SMID Internet

Can Amazon Disrupt Residential Real Estate Services?

Amazon and Realogy announced the creation of TurnKey, a collaboration aimed at offering post-closing services for homebuyers. TurnKey matches prospective homebuyers with an agent from a Realogy brand (Coldwell Banker, Century21, Sotheby’s, Better Homes and Gardens, and ERA). Upon closing on a home, the buyer receives between $1,000-$5,000 in home services ($1K for $150K-$399K homes, $2,500 for $400-699K homes, $5K for $700K+ homes) from Amazon Home Services (AHS). Buyers can select from services including deep cleaning, handyman, furniture assembly, picture hanging, shelf installing, or TV mounting and are also able to purchase Amazon’s smart home products which would be installed by AHS. TurnKey is live in 15 markets across the US and would expand on its success.

It’s early, so as ZG and RDFN shareholders we wouldn’t necessarily overreact, but we see this move as a greater risk to Zillow than Redfin. This should be a benefit for Realogy [RLGY, Not Rated], as it has struggled to stay relevant in an evolving residential real estate landscape, but it’s still unclear how much of a driver free installation of Amazon products and services would be to home buyers. But at the very least, this should be a stellar lead generation source for Realogy. While for now, Amazon is only offering post-closing services, and it may not yet be enough to entice buyers to chose a Realogy brokerage/agent over a competitor, it opens up the door for greater partnerships. For example, traditional brokerages have been slower to embrace iBuying (something Amazon can clearly fit into its portfolio if it’s aiming for leads for its home technology/installation products).

Negative Impact on Zillow: This is a negative for Zillow and its Premier Agent business, slightly in the near-term but potentially larger long-term. While it’s unclear how many of Zillow’s PAs are Realogy agents, Realogy has nearly 200k agents in the US. This potentially opens up a large competitor for online lead generation dollars, though Zillow’s brand awareness and portal are still immensely valuable. We would beware if Amazon pushes further down this path and enters the iBuying fray, helps create a portal for Realogy, or tacks on mortgage services. Amazon entering the market should be a concern for ZG investors over the long-term, but Realogy has had a host of its own problems, and while Amazon has certainly been disruptive to many industries, it has not always been.

Less Negative Impact on Redfin: While Redfin is not reliant on lead-generation revenue, its "tech-enabled" brokerage competes for eyeballs online. It’s largest benefit remains its portal-like website, innovative offerings (Opendoor partnership, non-agent represented home buying), and its low-fee. We see consumers preferring a 1% fee to a $1-$5,000 discount to installing Amazon services. For example, the Turnkey partnership offers $2,500 in services for a home valued at $400-699k. However, a home seller using Redfin over a full-priced brokerage would save 1.5-2% on seller fees, or up to $8k on a $400k home and $14k on a $699k home. While Redfin’s discount and Turnkey’s promotion are on different transaction sides, we see Redfin’s discounts as compelling enough to keep sellers/buyers in its ecosystem. However, if Amazon does move further into services like iBuying, creating a portal, or offering mortgages, this could be a larger risk to Redfin.

No changes to our ZG Neutral rating or RDFN Outperform rating.

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Risks to the Attainment of Our Price Targets and Ratings: SMID Internet
Risks to attainment of our share price targets and ratings for ZG include faster/slower than expected adoption of iBuying and growth in Zillow Offers as well as profitability; and better/worse than expected rebound in Zillow's Premier Agent lead generation product. Risks to attainment of our share price targets and ratings for RDFN include a worsening residential real estate environment, increase in mortgage rates and pressure on company margins from agent utilization and investments.

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**Positive ( + ):** Proprietary data set with correlation to a given historical company-reported metric indicates that the respective current/mid-quarter company-reported metric trends are better than consensus and/or better than management guidance.

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**Non-Conclusive/No Call (NC):** Proprietary data set does not have a strong enough correlation to be Positive or Negative.

**Analyst Certification**
We, Ygal Arounian and Amir Chaudhri, certify that the views expressed in this report accurately reflect our personal opinions and that we have not and will not, directly or indirectly, receive compensation or other payments in connection with our specific recommendations or views contained in this report.

**Mentioned Companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Rating</th>
<th>Price</th>
<th>Target</th>
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<tbody>
<tr>
<td>Amazon.com</td>
<td>OUTPERFORM</td>
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<td>Redfin Corporation</td>
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<td>Zillow Group, Inc.</td>
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**Investment Rating System:**
OUTPERFORM: Expect the total return of the stock to outperform relative to the median total return of the analyst’s (or the analyst’s team) coverage universe over the next 6-12 months.

NEUTRAL: Expect the total return of the stock to perform in-line with the median total return of the analyst’s (or the analyst’s team) coverage universe over the next 6-12 months.

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The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

<table>
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<th>Rating distribution (as of July 23, 2019)</th>
<th>Investment Banking Relationships (as of July 23, 2019)</th>
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<tbody>
<tr>
<td>OUTPERFORM: 57.18%</td>
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<td>NEUTRAL: 41.35%</td>
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<tr>
<td>UNDERPERFORM: 1.47%</td>
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Company Specific Disclosures
1. WS makes a market in the securities of Amazon.com, Redfin Corporation, Realogy Holdings Corp and Zillow Group, Inc..

Price Charts

Amazon.com Rating History as of 07-19-2019
powered by: BlueMatrix

Redfin Corporation Rating History as of 07-19-2019
powered by: BlueMatrix

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*WS changed its rating system from (Strong Buy/ Buy/ Hold/ Sell) to (Outperform/ Neutral/ Underperform) on July 14, 2009. Applicable disclosure information is also available upon request by contacting Leslie Lippai in the Research Department at (212) 833-1375, by email to leslie.lippai@wedbush.com, or the Business Conduct Department (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.
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