The New York Times https://www.nytimes.com/2021/11/02/business/zillow-q3-earnings-home-flipping-ibuying.html

Daily Business Briefing ›

Zillow, facing big losses, quits flipping houses and will lay off a quarter of its staff.

By Stephen Gandel
Nov. 2, 2021 Updated 6:06 p.m. ET

Zillow, the real estate website known for estimating house values, said on Tuesday that it would exit the business of rapidly buying and selling houses amid heavy losses and that it planned to let go about nearly 25 percent of its employees.

The announcement was a major strategic retreat and a black eye for Richard Barton, Zillow's chief executive, who founded the company 16 years ago and has long talked about transitioning Zillow's popular website into a marketplace. Last year, Mr. Barton predicted Zillow Offers, which made instant offers on homes in a practice known as iBuying, could generate $20 billion a year.

On Tuesday, Zillow, which said it has 8,000 employees, said the division had been the source of huge losses and had made the company's overall bottom line unpredictable. Zillow Offers lost more than $420 million in the three months ending in September, roughly the same amount that the company had earned in total during the prior 12 months.

"We've determined the unpredictability in forecasting home prices far exceeds what we anticipated," Mr. Barton said in a statement accompanying its quarterly financials.

Mr. Barton, speaking on a conference call with analysts on Tuesday afternoon, said the decision had "weighed heavily" on him. "We could blame the current losses on exogenous market events," Mr. Barton said. "But it would be naïve to predict that unpredictable events won't happen in the future."

In all the company lost nearly $330 million in the third quarter, which was far worse than Wall Street analysts had predicted. The company made a $40 million profit in the same period a year ago.

Shares of Zillow have fallen more than 50 percent from a high of nearly $200 in February, when it was still a darling of investors as the housing market heated up. The stock dropped 11.5 percent on Tuesday to about $85.50 before it released its financials, and a further 7.5 percent in after-hours trading. (Even so, Zillow's shares are worth double what they were at the beginning of the pandemic.)

Zillow's share price

Source: Sentieo • By The New York Times

Three years ago, the company announced plans to employ its pricing estimates to buy and sell houses. Now, Zillow is sitting on thousands of houses worth less than what the company paid for them. Last month, Zillow announced it would temporarily stop buying new homes. At the time, it blamed a lack of workers to fix up and sell the houses it had bought. But on Tuesday, Mr. Barton said using its algorithm to buy and sell houses had not produced predictable profits. It is now looking to offload its remaining 7,000 houses.

It appears the company underestimated the risk of holding houses in between transactions, which was a departure from the low-risk, high-margin ad business. And it tried to quickly ramp up its home-flipping business to 5,000 transactions a month, which Mr. Barton set as a goal, in a housing market that was already low on inventory and was starting to cool off.

Zillow's stumble also raises questions about its core product, which is built around its value estimates. Aaron Edelheit, who began buying houses in the wake of the Great Recession, tweeted his thanks to Zillow for paying "such an extremely high price" for one of his properties this summer. "It appeared they were panic buying," Mr. Edelheit, who is leaving the real estate market to focus on cannabis, told The New York Times's DealBook newsletter. "I didn't get it. I should have shorted the stock."

Stephen Gandel is a news editor for DealBook. He was previously a senior reporter for CBS News, and a columnist at Bloomberg. He has covered Wall Street and financial firms for most of his career. @stephengandel

---

Updated 21m ago

Daily Business Briefing ›

- John Deere workers reject a revised contract proposal, extending their strike.
- Elon Musk says Tesla has not signed a deal with Hertz yet.
- The S&P 500 rises for a fourth day, and the Dow crosses 36,000.
- Goldman Sachs promotes 643 employees to managing director, the most in its history.
- Pfizer's Covid vaccine could break sales records again next year.
- The latest: Lyft says its drivers are beginning to return to its service.