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7 reasons instant home purchase offers aren't good for sellers

What seems like a convenient and easy solution masks some serious drawbacks

BY CHRIS REDIGER |   JUL 12

Key Takeaways

- Instant home purchase offers aren't designed to benefit the homeseller; they are designed to benefit the investor or company.

- Sellers are positioned to get low offers and still pay fees at or above an agent's fees.

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Sue stood in her parents' San Diego garage, overwhelmed by the years of stuff they'd accumulated and the volume of repairs needed. Add to that the fact that she lived out of state. This sale wasn't going to be easy.

It was certainly tempting to entertain an instant offer to buy the house and walk away from all of it. But her parents needed every dollar they could get out of the house sale. So, they found an agent and the home sold to a cash buyer for full price.

Like Sue, many homeowners and property custodians find themselves in a difficult situation.

Time-sensitive situations, such as job loss or homes in disrepair because of finances or health, create a desire to quickly dispose of real estate.

Companies such as [Opendoor](#) and [Zillow](#) are making it very simple to get a valuation and accept an offer online.

But what seems like a convenient and easy solution masks some serious drawbacks for the homeseller and the real estate market.

Let's look at seven reasons to pass on the instant home purchase offer.



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1. Inaccurate valuations

For years, homebuyers and sellers have been lured by the Zestimate, Zillow's estimation of a property's value. What real estate pros know is that [Zestimates aren't accurate](#).

[Zillow's Zestimate](#) is "calculated from public and user-submitted data, taking into account special features, location, and market conditions" and is what Zillow calls "a starting point." And [according to Stan Humphries](#), creator of the Zestimate home valuation and Zillow Group chief analytics officer, the error rate is about 5 percent nationwide.

Zillow, in an indirect affirmation of the problem, has [launched a competition to create a better valuation model](#). So, for now, skip the Zestimate.

With any valuation model, you should find out what factors are part of the equation. At minimum, you want official filed records and recent sold prices of comparable homes in the neighborhood.

For the most accurate evaluation, nothing beats an in-home consultation by a local agent. Because the home is unique. There may be upgrades, layout features and other factors that can have a direct impact on a home's market value.

Sellers need to know what their home is actually worth; the computer's best guess is only a starting point for a proper valuation.

2. Low offers

An investor or a real estate company that purchases your home outright isn't going to give you market value.

Their goal is to make a profit on your property.

They will have to put money into the property to make it salable, plus cover their overhead. Like a trade-in at the car dealership, you give up top dollar for ease.

But we're not talking about mere hundreds of dollars. We're talking thousands. Maybe tens of thousands.

Are you willing to give up this kind of money for "convenience"?

3. The fees add up

The highest agent commission structure in the U.S. is 6 percent (split between the buyer's and seller's agents). That could be a reason people look at the idea of a company or investor stepping in.

They think that the loss found in a low offer will be offset by not paying agent fees. That's not how this works. Not only will sellers get a lower-than-market-value offer, they'll likely be paying fees as well. In some cases, they will cost more than an agent.

Companies that buy homes outright, such as [OfferPad](#) and [Opendoor](#), charge for various services — including [service fees](#) and “[experience](#)” fees.

Zillow's current [test](#) of its Instant Offers program, which presents sellers with investor bids alongside an agent's comparative market analysis (CMA), doesn't charge any fees; [the company would likely need an active broker's license to do so](#). But should it find a way around that legality or get a license — and if the program is successful — why wouldn't Zillow monetize it?

Homesellers should think about fees this way: When you sell your home, would you rather pay an agent who represents your interests or a company that represents itself?

4. Most markets don't need this 'service'

In a downturn market, you'd expect to see investors swooping in with lowball offers. But in the current housing market, there's little need for homesellers to take such a drastic measure.

In many metros, given tight inventory, homeowners don't even have to put money into updates or upgrades.

IBuyers (a moniker for platforms using new technology to make offers on homes and close quickly) like to show sellers what they'll "save" selling right away versus the cost of staying on the market. So, what are they paying while their house is on the market?

Oh, that's right. They're paying what it already costs to live in their home (while they earn equity). Depending on the market, **their mortgage may be a lot less than rent.**

It's not an additional cost or burden unless they have no money. Even then, there are more options for hard-pressed homeowners than renters, such as refinancing and mortgage assistance.

If sellers decide to sell their home, the market in most metros will reward them with a sale.

5. Reducing inventory raises prices

Home inventory in the U.S. continues to [set record lows](#). As a result, many homebuyers are frustrated trying to get into a home and prices continue to escalate.

Although this doesn't affect the homesellers who don't plan to buy immediately, it does impact the community and the people they know.

The more homes that go off the market via instant offers, the tighter the inventory becomes for homebuyers.

Sure, some of those homes will get put back on the market, but expect the price point to go up. This especially impacts those looking for affordable homes.

6. Investments don't always bring buyers

Investors don't always flip houses for buyers. They often rent them out. Although not all renters are poor caretakers, there isn't much incentive to put effort and care into the property.

Get enough renters on a street, and the curb appeal drops significantly. What do you think that does to home values?

In addition, renters come and go. The community makeup of a neighborhood changes with renters. People who aren't in a place to stay rarely make long-term relationships with those around them. As a result,

the neighborhood suffers from a lack of community.

This doesn't make the neighborhood bad or of less value *per se*. But it does change the benevolent feeling of a caring, connected community.

If you know someone on the street who needs to sell but is having some difficulty getting the home ready, it might be in your best interest to organize some help to get a buyer in. You'll be helping your neighbor and protecting the street's quality of life.

7. The negative effect of low offers

Imagine two or three homes on a street taking an instant offer. If this becomes a trend, appraisers may not be able to disregard the data.

So, if you, the seller, take an instant offer, you are messing with your neighbors' home values. That might not be your problem today, but it could be in the future.

When you go to sell your next home, you're going to be pretty mad if a bunch of people on your future street sell out to an investor for convenience.

Who benefits from instant home purchase offers?

When an agent sells a home, it's a mutually beneficial transaction. The

agent gets a fee or commission, and sellers get the best possible price for their home.

Instant home purchases are designed to benefit the iBuyer or investor under the guise of convenience to the seller.

At the very least, sellers should get a CMA from a licensed real estate agent before considering an instant offer.

Chris Rediger is the co-founder and president of Redefy Real Estate. Learn more about Chris and Redefy on [Twitter](#) or [Facebook](#).

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Cj Yeoman · Copywriter at North American Title

Damn, wish this wasn't behind the firewall. It needs to be shared far & wide. This is one of the best articles I've seen about the value of an agent and owner-occupied property.

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Kristin Walker Gragg · Owner and Realtor at Mavericks Real Estate

CJ, we are sharing it far and wide. I am on the Leadership Council for the Stop Zillow campaign, to encourage them to remove their Instant Offers Program. Their program is hurting the public, in an effort to have another Lead Generating tool. Go to www.StopZillow.com, sign the petition and share with everyone you know. We are happy to have you as part of our team to help spread the word about our campaign. #stopzillow

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Joe Pruett · Works at Bank Plus Realty, Inc.

What does this sentence (above) mean please? "But s for the homeseller and the real estate market." Couple of lines above the numbered list.

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Caroline Feeney · Managing editor at Inman News

Thanks for your note Joe -- I've updated the text with the corrected sentence!

[Like](#) · [Reply](#) · 1 · Jul 12, 2017 10:35am



Roland Estrada · Real Estate Agent/Broker at Bennion Deville Homes Laguna Niguel

The lemmings that jump all over over this model of real estate listings rarely if ever look to see if the emperor has no clothes.

It's nice to see Inman presenting a different if not more logical view of these "innovative" listing models. As I have said before, they are nothing more than flippers with VC backing. They are either going to flip for a profit or hold for a market play. Although, eleven years after the 2006 peak in prices, one wonders if these models

will crap out should there be a correction. It seems these geniuses should have started this model when the market bottomed out in 2012.

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Tni LeBlanc · Georgetown Law

C'mon Roland if they had started this in 2012, they would have had to help distressed borrowers fill out short sale applications. And as we know that is hard work! Almost all the need-to-sell sellers at that time had no equity. Plus sitting around waiting on banks to approve takes all the "instant" out of the "offer." LOL. Oh well, I guess they aren't here to help people.

I, too, am glad to see this piece being featured.

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Greg Hague · CEO at Real Estate Mavericks

[Tni LeBlanc](#), you are a Maverick indeed!

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Greg Hague · CEO at Real Estate Mavericks

Roland, I've read many of your comments and believe they are among the best written opinions in real estate. Just wanted you to know I respect good writing, and you do just that. Greg

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Mark Holt · Captain at Pan Mass Challenge - Team Realtors

Well written Chris. But if I may add reason #8- the iBuyer platform (zInstant offers at least) will release an onslaught of telemarketers upon the seller- read the small print. Whereas an RE pro is sworn to confidentiality to their client! Consumers need to understand that at Zillow Group etal, they are the product!

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Bill Byrd · Associate Broker at Keller Williams Coastal Virginia

Great read! Highest commission in the US? I think your ceiling has a little more upside in special situations. Always negotiable! I know that's not mv ceiling. Again.

great article...glad to see Inman taking a more pro-agent stance these days rather than over hyping new models designed to cut agents out of the picture.

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Teresa Herriot · Designated Broker/Owner at Prime Southwest Realty, Inc.

WOW!!!! Finally it's not just Greg Hague #StopZillow writing about all this. It's about time someone else write an article about how bad this is for the consumers. Plus look at the commission these companies out there are charging to offer zero support, advise, etc. Very hurtful to consumers. Thank you for putting this information out there. I wish there was a way to share it with the public. Their the ones that really need to read this. This isn't new to agents.

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Greg Hague · CEO at Real Estate Mavericks

[Teresa Herriot](#), you are 100% correct. It's a lose-lose program. Consumers either lose equity or unknowingly become lead gen bait for agents who pay Zillow for leads.

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Paula Swayne

AMEN! I am amazed at the fees charged by these instant offer companies! I would love to get those kinds of commissions!

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William Bud Gragg · Mission Bay Senior High

It blows my mind how many consumers are actually buying it! Robbery.

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Greg Hague · CEO at Real Estate Mavericks

Bud, when the market pulls back (it always does), the iBuyers will disappear. Let's just hope very few consumers get taken in the interim.

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Greg Hague · CEO at Real Estate Mavericks

Fantastic article Chris. Every point is spot on. I hadn't thought about the appraiser issue, but it's so true. I'll add one more point. Instant Offers isn't about helping homeowners sell, it's about Zillow capturing homeowner information to sell. The program is not what it's portrayed to be, but rather a lead gen strategy to redirect sellers to agents who pay Zillow for leads. Learn more at www.stopzillow.com. #stopzillow

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Adrienne Knauer · Scottsdale, Arizona

The sellers who would be tempted to sell with Instant Offers are often the most vulnerable sellers there are. They are oftentimes in financial distress, and Zillow wants to capitalize on that. Not only that but Zillow also will generate leads to its website for the sole purpose of selling more display ads for agents. Every Realtor should be aware of this and act now before it's too late!

For consumers this is detrimental as well! I know I wouldn't want to lose thousands by selling my house under market value.

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Jenn Fries · Liberty University

It's easy to see what they are up to with this. Consumers need to get educated! Another crappy lead gen service, only interested in it's shareholders and agents willing to pay the big money. Let's get the industry back in the hands of hard-working agents, ready to better serve consumers than any website or investor! www.stopzillow.com #stopzillow

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Trigs Hague · Ocean Beach, California

I can't even begin to understand how a seller would consider something like an instant offer in today's market. If a home is priced right, it will likely draw multiple offers on day one (something only a skilled agent is trained to handle). I can understand taking an "instant offer" on a depreciating item like

the old rusty bicycle in your garage just to make it go away, but we are talking about appreciating homes here! Instant offers are ludicrous. End of story.

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