

# Study: It Costs Sellers More to Work With iBuyers

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Home sellers who choose to sell directly to an iBuyer often end up paying higher fees than if they sold the traditional way with a real estate agent, according to a new study by Collateral Analytics, a real estate analytics firm.

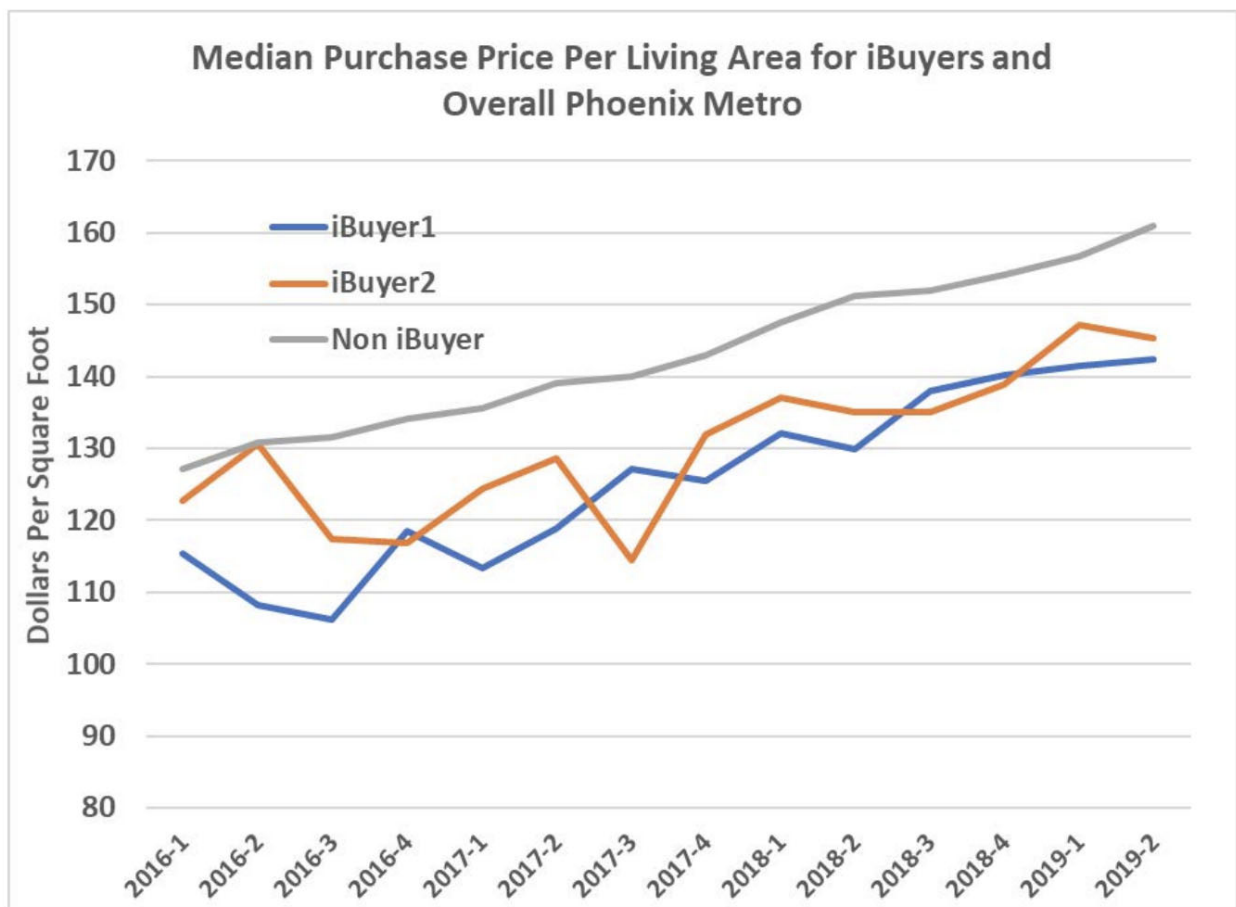
iBuyers provide instant cash offers and quick closings, perks that are hard for sellers to ignore. Transactions involving iBuyers have been growing at a clip of more than 25% annually in recent years. But how profitable is it for sellers who choose this expedited route to a sale? The answer hasn't been clear since iBuyers first surfaced in 2014 with the launch of Opendoor.

Collateral Analytics, in a white paper, looks to quantify the costs to sellers of working with iBuyers versus taking the traditional route of working with a real estate professional. Researchers estimate that sellers end up paying between 13% to 15% more when working with iBuyers. The percentage reflects differences in traditional real estate agency fees, as well as an allowance iBuyers often request for repairs and an additional 3% to 5% to cover the iBuyer's liquidity risks and carrying costs. "Most iBuyers will inspect the home, assess a generous home repair allowance, and negotiate (an additional) credit to handle such repairs," the Collateral Analytics report notes.

'You Can't Afford to Ignore  
iBuyers'

However, some iBuyers take on other costs that most traditional buyers wouldn't. For example, companies such as OfferPad offer to pay the costs of a seller's move up to 50 miles away. iBuyers may also allow a grace period after closing for the seller to vacate the property.

The chart below from Collateral Analytics shows quarterly median purchase prices on a per-square-foot basis for single-family homes in Phoenix bought by iBuyers and traditional buyers. The lion's share of iBuyer transactions nationwide occur in Phoenix.



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The report also notes that the iBuying model could make properties vulnerable to several financial risks, such as the use of automated valuation models that could inflate property values. Also, properties remain empty while in the possession of iBuyers, which could make the homes vulnerable to theft and other criminal activity.

Wall Street has been betting big on iBuyers in recent years. Opendoor has reportedly raised at least \$1.3 billion and purchased more than 10,000 homes in 2018—three times that of its closest competitor, OfferPad. More real estate brokerages are launching their own iBuying models, including Keller Williams, Coldwell Banker, and Redfin. “For some sellers needing to move or requiring quick extraction of equity, this is certainly worthwhile,” according to the research paper. “But what percentage of the market will want this service remains to be seen.”

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Source: “iBuyers: A New Choice for Home Sellers But at What Cost?” Collateral Analytics (Aug. 7, 2019)