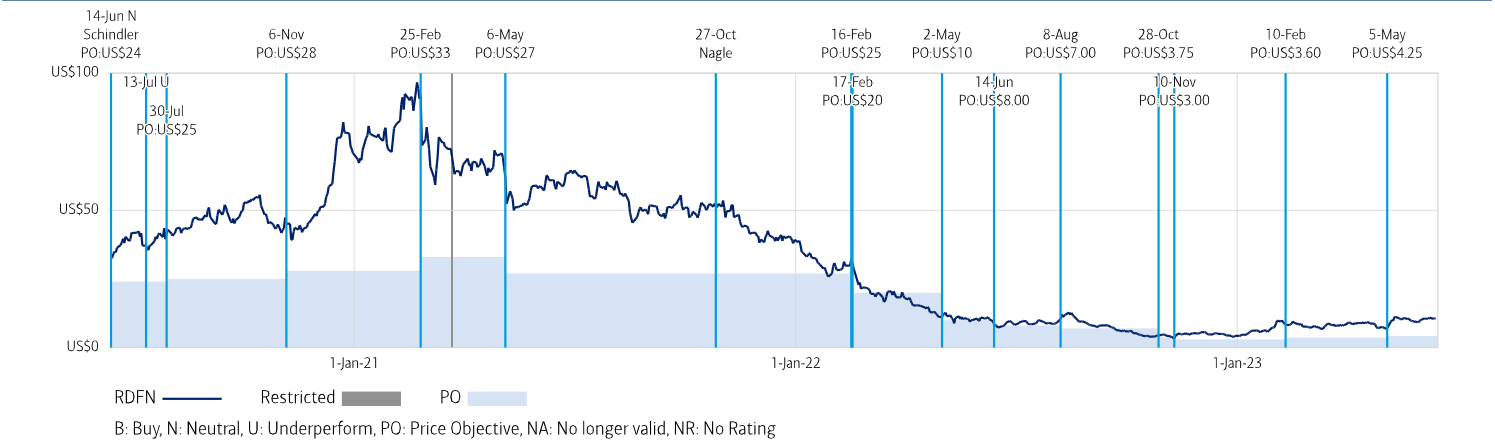
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Opendoor (OPEN) Price Chart



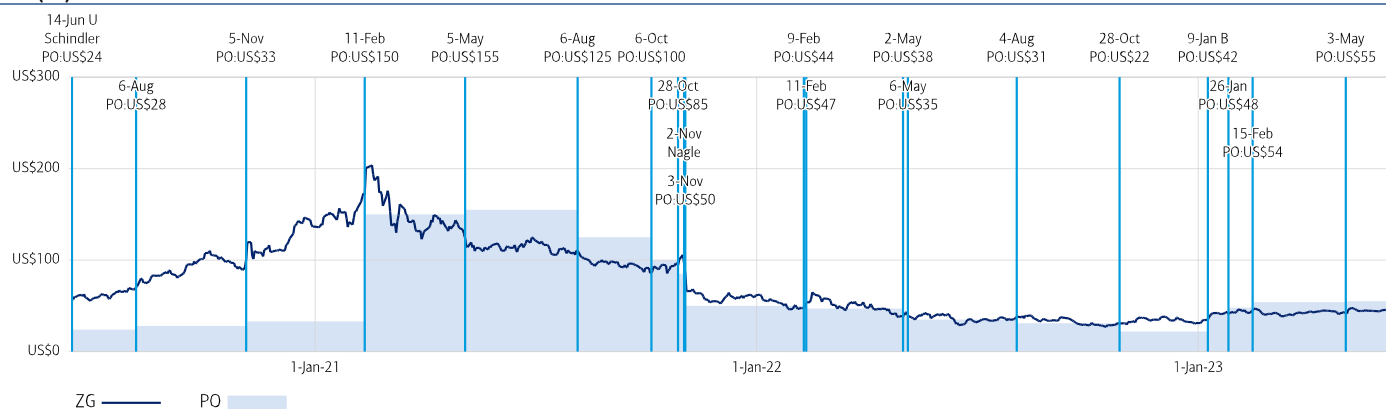
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Redfin Corp (RDFN) Price Chart



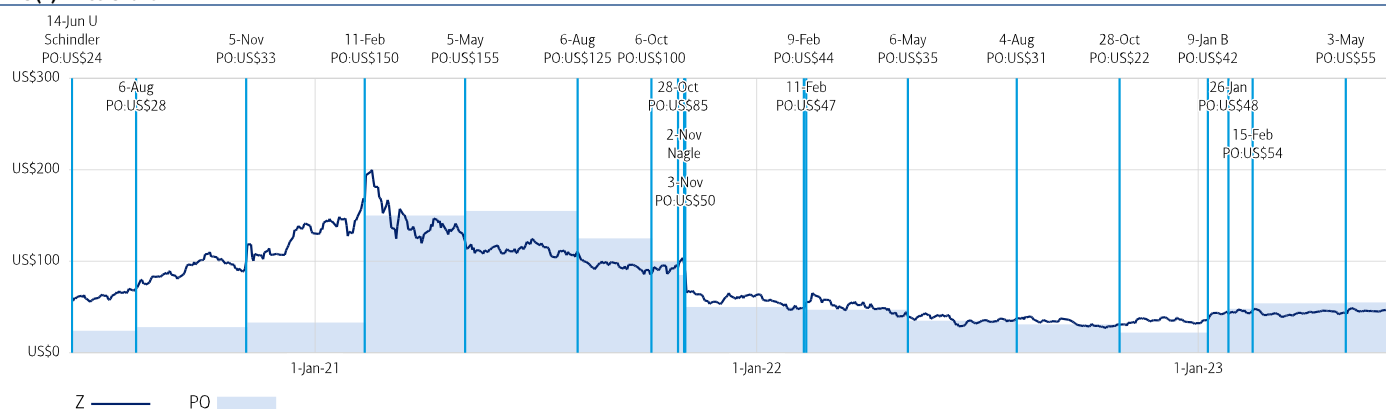
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Zillow A (ZG) Price Chart

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Zillow C (Z) Price Chart

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	229	53.88%	Buy	107	46.72%
Hold	105	24.71%	Hold	50	47.62%
Sell	91	21.41%	Sell	29	31.87%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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