REDFIN

Q4 2024 Prepared Remarks

Good afternoon and welcome to Redfin's financial results conference call for the fourth quarter and fiscal year ended December 31, 2024.

I'm Meg Nunnally, Redfin's head of investor relations. Joining me on the call today is Glenn Kelman, our CEO, and Chris Nielsen, our CFO.

Before we start, note that some of our statements on today's call are forward-looking. We believe our assumptions and expectations related to these forward-looking statements are reasonable, but our actual results may turn out to be materially different. Please read and consider the risk factors in our SEC filings together with the content of today's call. Any forward-looking statements are based on our assumptions today, and we don't undertake to update these statements in light of new information or future events.

On this call, we will present non-GAAP measures when discussing our financial results. We encourage you to review today's earnings release, which is available on our website at investors.redfin.com, for more information relating to our non-GAAP measures, including the most directly comparable GAAP financial measure and related reconciliation. All comparisons made in the course of this call are against continuing operations for the same period in the prior year, unless otherwise stated.

Lastly, we will be providing a copy of our prepared remarks on our website by the conclusion of today's call and a full transcript and audio replay will be also available soon after the call.

With that, I'll turn the call over to Glenn.

CEO Remarks

Thanks Meg and hello everyone! Redfin's fourth-quarter revenue of $244 million was within our guidance range and up twelve percent over last year. It was our fourth straight quarter of growth, with real estate services growing faster than at any point since the fourth quarter of 2021. Our adjusted-EBITDA loss of $3 million was below our guidance range, due to higher-than-expected pay for our real estate agents, but still every business improved fourth-quarter adjusted EBITDA from 2023 to 2024. Our full-year adjusted-EBITDA loss was $27 million, an improvement of $53 million over 2023 and $165 million over 2022.

Transition to Redfin Next Increases Agent Census 25%

Our fourth-quarter profits were lower due to Redfin Next, which pays our agents entirely on commissions: one-time transition costs were higher than expected, but our sales force has also grown faster than expected. Our lead-agent census has increased from an average of 1,757 in the third quarter to more than 2,200 today, a 25% increase. At the most-critical points in our sales cycle, meeting new customers and then winning offers, new hires have already been out-performing tenured Redfin agents. When new hires' first customers start closing, we expect sales to grow in the spring.

Higher-Performing Agents, Lower Long-Term Attrition

But a transition of this magnitude also has a one-time effect on sales. As our last set of markets shifted to Next just before Halloween, agents who preferred a salary left, and with them some of the sales that were about to close. The good news is that, a few months after a market shifts to Next, attrition usually declines below pre-Next levels. But during this transition, our fourth-quarter real-estate-services market share was .72%, flat year over year. We'll gladly forgo a quarter of share gains in exchange for the revenue growth that we expect from a larger and better sales force.

A Better Balance Sheet Lets Redfin Go on the Attack

The rapid expansion of our sales force is just one of the ways that Redfin plans to go on the attack in 2025. On February 6, we signed a rentals partnership with Zillow that will double the number of high-quality apartment-listings on our sites, so we can compete better for traffic. The $100-million payment included with that partnership strengthens our balance sheet, and partly funds a 38% increase in 2025 advertising.

Shifting Costs from Personnel to Growth

Due to the increased profits from this rentals partnership, and a January layoff of senior Redfin personnel, we can invest more in growth and still earn a significant adjusted-EBITDA profit in 2025. Our first quarter profits are expected to be down about $8 million year-over-year at the midpoint of our guidance, but we'd be significantly improving profits if not for an incremental $17-million investment in advertising. January demand is already up 5% and should increase more in future months, as the mass-media campaign didn't start until January 13, and won't stop until June.

Gross Margins Set to Expand in 2025

As we grow revenues, we also expect real-estate gross margins to approach 30% in 2025. From the fourth quarter of 2023 to the fourth quarter of 2024, real-estate-services gross margins declined by 60 basis points but only because we underestimated the cost of our Next pay plan by about $4 million in the fourth quarter, and by a slightly smaller amount in the third quarter. We recognized these costs in 2024, and offset them starting this month by eliminating vacation pay and other entitlements that agents care less about than their bonus. Already, we expect first-quarter real estate services gross margins to be significantly higher than in 2024 because of the February reduction in entitlements. We expect second-quarter margins to increase again as the agents hired in winter start closing sales.

Improving Monetization

Beyond the year-over-year gains in real-estate-services margin and market share that we expect from rising demand and a larger sales force, we also plan to improve monetization, increasing profits in every other business segment.

Higher Attach Rates

To earn more money from our brokerage customers, we'll keep selling mortgage and title services. Mortgage attach rates sagged in the fourth quarter to 26%, but surged to 29% in January after we announced that high-attach-rate agents would get more customers from our website. Title attach rates are also increasing, to 63% in the fourth quarter, up from 60% a year ago; our title business, now reported separately from our *other* segment, generated $8 million in 2024 adjusted EBITDA, an improvement of $9 million over 2023. These ancillary sales should fuel more demand. In the fourth quarter of 2024, we were for the first time able to profitably invest in broader home-buyer campaigns on Google and Facebook, based on mortgage and title revenues, not just home sales.

More Rentals Profit

On top of increasing our rentals audience by publishing more listings, we also plan to monetize that audience better. Even without a traffic increase driven by more listings, and even setting aside Zillow's $100-million up-front payment, we believe that the money the Zillow-Redfin partnership pays us for each rental lead will increase our profits. Between February 21 and June 30, we plan to lay off roughly 450 Rent employees, many in sales and sales support; we're grateful for their heroic efforts. We can profitably invest in Rent.com and ApartmentGuide.com technology and marketing because of these sites' large, lucrative audience of apartment-seekers, whom we can now more easily connect to property managers. Over the past year, we were forced to prioritize the apartment-seeker's search experience over monetization, with our site showing about 20,000 apartment listings that our audience couldn't easily ask about, and that generated no revenue. But the Zillow partnership gives us so many listings from paying property-management customers that we no longer need to show unpaid listings. And earning a set amount for every inquiry about every apartment on our sites makes it easier to scale our audience through direct-marketing campaigns and search-site improvements.

Growing Digital Businesses

The final element of our monetization strategy is the broadest: continued profitable growth from digital advertising to both for-sale and rentals audiences. Beyond display ads hosted on our sites, digital advertising includes revenue from promoting new-construction listings on Redfin.com, and from letting lenders connect with the mortgage-seekers we can't serve ourselves. This digital-advertising segment, once combined with our title business in the *other* segment, is now known as *monetization*. Monetization earned $15 million in 2024 adjusted EBITDA, up 46% from 2023, with further growth expected to come from direct sales to advertisers who previously accessed our audience through ad networks.

What Matters Now: Execution and Results

Few investors seem likely to argue with our plans to monetize our audience better, and to get more traffic and more agents. But our prepared remarks are briefer than usual because we understand that what really matters now is our execution of these plans, so we can deliver share gains and profits. We'll discuss the housing market, then Chris will lay out our first-quarter guidance.

The Housing Market: Green Shoots, Cold Rain

One reason Redfin is focused on gaining market-share is that home sales are unlikely to significantly recover in 2025. Demand increased after the November election, but interest rates seem likely to remain high, making it hard for the homebuyers turning out now to afford a home. Pressure on year-over-year growth in home sales should ease after the first quarter, just because 2024 started with an annualized rate of 4.3 million existing home sales last February, compared to a nadir of 3.9 million in September. As these year-over-year comparisons become easier, we expect growth in U.S. home sales to strengthen across the summer, especially if inventory continues to increase and sellers become less aggressive on pricing. The balance between buyers and sellers has been volatile and mixed. For example, our Cincinnati agents report bidding wars across a wide range of prices, whereas the Jacksonville market has shifted "100% to a buyer's market." For U.S. home sales over the four weeks ending last Sunday, the number of days a listing took to sell increased 15% year over year. Even if a sharp rebound is unlikely in 2025, the worst of the downturn is probably behind us; we expect the recovery to be similar to the one that ended the Great Financial Crisis: slow in coming, initially gradual, but, because home-ownership is so important to American culture, hopefully very long. Take it away Chris!

CFO Remarks

Thanks, Glenn!

Fourth-quarter revenue was $244 million, up 12% from a year ago. Gross profit of $82 million was up 12% year-over-year, and total gross margin held steady at 34%.

Total operating expenses were $112 million, down $5 million year-over-year. The decrease was primarily attributable to a $4 million decrease in rentals amortization and a $4 million decrease in software expenses. The lower software expenses were driven by the recognition of vendor credits that we don't expect to recur in future periods. These decreases were partially offset by a $3 million increase in marketing expenses.

Our adjusted EBITDA loss of $3 million was up from a loss of $13 million in the prior year. The adjusted EBITDA improvement was broad based, and carried across every segment of the business.

Net loss was $36 million, compared to a net loss of $23 million in the prior year. This was below our $32 million to $25 million loss guidance range, primarily due to higher than expected transaction bonuses in our brokerage business, as Glenn discussed earlier.

Diluted loss per share attributable to common stock was $0.29, compared with a loss of $0.20 one year ago.

Turning to our segment results for the fourth quarter, real estate services, which includes our brokerage and partner businesses, generated $149 million in revenue, up 12% year-over-year. Brokerage revenue was up 13%, on a 13% increase in brokerage transactions while brokerage revenue per transaction was flat. Revenue from our partners increased 3%, on an 8% decrease in transactions while revenue per transaction increased 13%.

Real estate services gross margin was 21.9%, down 60 basis points year-over-year. This was primarily driven by a 700 basis point increase in personnel costs and transaction bonuses, partially offset by a 380 basis point decrease in home-touring and field expenses as we have eliminated compensation for these activities and instead made compensation contingent on closed transactions. In addition, there was a 110 basis point decrease in home improvement costs incurred on behalf of home sellers. Net loss for real estate services in the fourth quarter was $16 million, up from a net loss of $21 million in the prior year, and adjusted EBITDA loss was $3 million, up from a loss of $7 million in the prior year.

Our rentals segment posted its ninth straight quarter of growth, with revenue of $52 million, a 5% increase. Rentals gross margin was 76.2%, down from 77.5% a year ago. Net loss for rentals was $5 million, up from a net loss of $10 million in the prior year. Adjusted EBITDA for the fourth quarter was $4 million, up from $3 million in the prior year.

Our mortgage segment generated $30 million in revenue, up 15% year-over-year. Mortgage gross margin was 10.9%, up from 4.6% a year ago. Net loss for mortgage was $5 million, roughly flat from the prior year. Adjusted EBITDA loss was $3 million, compared to a $5 million loss in the prior year.

For the quarter and the year, we’ve broken out more detail in our segment reporting, showing results from both our title and monetization businesses.

Our title segment generated $9 million in revenue, up 58% year-over-year. Title gross margin was 26.2%, up from 2.2% a year ago. Net income for title was $2 million, up from a loss of $500 thousand in the prior year. Adjusted EBITDA was $2 million, up from a loss of $400 thousand in the prior year.

Our monetization segment generated revenue of $4 million, up 9% year-over-year. Net income was $3 million, up slightly from a year ago. Adjusted EBITDA was $3 million, also up slightly from a year ago.

Now turning to our financial expectations for the first quarter:

Total revenue is expected to be between $214 million and $225 million, representing a year-over-year change of down 5% to roughly flat compared to the first quarter of 2024. Included within total revenue are real estate services revenue between $126 million and $131 million, rentals revenue between $49 million and $51 million, mortgage revenue between $27 million and $30 million, title revenue of approximately $8 million, and monetization revenue of approximately $4 million. Real estate services gross margin is expected to be between 17% to 18%, up approximately 150 to 290 basis points compared to the first quarter of 2024. Total marketing expenses are expected to be approximately $40 million, up $15 million year-over-year due to higher mass media spending. We don’t expect such large year-over-year increases in total marketing expense for the remainder of 2025, as savings on rentals marketing spend should help offset the mass media increase.

In the first quarter, we'll have $21 million to $24 million of restructuring charges, of which approximately $18 million to $21 million is associated with our Zillow partnership and approximately $3 million is associated with a reduction in force completed in January. Of the total, we expect about $14 million to $17 million of cash charges, and the rest to be non-cash charges associated with write-offs no longer needed for the go-forward business.

Total net loss for the first quarter is expected to be between $94 million and $83 million. Adjusted EBITDA loss is expected to be between $39 million and $32 million.

Before we take your questions, I'd like to provide a little more color on the expected impact of our recently announced Zillow partnership to rentals segment financials. Once the partnership is fully implemented, which we expect to occur by July 2025, our rentals segment revenue will be comprised primarily of payments from Zillow for apartment seeker leads, as well as the amortization of our deferred revenue from a $100 million initial payment. Our first quarter rentals revenue guidance includes $2.5 million in deferred revenue from the initial payment, but doesn't include any revenue from Zillow for leads because the partnership has not been implemented. As we make this transition, we expect rentals revenue will decrease, but expenses will decrease even more. The result is that we expect adjusted EBITDA for the segment to more than triple over 2024 on a run rate basis.

And now let's take your questions.

Q&A

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys. One moment please while we poll for questions. Our first question comes from Naved Khan with B Riley. Please proceed with your question.

Naved Khan
Thank you very much. I have two questions. One on the ad spending, the $40 million that you're trying to spend in the first quarter. Is there a timing target I should think about versus last year in terms of why you decided to maybe do it earlier? Or how should I think about maybe marketing spend in the remaining quarters? And then the other question I had is just around full year EBITDA and free cash flow profitability. What's the right way to think about it now that you have this partnership in place in addition to all of the other changes you've made, including Next and some other things? Thank you.

Glenn Kelman
Sure. So, I'll start. And Chris, if you have any color to add, please do. But we're advertising early because we think that's when home buyers are in the market. And we wanted to be top of mind as they started thinking about which broker to use for listing their home. So far, that ad is producing the expected lift in demand, which is great news.

We saw increases in demand in January, even ahead of the mass media campaign. And now that interest rates are rising, we're glad to have that lift from mass media expenses. It should run through June. So, we will have more leverage in the second half of the year than the first. We expect to be significantly profitable in 2025. We did not start spending money on advertising in advance of cost savings. We've gone through several restructurings in 2024. And then we had an especially painful one at the beginning of 2025 because we wanted to put all the chips in the table on growth and to spend less on staffing.

Coupling that with the Zillow partnership has just given us more room to invest in driving demand. And when you pair that with 25% more agents, when we think those agents are better, we've got good prospects here to make money and to take share.

Chris Nielsen
I would just add that in terms of marketing expenses, we do have marketing expenses up about $15 million in the first quarter of the year, but we don't expect as large increases as we get into the second, third, and fourth quarters of the year.

Naved Khan
Okay. But there would be increases on a year-on-year basis. Is that a fair assumption then?

Chris Nielsen
It depends on the mix of advertising but generally, yes, that's what you should expect.

Naved Khan
Okay. And then in terms of the full-year profitability, EBITDA, free cash flow, any guideposts there in terms of the magnitude or what's the right way to think about that?

Glenn Kelman
Well, we've characterized it as significant adjusted EBITDA, so we're not looking to make $300,000 in adjusted EBITDA. We want to make millions in adjusted EBITDA.

Naved Khan
Thank you, again.

Operator
Our next question comes from John Campbell with Stephens Inc. Please proceed with your question.

John Campbell
Hey, guys. Good afternoon. So it looks like on the lead agent count metric, I mean, that's obviously a quarterly average. If I take the 4Q number and compare it to 2Q, that's up like 12%. Glenn, I think you mentioned in the press release agents were up 25% from a six-months-ago period. I think that's probably because you ended the year with a bit higher amount of agents.

Hoping you can maybe expand on this maybe for this one time to kind of help square us up what your current lead agent count is today and kind of where that stood or maybe where that stood exiting last year.

Glenn Kelman
Yeah, so in our prepared remarks, we were citing numbers hot off the press, so, as of the end of this past week. So we were comparing the end of last week to our average in Q3. And the reason we did that is just because, yes, we hired significantly in Q4, but that continued through the first two months of Q1.

And we've just been more successful than we'd hoped at bringing on agents and especially at bringing on really good agents. They're outperforming our tenure agents at key points in the funnel, the two most important being meeting customers and getting winning offers. So that's the color that we're in excess of 2,200 as of last Sunday. And in Q3, it averaged 1,757. And if you do the math on that, it comes out to about a 25% increase.

John Campbell
Okay. That's very helpful. Thank you for that. And then just help remind us, typical turnaround time. I know as you hired agents in the past, you had to go through the training. I mean, there was a longer ramp up cycle.

It seems like with these agents, these are hot and ready to go, but it seems like maybe even in that sense, you would still have to have maybe a couple of months for it to actually start to generate revenue. Is that broadly correct?

Glenn Kelman
It is. So, there were two factors that led to long ramp times for agents. One is if you hire novice agents, they just need to learn their craft. That is less relevant now because we are hiring such a high proportion of experienced successful agents. We can recruit agents from any brokerage at any level of tenure.

The second factor is just the sales cycle being six months. So those agents will bring a few deals over on their own, but they're going to connect to our website and all the demand that brings, and that takes time just because those customers have to find a house, get an offer, and then close on it. So it just takes four to six months.

John Campbell
Okay. That's great. If I could squeeze in one more. Chris, on the rentals business, you mentioned 3X profit relative to last year. That's I think north of $13.5 million, $14 million, something like that. So that's great. On the revenue side, I'm hoping that you can maybe help square us up there, as well.

I just don't know. I mean, you're sitting here at $200 million or so of revenue exiting the year. If that's a 90% drop or if it's something far larger than that, any kind of sense at this point?

Chris Nielsen
Yeah, I'll try and give you at least a direction here. The main reason to be a little bit cautious is, of course, we haven't fully launched the partnership, so we'll learn a lot once things are up and running. But the digital services portion of our revenue, which was about a third of that overall revenue, those businesses are being shut down, entirely.

And then just in terms of the remainder of the business, the core advertising business, you should expect because we're being paid on a per lead basis, it's also down meaningfully from where it was before. So I know that's not a lot of detail here, but you should expect revenue down, meaningfully, but not 90%. And we do think, and what's the most important thing here is that we do think that this is going to end up being better for consumers because we'll be able to show more inventory, but we'll also help drive more profit dollars.

John Campbell
Excellent. Thanks guys.

Glenn Kelman
Can I just add to that, Chris? I just want to be clear on one point that, yes, it will be less revenue because

Zillow is the one handling the cost of sale, but we expect to run a larger marketplace generating more leads. If we just wanted to squeeze the business where it's a declining business but we're going to get more profit out of it, we could have done that on our own, but getting more rental listings on our site, building a larger marketplace on ApartmentGuide and rent.com, we really think there's growth there. So it'll be on a smaller basis but going forward, we expect those sites to grow, the leads they generate to grow, and the revenue to grow, and with that, the profit.

John Campbell
Thanks.

Operator
Our next question comes from Dae Lee with JPMorgan. Please proceed with your question.

Dae Lee
Great. Thanks for taking my question. I have one. You talked about market share being slightly over your 4Q, but I'm curious if your Next markets show different trends, especially the relatively older Next markets. And when you compare the new Next markets that you launched later in the year versus the older ones, are there any key differences across those two cohorts? And if you're gaining share in the older Next markets, would that be a good indication of how much share you could gain in the new markets, as well?

Glenn Kelman
Chris, do you want me to do that or do you want to take it?

Chris Nielsen
Sure. Why don't you take it, and I'll add commentary.

Glenn Kelman
Yeah, I think the answer here is going to be frustrating that we're generally encouraged by the success that the first Next markets have had, especially in the high end. But we aren't reporting different segments of market share where we say, here's the market share of San Francisco, here's the market share of LA. Those were two of the first markets that transitioned. But it's fair to say that we're really glad we shifted, and it's worked out well.

Chris Nielsen
The only comment I'd add is just that the agents we've been hiring through that program appear to have even stronger metrics to close customers, and that'll be fuel for share growth going forward.

Dae Lee
Got it. Just as a quick follow-up then. Is it safe for us to assume that the marketing ramp you guys are planning for 2025 is more reflective of your confidence in the Next program more so than in the macro environment? Is that the right way to think about it then?

Glenn Kelman
That's not exactly how I think about it. I think part of it is that we think we've got great agents who can handle the demand well, just as you said. But the other part of it is that we just lowered our spending on staffing. We've been through some restructuring because we wanted to spend more of our money on media than people, more of our money on growth.

And so, we felt that we wanted to compete more aggressively. I don't think the macro is meaningfully better from ‘25 to ‘24. We do think that our ability to fulfill the demand will be meaningfully better because of Next. But the other factor, even if we didn't have Next, is just that we wanted to compete harder for traffic.

You go through a year like 2024 where you see how much competitors are advertising and you just decide we've got to restructure the business to make sure that we can go toe-to-toe with anybody.

Dae Lee
Thanks, guys.

Glenn Kelman
Thank you.

Operator
Our next question comes from Jason Helfstein with Oppenheimer & Co. Please proceed with your question.

Jason Helfstein
Thanks. First, Glenn, just your thoughts on Clear Cooperation and if you have anything around strategy that you're kind of, I guess, planning to leverage your platform and the breadth of Redfin. Then I have just two others.

Chris, any color on the mortgage gross margin in the quarter and kind of why it was weaker, sequentially? Then also, I think there was a step up in non-advertising or in the other OpEx. I don't know if that had to do with non-advertising or just any color on that. Thanks.

Glenn Kelman
Sure. I'll start with Clear Cooperation. The industry is obviously trying to figure out what to do about it, but what's notable to me is that the primary proponent of Clear Cooperation runs a website that a few years ago was 13th in the real estate category for traffic and has since fallen to 21st.

I think the argument that withholding inventory and just publishing it on one website runs counter to the scale that you see large websites having. That trend is only moving in one direction, that there's a small number of websites that audiences are going to. And so, it may be that we find new ways to be more accommodating to sellers, so that they want to post their listings on our websites.
I think the MLSs have already been fairly aggressive about that, where you can put a listing up coming soon. You can withhold the photos. You can say you want it visible only to brokers. So, I still think that this is just not in consumers' best interest. And as the market softens, where it gets harder to sell a house, we already noted in our remarks that days on market is up 15%. It just seems harder to make the argument that you want to debut a listing, without getting maximum exposure.

Chris, do you want to comment on mortgage margin?

Chris Nielsen
Let me comment on mortgage. Sure. Mortgage gross margin was down sequentially up, year-over-year. And that's generally what I would expect in the fourth quarter. The year-over-year increase was from about 4.6% to 10.9%. Typically, what we see is a decrease sequentially there, just because with lower volume in the fourth quarter, the fixed costs, even in the operations of that business, weigh on gross margin. And so, that's what keeps things down.

Then specifically, I think you were asking about mortgage G&A expenses, and on a year-over-year basis, those were up. Mostly, that's a comparison to Q4, 2023, where we had a reduction in stock-based comp in the fourth quarter of that year. And so, things were more flat than they would appear. It's just that we had received a benefit last year because we had a reduction in stock-based comp in that period.

Jason Helfstein
Okay, thank you.

Glenn Kelman
Thank you, Jason.

Operator
As a reminder, if you would like to ask a question, please press "*", "1" on your telephone keypad. Our next question comes from Ygal Arounian with Citi. Please proceed with your question.

Ygal Arounian
First, just on the Zillow partnership and traffic for rentals, on Redfin.com, since you've integrated rentals onto your site, how much share of the traffic is towards rentals, if there's a way to break that out? And how much of a benefit do you think you could see there, specifically, as you make this transition and get more rental inventory?

And then, on the agent count, do you expect any further attrition? Do you think that the attrition issue is just finished at this point? It's great to see the strength in the hiring coming through, so far. What are the plans for the remainder of the year in terms of hiring, or do you think you're closer to where you want to be at the moment? Thanks.

Glenn Kelman
Sure. So, we haven't released segmentation on rentals audience versus for sale audience, but about one in five homebuyers is also looking at rentals. And I think the larger issue for us is that when Google and other search engines evaluate real estate websites, they look at general authority in the category, instead of separately evaluating whether you're good for sale search or rental search.

And so, we think that it has been a significant issue in 2024 that other real estate websites had more rental listings. We could see that very clearly when Realtor.com signed a Zillow partnership.

And so, just looking at that hockey stick in 2024 made us feel like we've got to do something about our inventory. And it makes us fairly bullish about what will happen in 2025. Matching another competitor, you may not get the same gain, but we do feel like we've been competing with one hand tied behind our back. So, we're excited about the traffic benefit.

We think it'll be immediate for rentals and, over time, we think we will also do better just generally in traffic. Coupling that with advertising, it should be a good year for traffic.

On attrition, it's always hard to predict, but there is a pronounced effect when you tell hundreds of agents that you're not getting a salary anymore. I think it was especially strong in our most long-established markets just because you give agents a 3% raise every year, so people who had been in, say, a market like Seattle had really high salaries relative to the rest of our workforce. And when we transition those markets, some of the agents are more likely to leave and with them their customers.

We have not seen much attrition since. It's a good pay plan. We are able to recruit agents quite effectively, and the agents who have remained have been our highest performing agents, many of whom just say, I am so excited about this plan. So, sure, if there's a one-time disruption in our sales force, it's such a big change, you have to expect that, but no, we do not expect much go-forward attrition, absent some major competitor move.

We think the economics are fairly stable in the traditional brokerage industry, and that we've just got a good advantage here.

Then your final question was about hiring. We're going to keep hiring. Some of that is because we still feel like our for-sale demand is under-monetized, and that if we had more agents and fewer customers per agent, we would increase close rate, and having an all-variable plan gives us some latitude to do that. I think it also just gives us some latitude to continue to curate our agents.

The whole reason you have a website that decided to hire its own agents is because we think we can be the only brand, the only real estate destination, where you come to the website, you know you're going to get somebody good. It's not some random dingbat; it's someone we have hired to be the absolute best for that particular neighborhood. So, continuing to hire just lets us be really aggressive about monitoring performance and making sure that every agent is delivering on the Redfin promise.

Ygal Arounian
Great, thanks. If I could squeeze in one follow-up on that. You talked about already seeing better demand even before you stepped up on the marketing spend in January. We also saw January, I think, was the lowest month on record of pending home sales since the NAR started keeping track of that. So, you put those two points together, the stronger, bigger sales force, the step up in marketing, and it does feel like this it’s going to be a year with much bigger, more meaningful share gain. Is that the right way? Are you guys thinking about it that way? Thanks.

Glenn Kelman
We've learned to be careful about counting chickens before they hatch, but that's definitely the plan. Just to provide more color, I think this will also give Jason some comfort since he asked about Clear Cooperation. Listing demand has been especially strong for us. That gives us more leverage in the industry. We're not just a pure website. We have our own listings.

If other brokers want to withhold listings at some level, you can only fight fire with fire. But it also just speaks to, I think, there's some secular affinity for the brand, quite apart from just macroeconomics. People who are feeling the pinch want a lower listing fee.

And so, for whatever reason, buy-side demand has mostly tracked with website traffic, but sell-side demand seems to track more just with whether consumers are more aggressive about wanting to get a better deal.

Ygal Arounian
Thank you, Glenn.

Glenn Kelman
Thank you.

Operator
Our next question comes from John Colantuoni with Jefferies. Please proceed with your question.

John Colantuoni
Thanks so much for the questions. I wanted to ask about the economics of Redfin Next. Can you talk a little bit more about what portion of these agents are closing Redfin-generated leads versus leads they generated themselves, how that ratio has impacted gross margins, if at all, and any adjustments you plan

on making to the incentive structure to help bring real estate economics back to your targeted range? I have a follow-up. Thanks.

Glenn Kelman
Sure. I'll start, Chris. You can finish.

We've already made the only adjustment that we anticipate for this year. We said we eliminated some entitlements like vacation pay, and that was just to offset some other costs that were slightly higher than expected that resulted in one-time adjusted EBITDA impacts in Q4.

But generally, agents earn a much higher split when it's self-sourced business. We basically operate like a traditional brokerage where we don't offer much competitive advantage to the agent and, therefore, we don't generate much gross profit from those sales. The mix between self-sourced sales and Redfin-sourced sales has mostly been as expected. The gross margin has, as a result, mostly been as expected, sort of accepting some of the transition costs that we already discussed. So, we're happy with that.

And the way that we think about it is if this lets us recruit an agent who's better at closing Redfin-sourced business, who can do that segment of the business at a higher margin, we're basically earning more gross profit from our online audience, and then we would treat any other self-sourced sales that the agent brings as doing no harm.

Our goal is to let them do those deals. We should make a few shekels from it but, otherwise, what we're really after is maximizing the amount of gross profit we can generate from a given online audience on Redfin.com. Chris, what would you add to that?

Chris Nielsen
I agree with everything you said, and I would just add that we've also continued to look for expense reductions, outside of agent pay. We have fewer managers this year than we did last year. We're expecting continued improvements in terms of the support staff efficiency that will help drive gross margin improvements there, also.

And so, I could enumerate a couple of others in a similar kind of vein, but we're really focused on making sure we have great economics for our customers and agents, but then also saving where we can to drive profits for the business.

Glenn Kelman
And just to build on that, I know you have a follow-on, but that's been maybe an unanticipated benefit. We don't anticipate doing anything in 2025, but when you recruit more entrepreneurial agents and they see the level of support they get so that they can double or triple their volume, they appreciate that. Yet still, the incentives are so well aligned that they have asked, could we lower the per transaction support cost?

I'm not sure I need a manager who's only managing 10 other people. I'm not sure I need this deal coordinator at this level. And so, over time, we just expect that we will get more leverage over our support costs, which is great.

And it used to just feel that our agents weren't aligned with that, and now they very much are. And it just gives us confidence on a go-forward basis about long-term gross margin. What's your follow-on, though? I'm sorry.

John Colantuoni
Yeah, I just had a quick one about, and sorry if I missed this. Maybe you could unpack the transition cost a bit more and the main areas of upside in cost relative to your expectations.

Glenn Kelman
Sure. Chris, do you want to go first?

Chris Nielsen
Sure. So, I think the simplest description is the costs were higher than we expected. This is just mostly related to program mechanics as we rolled that program out, across the whole country. We could see that just some of the base costs associated with agents month-to-month, quarter-to-quarter, were somewhat higher than we expected. And so, that's what you see reflected in those measures in the fourth quarter. And as we could see that coming on, as Glenn mentioned earlier, we made additional adjustments in terms of the program to drive to the kinds of profits we wanted for 2025.

John Colantuoni
Thank you so much.

Operator
Our next question comes from Tom White with DA Davidson. Please proceed with your question.

Tom White
Great, thanks. Just one for me. Glenn, maybe a follow-up to your comments about your market share trends in your earliest Redfin Next markets. It seemed maybe you sort of implied that in kind of the higher-end markets, maybe your share gains were most pronounced. I was just curious if, as you look kind of across the country and the more recently rolled out markets, are there any kind of structural factors or sort of unique elements about those other markets?

Maybe it's different home values, maybe just awareness of the Redfin brand, I don't know, that might cause them to have a different kind of share trajectory than the first four markets or whatever. Thanks.

Glenn Kelman
Sure. Well, I already mentioned one, which is markets where Redfin has been for a long time tended to have agents with higher salaries. And at some level, that had become economically irrational. And so, having those agents turnover was, in part, unavoidable. So there's going to be a one-time transition impact on market share in those markets.

The other factor is just about low home price market. So Redfin, prior to Next, was a good deal for agents selling $400,000 homes, and it wasn't as good of a deal for agents selling $4 million homes. So in a market like Chicago, there was more concern about Redfin Next than there was in a market like San Francisco.

And yet, I just have to tell you that agents were so upset about it six months ago, and they're so happy about it now. No general statement is universally true. There were people who were fine six months ago. There are people who are probably still grumpy now. But man, what a difference just getting a few commission checks has made, even in markets that have lower home prices. So I know that life is unpredictable. You can't count your chickens, as we said, until they hatch. But it's felt pretty good, man. It's felt pretty good.

Tom White
Thank you.

Operator
We've reached the end of our question-and-answer session. Now, I'd like to turn the floor back over to Glenn Kelman for closing comments.

Glenn Kelman
We're going all out, baby. Thanks for coming to the call. We appreciate how many of you show up. And now, we're going to get back to selling houses. Have a great February and March.

Operator
This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.