

April 21, 2025

Industry Comment

Sector: Real Estate Services

Sector Rating: Market Weight

## Thoughts into 1Q25 MRES Earnings

### Maintain Preference for Secular Growers (COMP, RKT/RDFN, Z)

For our Mortgage & Real Estate Services coverage, 1Q25 results should be solid given slight upside to existing home sales expectations for the quarter, and as a downdraft in the cash share of closings has supported relative outperformance for mortgage purchases. [Our analysis](#) also suggests that pending home sales improved on a seasonally-adjusted basis in March, providing support for closings into April.

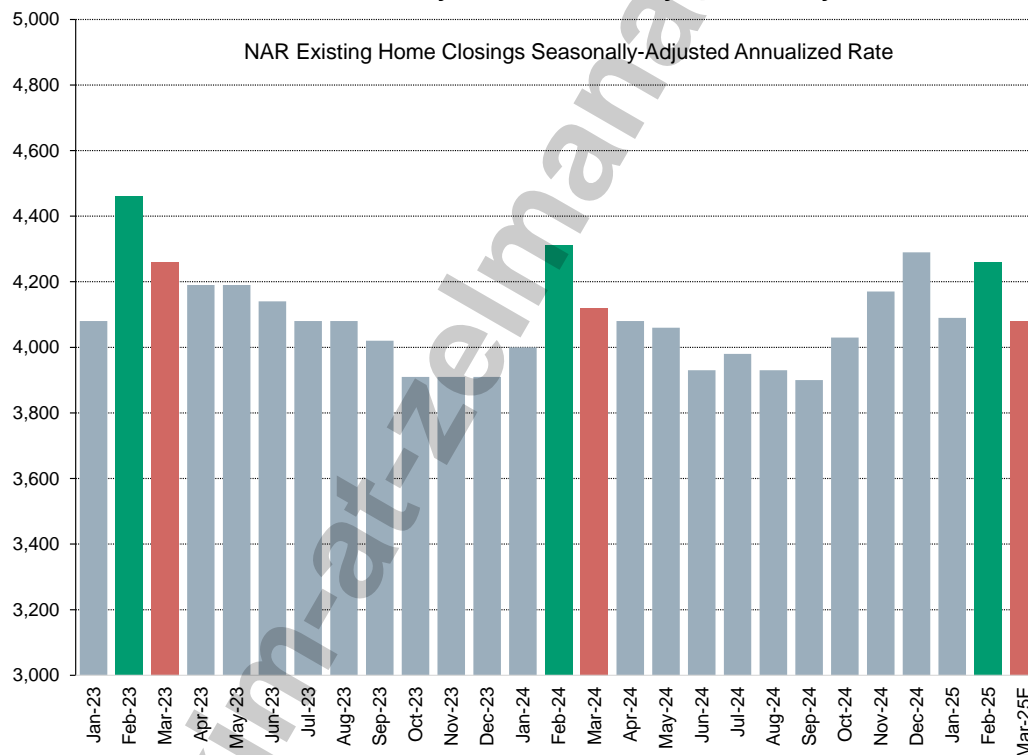
That said, noted in today's [Real Estate Broker Survey](#), feedback is skewing cautiously more recently on concerns that stock market declines, eroding consumer confidence, recession fears and still-high interest rates could cause the next air pocket in buyer demand. While we believe the magnitude of downside risk to existing home sales in a recessionary backdrop is somewhat modest given already-depressed levels and what we have learned from previous non-housing led recessions, the bias to our prior EHS growth estimates is nevertheless to the downside. We also believe home price risk is rising as inventory continues to grow.

Given slightly higher mortgage rates since our late-March [macro updates](#), combined with heightened macroeconomic uncertainty and weaker consumer confidence, we are lowering multiples and increasing the weighting of our downside valuation scenarios, with our fair value targets decreasing 20% on average for our Mortgage & Real Estate Services coverage. We are maintaining our relative rating preferences and continue to believe that COMP, RKT/RDFN and Z provide the best risk-reward as secular growers near the cycle trough.

- **1Q25 EHS Backdrop Slightly Better Than Expected:** Including our forecast for March existing home sales (4.08 million SAAR, down 4.2% sequentially, down 1.0% year over year and 0.5% below consensus), we estimate that 1Q25 existing home sales were flat year over year on a seasonally-adjusted basis and down 2% on an unadjusted basis. With a continuation of solid growth in average sales price, partially influenced by mix toward higher-end home sales, we estimate that existing home sale transaction volume increased 3-4% in 1Q25, better than the 1-2% embedded in our company models for the quarter.
  - As an aside, elaborated on in today's Broker Survey, the headline weakness we expect for March EHS likely overstates reality. We believe NAR's seasonal adjustment factors are missing a post-COVID shift in home closing trends between February and March. As a result, February's SAAR has been consistently robust in recent years, with March's SAAR consistently dropping 4.0-4.5% from February. (See Exhibit 1)
- **Mortgage Trends Outperforming Home Sale Trends:** More relevant for RKT than our other Real Estate Services names, mortgage purchase origination growth has started to outperform total home closings over the last two quarters, with the elevated cash share of existing home closings declining on a year-over-year basis for five consecutive months. As we have written in our [Macro Mortgage Finance Forecasts](#), after significant underperformance in 2021-24, relative outperformance for financed purchases should continue in the coming years if mortgage rates stabilize or certainly if they move lower. (See Exhibit 2)
- **Framing the Macro Housing Recession Risk:** Our [existing home closings forecast](#) as of late-March calls for 5% growth in 2025, 9% growth in 2026 and 5% growth in 2027, premised on a marginal downdraft in mortgage rates and a 'stretched but improving' affordability backdrop. The obvious downside risks would be associated with meaningfully higher mortgage rates and/or a recession. Framing recession risk, we believe non-housing led slowdowns, such as in 1995 and 2000, are more appropriate comparisons than housing-led downturns like the Great Financial Crisis or the Savings & Loan Crisis.
  - In both 1995 and 2000, existing home sales declined 1% and mortgage purchase originations declined 3% – in both cases from absolute levels above today's pace. Overall, while a recession could act as a longer-term positive for housing via lower rates, we believe recessionary effects like job losses, weak confidence and demand destruction would trump rate dynamics in the short run. Even so, we think the downside risk to existing home sales in a recessionary backdrop is manageable, though certainly worse than our current growth outlook, supporting our reductions in valuations. (See Exhibit 3)

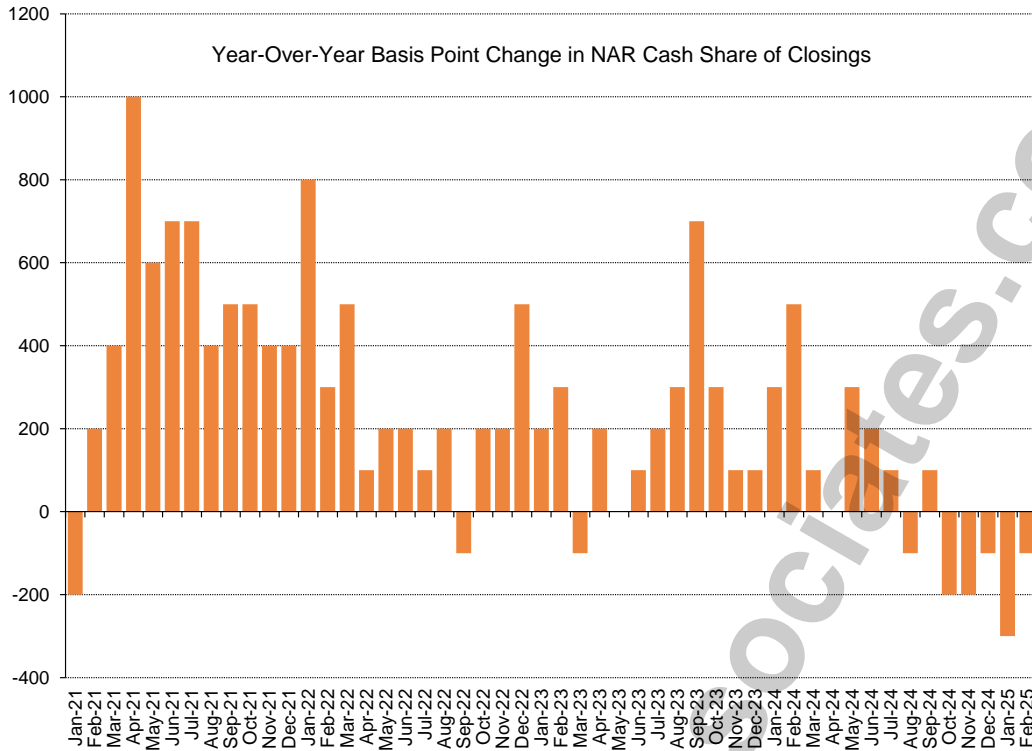
**Please refer to the end of this report for relevant disclosures and contact information for Zelman & Associates' research analysts.**

- As described in our [Macro Existing Home For-Sale Forecasts](#), following year-end home price appreciation of 4.2% in 2024, we forecast further deceleration to 2.9% in 2025, followed by two more years of below-average HPA at 3.3% in 2026 and 3.4% in 2027. Even if a recession is avoided, the current bias to our outlook is to the downside as inventory continues to grind higher while high rates, weaker consumer confidence and macroeconomic uncertainty present risk to the demand side of the equation. A true recessionary backdrop with meaningful job losses would likely create more 'forced sellers' and bring greater risk of declining home prices across more of the country – either via delinquency/foreclosure or a realignment of what homeowners, particularly those who bought at peak rates and peak prices in recent years, can comfortably afford (i.e., downsizing out of necessity).
- **Adjusting Valuations Lower, Maintain Relative Ratings:** While we will adjust our fundamental estimates as necessary through earnings season, for now, we are lowering multiples and increasing the weighting of our downside scenarios. On average, we have reduced our fair value targets by 20%. Within the relative rating framework for our Mortgage & Real Estate Services sector, we maintain our Outperform ratings on [COMP](#), [RKT/RDFN](#) and [Z](#), a Neutral rating on [OPEN](#) and Underperform ratings on [HOUS](#) and [RMAX](#).
  - While the very depressed cyclical backdrop is the reality for all, differences in execution and secular performance in the sector remain apparent. We prefer the risk/reward of our Outperforms due to: (1) the current and expected secular growth trajectories; (2) cost structures that will support stronger operating leverage and profit growth as a housing recovery eventually unfolds; (3) low financial leverage; and (4) their ability and willingness to invest and innovate in accretive ways through the downturn. Our revised fair value targets suggest average upside of 45% for our Outperform-rated names versus 9% downside for Underperforms.
  - Lastly, while RDFN's stock price is now directly linked to RKT's given the fixed-share exchange ratio of the [pending acquisition](#), for simplicity, we are adjusting our fair value on RDFN to the initial deal price of \$12.50 alongside our constructive view on RKT and as we believe the likelihood of the deal closing is high. See Exhibit 4 through Exhibit 10 for our updated valuation frameworks, ordered alphabetically.

**Exhibit 1: NAR EHS SAAR Consistently Robust in February, Consistently Weak in March**

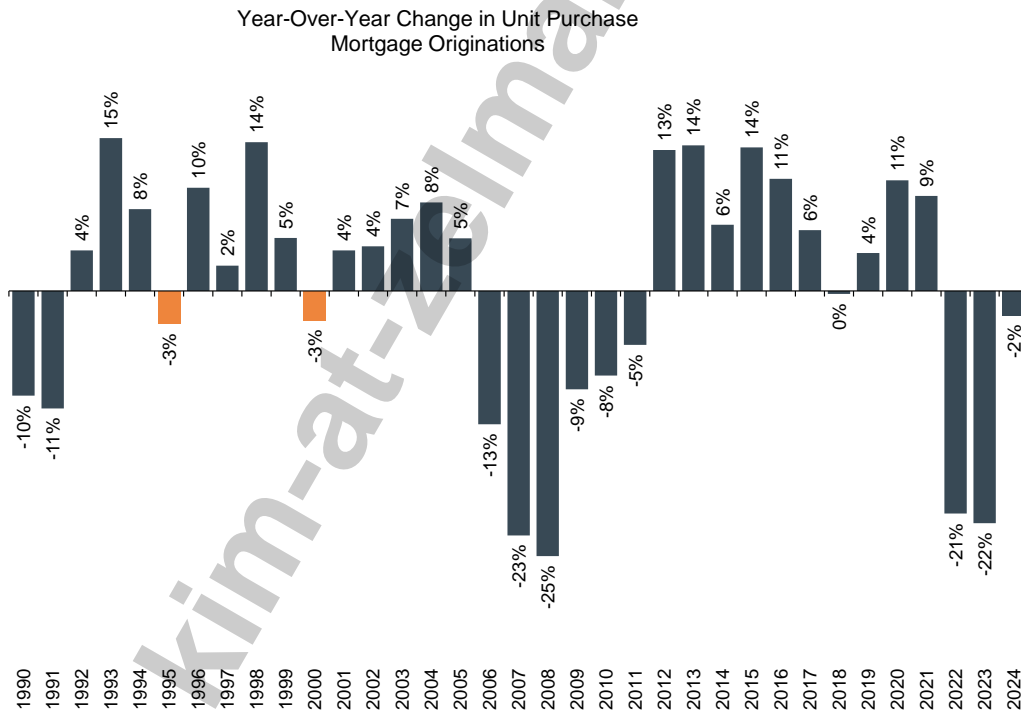
Source: NAR, Zelman & Associates analysis

**Exhibit 2: After Rising Sharply in Recent Years, Cash Share Finally Receding**



Source: NAR, Zelman & Associates analysis

**Exhibit 3: Last Two Non-Housing Led Employment Downturns Resulted in Modest Sales Dips**



Source: HMDA, Zelman & Associates analysis

**Exhibit 4: Anywhere Real Estate (Underperform) Valuation Summary**

EV / EBITDA Valuation	Downside	Base	Upside
Probability	30%	50%	20%
2025 Core EBITDA	\$316	\$359	\$420
Target 2025 EV/EBITDA Multiple	7.9x	7.4x	7.0x
2026 Core EBITDA	\$349	\$407	\$486
Target 2026 EV/EBITDA Multiple	7.2x	6.6x	6.1x
Implied Enterprise Value	\$2,498	\$2,673	\$2,942
Cash	\$124	\$124	\$124
Total Debt	\$2,521	\$2,521	\$2,521
Implied Equity Value	\$101	\$276	\$545
Fair Value Per Share	\$1.00	\$2.50	\$5.00
Upside / Downside from Current Price	-66%	-16%	68%
Scenario Weighted		\$2.50	
Upside / Downside from Current Price		-16%	

Source: Zelman & Associates analysis

- **Investment Risks:** Risks to achieving our target price for HOUS, which is below the current stock price, include: (1) if interest rates accelerate lower; (2) stronger macro housing trends than our current assumptions; (3) if cost-saving efforts drive more operating leverage than anticipated; (4) agent commission splits at lower levels than currently anticipated; and (5) less long-term commission rate pressure than currently assumed.

**Exhibit 5: Compass (Outperform) Valuation Summary**

Valuation Summary	Downside	Base	Upside
Probability Weighting	30%	50%	20%
2026 Core EBITDA	\$250	\$324	\$408
Target 2026 Firm Value / Core EBITDA Multiple	12.7x	20.8x	22.3x
Implied Firm Value	\$3,167	\$6,735	\$9,104
2026 Adjusted EBITDA	\$378	\$456	\$546
Target 2026 Firm Value / Adjusted EBITDA Multiple	8.4x	14.8x	16.7x
Implied Firm Value	\$3,167	\$6,735	\$9,104
Debt	\$0	\$0	\$0
Cash & Cash Equivalents	\$224	\$224	\$224
Implied Total Equity Value	\$3,391	\$6,959	\$9,328
Less: Valuation of Stock Options and RSUs	(\$300)	(\$700)	(\$900)
Equity Value of Basic Shares Outstanding	\$3,091	\$6,259	\$8,428
Implied Equity Value Per Basic Share	\$5.50	\$11.25	\$15.25
	-25%	54%	109%
Scenario Weighted		\$10.25	
Upside / Downside from Current Price		41%	

Source: Zelman & Associates analysis

- **Investment Risks:** Risks to achieving our target price for COMP include: (1) if interest rates accelerate higher; (2) weaker-than-expected home sale and home price trends; (3) an inability to adhere to its annual OpEx framework; (4) if competitive pressures result in higher-than-expected agent commission splits; (5) greater-than-expected commission rate pressure into the future; and (6) ancillary businesses proving to be more costly and less profitable than our current long-term assumptions.

**Exhibit 6: Opendoor (Neutral) Valuation Summary**

Valuation Summary	Downside	Base	Upside
Probability Weighting	30%	50%	20%
2025 Adjusted Gross Profit	\$395	\$438	\$501
Implied 2025 Firm Value / Gross Profit Multiple	0.4x	1.3x	2.4x
Implied Firm Value	\$158	\$569	\$1,204
Corporate Debt	\$378	\$378	\$378
Cash & Marketable Securities	\$679	\$679	\$679
Implied Total Equity Value	\$459	\$870	\$1,505
Less: Valuation of Stock Options and RSUs	(\$35)	(\$75)	(\$135)
Equity Value of Basic Shares Outstanding	\$424	\$795	\$1,370
Implied Equity Value Per Basic Share	\$0.50	\$1.00	\$2.00
	-48%	5%	110%
Scenario Weighted		\$1.00	
Upside / Downside from Current Price		5%	

Source: Zelman & Associates analysis

- **Investment Risks:** Downside risks to our target price for OPEN include: (1) if interest rates accelerate higher; (2) weaker home price trends than currently expected, or greater-than-expected pressure on its acquisition pace and thus its future revenue trajectory; (3) weaker-than-expected risk management and an inability to underwrite the degree of risk necessary into pricing spreads to sustain favorable contribution margins; and (4) if the consumer value proposition structurally diminishes.

**Exhibit 7: Redfin (Outperform) Valuation Summary – Pending Acquisition by RKT**

Valuation Summary	Base
2026 Adjusted EBITDA	\$86
Implied 2026 FV / EBITDA Multiple	27x
Implied Firm Value	\$2,355
Total Debt	\$816
Cash & Equivalents	\$225
Implied Total Equity Value	\$1,764
Implied Equity Value Per Share	\$12.50
Upside / Downside from Current Price	48%
Scenario Weighted	\$12.50
Upside / Downside from Current Price	48%

Source: Zelman & Associates analysis

- **Investment Risks:** Downside risks to our target price for RDFN include: (1) if the RKT acquisition falls apart on shareholder or regulatory approvals.

**Exhibit 8: RE/MAX (Underperform) Valuation Summary**

Valuation Summary	Downside	Base	Upside
Probability	30%	50%	20%
2025 Core EBITDA Estimate	\$70	\$76	\$84
Implied 2025 EV/EBITDA Multiple	7.1x	7.6x	8.1x
2026 Core EBITDA Estimate	\$71	\$78	\$90
Implied 2026 EV/EBITDA Multiple	7.0x	7.4x	7.5x
Implied Enterprise Value	\$498	\$579	\$675
Cash	\$97	\$97	\$97
Total Debt	\$441	\$441	\$441
Implied Equity Value	\$154	\$235	\$331
Implied Equity Value Per Share	\$5.00	\$7.50	\$10.50
Summary	\$5.00	\$7.50	\$10.50
Upside / Downside from Current Price	-31%	3%	44%
Scenario Weighted		\$7.25	
Upside / Downside from Current Price		-1%	

Source: Zelman & Associates analysis

- **Investment Risks:** Downside risks to our target price for RMAX include: (1) weaker housing trends or greater competitive pressure than currently assumed, influencing revenue and profit margins; (2) an inability to turn around the growth trajectory in the U.S. over the long term or inability to sustain growth in Canada or internationally; and (3) if Motto Mortgage and wemlo fail to contribute to profits over time.

**Exhibit 9: Rocket Companies (Outperform) Valuation Summary – On Standalone Estimates**

Valuation	Downside	Base	Upside
Scenario Weighting	30%	50%	20%
2026 Adjusted EBITDA	\$1,703	\$2,725	\$3,859
Implied 2026 FV / EBITDA Multiple	16x	15x	17x
Implied Firm Value	\$27,422	\$40,851	\$65,658
Total Debt	\$4,039	\$4,039	\$4,039
Cash and Cash Equivalents	\$1,273	\$1,273	\$1,273
Implied Total Equity Value	\$24,656	\$38,085	\$62,892
Implied Equity Value Per Basic Share	\$12.25	\$19.00	\$31.50
Upside/Downside from Current Price	2%	58%	162%
Scenario Weighted		\$19.50	
Upside/Downside from Current Price		62%	

Source: Zelman & Associates analysis

- **Investment Risks:** Risks to achieving our target price include: (1) if interest rates accelerate higher; (2) greater difficulty or more costly expansion of purchase market share than our baseline view; (3) if cost-efficiencies and productivity enhancements fade; (4) weaker-than-expected gain-on-sale margin trends; and (5) if the company strays toward riskier borrowers and loan products like many previously-conservative lenders did in advance of the housing bust and Great Recession.

**Exhibit 10: Zillow (Outperform) Valuation Summary**

Valuation	Downside	Base	Upside
Scenario Weighting	30%	50%	20%
2025 Adjusted EBITDA	\$587	\$653	\$731
Implied 2025 FV / EBITDA Multiple	23x	32x	40x
2026 Adjusted EBITDA	\$752	\$940	\$1,146
Implied 2026 FV / EBITDA Multiple	18x	22x	25x
Implied Firm Value	\$13,450	\$20,883	\$29,229
Total Debt	\$418	\$418	\$418
Cash and Cash Equivalents	\$1,082	\$1,082	\$1,082
Short-Term Investments	\$776	\$776	\$776
Implied Total Equity Value	\$14,890	\$22,323	\$30,669
Less: Estimated Value of Dilutive Securities	(\$1,550)	(\$2,000)	(\$3,150)
Equity Value of Basic Shares Outstanding	\$13,340	\$20,323	\$27,519
Implied Equity Value Per Basic Share	\$56.50	\$86.00	\$116.50
Upside/Downside from Current Price	-10%	37%	86%
Scenario Weighted		\$83.25	
Upside/Downside from Current Price		33%	

Source: Zelman & Associates analysis

- **Investment Risks:** Risks to achieving our target price include: (1) if interest rates accelerate higher; (2) weaker-than-expected home sales and home price trends; (3) an inability to translate early successes in enhanced markets into new geographies; (4) greater expense growth than anticipated if the competitive environment forces heavier investments than anticipated; (5) an inability to drive long-term profitable growth in mortgage lending; and (6) greater-than-expected commission rate pressure across the industry.

## Zelman & Associates Equity Research Department

**Ivy Zelman**

EVP, Director of Research  
Macro  
212-993-5831  
ivy@zelmanassociates.com

**Ryan McKeveny, CFA**

Managing Director  
Mortgage & Real Estate Services  
212-993-5837  
ryan@zelmanassociates.com

**McClaran Hayes**

Director  
Building Products  
212-993-5836  
mcclaran@zelmanassociates.com

**Alex Kim**

Senior Associate  
REITs  
212-993-5827  
akim@zelmanassociates.com

**David Fan**

Associate  
Building Products  
646-907-5121  
fan@zelmanassociates.com

**Alan Ratner, CFA**

Managing Director  
Homebuilding  
212-993-5834  
alan@zelmanassociates.com

**Adam Baumgarten**

Managing Director  
Building Products  
212-993-5842  
adam@zelmanassociates.com

**Marius Morar**

Director  
Homecenters  
212-993-5848  
marius@zelmanassociates.com

**Natalie Kulasekera**

Associate  
Homebuilding  
646-437-7610  
natalie@zelmanassociates.com

**Kevin Kaczmarek, CFA**

Head of Data & Analytics  
Mortgage & Real Estate Technology  
212-993-5849  
kaczmarek@zelmanassociates.com

**Mark Franceski**

Managing Director  
Multifamily  
301-634-5358  
mark@zelmanassociates.com

**Jesse Lederman, CFA**

Vice President  
Manufactured Housing & Single-Family  
Rental  
212-540-9254  
jesse@zelmanassociates.com

**Nick McAndrew**

Associate  
Mortgage & Real Estate Services  
646-437-7615  
nick@zelmanassociates.com



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**OUTPERFORM** – The security is expected to outperform the relevant benchmark\* within the next 12 months.

**NEUTRAL** – The security is expected to perform in line with the relevant benchmark\* within the next 12 months.

**UNDERPERFORM** – The security is expected to underperform the relevant benchmark\* within the next 12 months.

*\* Relevant benchmark: Ratings are based on a stock's total return relative to Zelman & Associates' industry sector universe\*\*, which consists of all companies covered by Zelman & Associates within the relevant sector (further specified below).*

### Zelman & Associates Ratings System prior to October 6, 2023:

**BUY:** The security is deemed under-priced by at least 10-15% relative to fair value.

**HOLD:** The security is priced within approximately 10% of fair value.

**SELL:** The security is deemed over-priced by at least 10-15% relative to fair value.

Industry sector weightings are distinct from Zelman & Associates' stock ratings and are based on Zelman & Associates' expectations for the fundamentals and/or valuation of the sector relative to S&P 500. An industry coverage sector consists of all companies covered by Zelman & Associates within the relevant sector.

**OVERWEIGHT:** Zelman & Associates' expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

**MARKET WEIGHT:** Zelman & Associates' expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

**UNDERWEIGHT:** Zelman & Associates' expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

\*\*Below is a list of the Zelman & Associates' industry sectors that are currently weighted along with the list of companies covered by Zelman & Associates that constitute each "industry sector universe":

### **Mortgage & Real Estate Services**

Anywhere Real Estate (HOUS)  
Compass (COMP)  
Opendoor Technologies (OPEN)  
RE/MAX Holdings (RMAX)  
Redfin (RDFN)  
Rocket Companies (RKT)  
Zillow Group (Z)

### **Single-Family Rental**

American Homes 4 Rent (AMH)  
Invitation Homes (INVH)

### **Homecenters**

Lowe's Companies (LOW)  
The Home Depot (HD)

### **Homebuilding**

Beazer Homes (BZH)  
Century Communities (CCS)  
D.R. Horton (DHI)  
Dream Finders Homes (DFH)  
Five Point Holdings (FPH)  
Hovnanian Enterprises (HOV)  
KB Home (KBH)  
Lennar (LEN)  
M/I Homes (MHO)  
Meritage Homes (MTH)  
NVR (NVR)  
PulteGroup (PHM)  
Taylor Morrison (TMHC)  
Toll Brothers (TOL)  
Tri Pointe Homes (TPH)

### **Building Products**

American Woodmark (AMWD)  
Armstrong World Industries (AWI)  
AZEK Company (AZEK)  
Beacon Roofing Supply (BECN)  
Builders FirstSource (BLDR)  
Carlisle Companies (CSL)  
Ferguson (FERG)  
Fortune Brands Innovations (FBIN)  
Installed Building Products (IBP)  
Masco (MAS)  
MasterBrand (MBC)  
Mohawk Industries (MHK)  
Owens Corning (OC)  
Sherwin-Williams (SHW)  
Stanley Black & Decker (SWK)  
TopBuild (BLD)  
Trex Company (TREX)

### **Apartments**

AvalonBay Communities (AVB)  
Camden Property Trust (CPT)  
Equity Residential (EQR)  
Essex Property Trust (ESS)  
Mid-America Apartment  
Communities (MAA)  
UDR (UDR)

### **Manufactured Housing**

Champion Homes (SKY)  
Cavco Industries (CVCO)

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NEUTRAL/HOLD: (30.6%; 0.0% Investment Banking Clients)

UNDERPERFORM/SELL: (26.5%; 0.0% Investment Banking Clients)

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Company	Ticker	Rating	Price	Disclosure
Anywhere Real Estate	HOUS	Underperform	\$2.97	None
Compass	COMP	Outperform	\$7.29	None
Opendoor Technologies	OPEN	Neutral	\$0.95	None
RE/MAX Holdings	RMAX	Underperform	\$7.29	1
Redfin	RDFN	Outperform	\$8.44	None
Rocket Companies	RKT	Outperform	\$12.04	None
Zillow Group	Z	Outperform	\$62.57	1

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