

## **Houwzer: Helping You Make The Move**

Kennedy and Drew were selling their first home in order to move to a slightly larger house where the schools were better. What did this involve?

### **Buying Their First Home**

Kennedy and Drew had bought their first home in their late twenties, a little younger than most people at the time<sup>i</sup>. To buy their home, the couple had saved for what seemed like ages until their deposit was enough.

Like nearly all first-time buyers, they did not have enough cash to pay the full price for the house, so they arranged a mortgage. Their parents told them that a 20% deposit was best for a down payment, but like most buyers they did not have that amount of cash available. (Typical down payments for first time buyers have fluctuated over time but dropped from 10% in 1989 to 7% in 2021<sup>ii</sup>). Their small deposit meant they had to purchase extra repayment insurance—an additional cost on their monthly mortgage.

Like most millennials (72%)<sup>iii</sup>, Kenney and Drew had saved the down payment from their wages. (Other ways to gain a down payment included second jobs 24%, family gifts 18%, and stock investment sales 9%). Saving the down payment was a challenge, as their rental payment had steadily increased over time (the average rent in the US increased 18% in the period from 2016 to 2021<sup>iv</sup>).

### **Moving to Their Second Home**

After only a few years in their first home, Kennedy and Drew decided it was time to move. Their first step was to look online to find what was available in their area.

In 2022 information on available homes was widespread. Websites such as Zillow, Realtor.com, and FSBO.com offered lots of detailed information about properties.

Kennedy and Drew had a pretty good idea of what they could afford even before meeting a realtor. Despite the availability of information online they followed most buyers (88%)<sup>v</sup> in deciding to use a realtor.

The couple also had the complication of selling their first home: they needed to sell it before they could buy a new house. They lived in a relatively expensive US city and the house's value had appreciated nearly 50% since they purchased it. It was a pretty typical home and, comparing it to others in the area, they felt a price of around \$500k was about right.

## **The Cost Of Selling a Home**

Homeowners can offer their house as “For Sale By Owners” and do the marketing themselves. In doing so, they would only have to pay relatively modest fees through FSBO.com or a similar service to publicize the property.

That said, most US sellers (90%)<sup>vi</sup> contract with a realtor. There are 1.5 million realtors in the US. Agents are licensed to provide real estate services to sellers and buyers; 67%<sup>vii</sup> of all realtors are agents. The remaining realtors are brokers (and associate brokers), who, in addition to the services a realtor provides, can also complete the legal aspects of transactions<sup>viii</sup>. To finalize a transaction, agents must work under the supervision of brokers. This is why real estate firms are called brokerages.

Working with a realtor usually involves paying a commission of 5-6%.<sup>ix</sup> Even though both buyers and sellers receive support from realtors, typically only the seller pays, using funds directly from the proceeds of the sale<sup>x</sup>. The seller's agent takes about half the commission and gives the other half to the buyer's agent.

The seller's agent promotes the residence for sale on MLS (Multiple Listing Services) so other agents and buyers can find information about it. The seller's agent also provides other services and advice related to things like pricing, staging (presenting the house in an appealing manner), and general marketing.

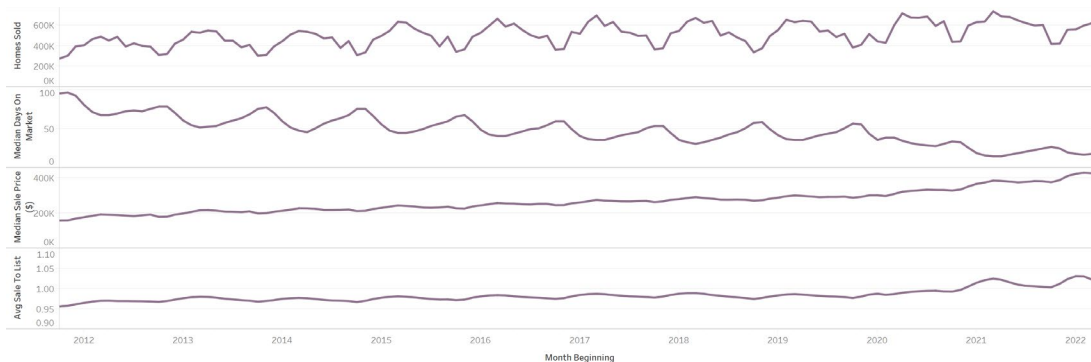
The buyer’s agent is contracted to the buyer and provides them advice on the buying process. For example, the agent helps buyers find appropriate properties, facilitates property viewing, advises the buyer on the right price at which to bid, and conducts negotiations on their behalf. A buyer using a mortgage, like the couple, will also need an appraisal to show their mortgage lender that the home is worth what will be paid for it.

Realtors typically provide both services to both buyers and sellers. In some states they can represent both sides of a single transaction, thus representing the buyer and the seller in the negotiation. In other states such “dual agencies” are banned<sup>xi</sup>. Where not banned, realtors often have specific plans for handling such circumstances. For example, with a dual agency, they will explain the situation to both parties and have one side of the transaction represented by a different group of staff on the realtor’s team.

## Buyer’s and Seller’s Markets

Early in the home-buying process, Kennedy and Drew frequently encountered the terms buyer’s and seller’s markets<sup>xii</sup>. Intuitively, a buyer’s market is one with lots of inventory and thus many choices for buyers. In this market, sellers have greater incentive to accommodate buyer requests. A seller’s market, also known as a hot market, hands more power to sellers. Power between buyers and sellers has changed over time with market conditions. See Figure 1 for details on the US residential housing market.

Figure 1. The Residential Housing Market (2012-2022)



Source: Data from Redfin Data Center, <https://www.redfin.com/news/data-center/>, All Residential Sales (Not Seasonally Adjusted), accessed August 29, 2022

Norms related to negotiation vary around the US. One norm is for buyers to offer less than the asking price and sellers to consider how much less than asking they are willing to accept. In many other markets, especially when inventory is low, buyers might offer more than the asking price. Multiple potential buyers may even enter into a bidding war, pushing the price higher and higher.

**Houwzer**

Kennedy and Drew decided to go with Houwzer for their real estate services. Houwzer is a Certified B Corporation<sup>xiii</sup> (see Table 1 for the company’s B Impact Assessment score). As part of its commitment to using “business as a force for good,” Houwzer pays its workers time to volunteer and directs 2.5% of profits to local nonprofits.

Houwzer aims to take a novel approach to real estate by using data to provide better and more efficient services. Houwzer pays realtors a salary and also offers them health insurance. Beyond the security this offers agents, Houwzer argues that this benefits clients as well. For example, buyers would no longer feel pressured into buying a home by a realtor reliant on commission. Furthermore, Houwzer says that its data-driven insights can help buyers make better purchase decisions.

Table 1. Houwzer’s B Impact Score

<i>Area of Assessment</i>	<i>Score (Certification 11/27/2019)</i>
Governance	15.6
Workers	28.7
Community	35.6
Environment	7.4
Customers	3.0
<b>Overall Total (Rounded)</b>	<b>90.4 (80 meets B Corp requirement)</b>

On the seller’s side, Houwzer has a simple pricing structure: \$5,000 for all seller’s side work<sup>xiv</sup> plus 2.5% to the buyer’s agent for assisting the buyer. Houwzer calculated that

this fee structure saves sellers \$12,000 on average. Houwzer has also suggested that its efficient processes sell houses more quickly and for more money than average.

## The Convenience Offer

A most interesting feature of Houwzer's service to sellers is a "convenience offer." This is a guaranteed sales price for their house. A guaranteed offer means that sellers can make an offer on a house without contingencies (e.g., sellers don't need to say that their offer "depends on selling our own home," making their offer more reliable). Houwzer describes this as giving sellers, whose assets often get tied up in their old house, the advantage of being able to make a "cash" offer. Kennedy and Drew hoped very much that this would allow them to move and upgrade their home quickly.

## End Notes

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<sup>i</sup> Jerry Brown, Money Under 30, "How Home Buying Has Changed Over The Last 60 Years - From Increased Prices To The Rise Of Home Buying Technology", Modified May 18, 2021, <https://www.moneyunder30.com/how-home-buying-has-changed-over-the-last-60-years>, accessed August 26, 2022

<sup>ii</sup> Jessica Lutz , National Association Of Realtors, Jan 7, 2022, "Tackling Home Financing and Down Payment Misconceptions", <https://www.nar.realtor/blogs/economists-outlook/tackling-home-financing-and-down-payment-misconceptions>, accessed Aug 26, 2022

<sup>iii</sup> Tim Ellis, Redfin, "Down Payments", Updated Oct 6, 2020, <https://www.redfin.com/news/how-millennial-homebuyers-save-for-down-payment/>, accessed Aug 26, 2022

<sup>iv</sup> Pew Research Center, March 22, 2022, "The average U.S. rent has risen 18% over the last five years", [https://www.pewresearch.org/fact-tank/2022/03/23/key-facts-about-housing-affordability-in-the-u-s/ft\\_22-03-23\\_housingaffordability\\_2a/](https://www.pewresearch.org/fact-tank/2022/03/23/key-facts-about-housing-affordability-in-the-u-s/ft_22-03-23_housingaffordability_2a/), accessed Aug 26, 2022

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<sup>vi</sup> National Association Of Realtors, "Quick Real Estate Statistics", November 11, 2020 <https://www.nar.realtor/research-and-statistics/quick-real-estate-statistics>, accessed August 29, 2022

<sup>vii</sup> National Association Of Realtors, "Quick Real Estate Statistics", November 11, 2020 <https://www.nar.realtor/research-and-statistics/quick-real-estate-statistics>, accessed August 29, 2022

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ix Taylor Gordon, Ownerly, “Realtor Percentage: How Much is Realtor Commission?”, August 15, 2022, <https://www.ownerly.com/real-estate/average-commission-for-real-estate-agent/>, accessed 08/29/22

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xi Erik J. Martin, Bankrate, “What is dual agency, and is it risky?”, <https://www.bankrate.com/real-estate/dual-agency/>, accessed August 29, 2022

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xiii Houwzer, Our Values, <https://houwzer.com/about/our-values>, accessed Aug 29, 2022

xiv Houwzer, “How are we different?”, <https://houwzer.com/sell>, Accessed August 29, 2022