

A start-up shies away from the gig economy

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When Glenn Kelman became the chief executive of his online real estate start-up, he defied the tech industry's conventional wisdom about how to grow.

Instead of hiring independent contractors, he brought in full-time employees and put them on the payroll — with benefits. That decision over a decade ago made Mr. Kelman and his company, Redfin, iconoclasts in the technology world.

Many tech start-ups lean on the idea of the “gig economy.” They staff up rapidly with freelancers, who are both cheaper to hire (none of the insurance, 401(k) and other expenses) and more flexible (they can work as much or as little as needed). It's the model Uber has used to upend the taxi business.

That model is also fuelling a national debate over worker protections. Uber, with 1.1 million active drivers globally, recently agreed to settle class-action lawsuits brought by drivers in Massachusetts and California who argued that they should be classified as employees. Similar suits continue in other states.

In a fairy-tale version of the Redfin story, the company's bet on employees would have resulted in industry-rattling success. The truth is more complicated.

“What we've done with employees has pressured the business,” Mr. Kelman said.

In Redfin's early days, prospective venture fund investors walked away, saying that betting on full-time employees was a deal killer for them. Its hiring strategy has slowed the company's growth and contributed to what Mr. Kelman calls a “near-death experience” after the 2008 economic crisis. Problems like these illustrate why tech companies prefer to use contractors if they can.

“I think Silicon Valley is still a pioneer of work force models — but the model we pioneered is the 1099 model,” Mr. Kelman said, referring to the tax form that independent contractors file. “This huge work force of labourers doesn't get to participate in the wealth that was created.”

Mr. Kelman argues that full-time employees allow him to offer better customer service. Redfin gives its agents salaries, health benefits, 401(k) contributions and, for the most pro-



Karlyn Goetz (right), a Redfin agent, showed a kitchen in a Seattle home that was for sale IAN C. BATES

ductive ones, Redfin stock, none of which is standard for contractors. Redfin currently employs more than 1,000 agents.

Now with his company on a stronger footing, Mr. Kelman says he believes his approach has been vindicated. He has even become an informal counsellor to other tech entrepreneurs exploring a shift to employees from contractors.

But they are still the exception. The idea of building a large work force of full-time employees, outside of core disciplines like engineering, is not part of the ethos of most companies in today's tech industry, observers who have studied the industry say.

“They don't see job security and workplace benefits as something that's valuable,” said Louis Hyman, an associate professor of labor relations, law and history at the ILR School of Cornell University and author of a forthcoming book on temporary labor in the United States. “What's valuable is doing cool stuff and scaling up and making a better tomorrow.”

Freedom from commissions

Redfin sees itself in equal parts a technology and a real estate company. Its headquarters in a Seattle high-rise overlooking Elliott Bay are packed with engineers working on algorithms intended to match customers automatically with the best homes for them. Before joining Redfin, Mr. Kelman worked in Silicon Valley, where he was a co-founder of a company,

Plumtree Software, that was sold for \$200 million 11 years ago.

It would have been a cinch for Redfin to hire its agents as contractors. After all, that's how most real estate brokerage firms work.

Brokerage firms typically collect a flat “desk fee” from agents who work in their offices, or take a cut of home sale commissions up to a specified amount. Most agents are on their own when it comes to finding health insurance, saving for retirement, and buying computer equipment and cellphones.

For Redfin, a salary and benefits are catalysts for changing how agents like Karlyn Goetz usually operate.

On a recent weekday afternoon, Ms. Goetz, a Redfin agent in Seattle, showed off a home in the city's Mount Baker neighbourhood that just sold for \$1.53 million. Ms. Goetz represented the buyers of the home, who were just hours from taking possession.

Facing a bank of windows with expansive views of Lake Washington, Ms. Goetz praised the medical and dental benefits of her job, but said the real attraction was the company's business model. Because she gets a salary, she said she didn't feel the same pressure to close deals the way typical agents, who work entirely on commission, do.

“I never feel like I have to make a sale,” said Ms. Goetz, who was previously a personal stylist at J. Crew. “I don't have to worry about where the food on

my plate is going to come from.”

Redfin agents receive bonuses for completed transactions that typically account for more than half of their annual compensation. But a big factor in calculating the bonuses is the agent ratings provided by Redfin customers after they buy or sell a home. Top performers get stock options.

“I'm not going to lie — we're motivated to sell homes,” Ms. Goetz said. “But it's always in the context of the client and wanting them to have a good experience.”

Redfin does employ more than 900 contractors, whom it calls associate agents, to support its employee agents, using them to conduct house tours, coordinate inspections and perform other tasks. The company is fighting several lawsuits brought by former associate agents who said they should have been classified as employees. Redfin declined to comment on the pending litigation.

Average annual compensation for Redfin agents is over \$80,000, with agents in exceptionally expensive markets like the San Francisco Bay Area earning more, the company said.

There's no doubt that elite agents — those with decades of experience and stables of loyal clients — can make more money working elsewhere, but they are the exception. According to the Bureau of Labor Statistics, the median pay for real estate agents last year was \$45,610.

Instead of constantly hustling to find clients, Redfin's

agents have leads funnelled to them through the company's website. Redfin has sophisticated algorithms that figure out the kinds of homes visitors to its site will be interested in.

Hiring and training Redfin agents has been expensive and slow compared with recruiting agent-contractors. Traditional brokerage firms don't have to worry about the big fixed costs of having agents on the payroll during slow fall and winter months.

“We don't have the margins of some other companies in Silicon Valley,” said Scott Nagel, president of real estate operations at Redfin.

And when larger macroeconomic forces put the brakes on home sales, many traditional agents struggle or drift away from the profession. After the real estate recession of 2008 hit, Redfin laid off 20 percent of its work force.

While Redfin has expanded more quickly in the last few years, now serving over 80 metropolitan areas, it has been a small fry in the real estate business since starting its online brokerage service a decade ago. In the Seattle area, its oldest market, the company has a little over 3 percent of the market, according to data from the Northwest Multiple Listing Service, and more than 100 agents on the ground.

Windermere Real Estate, a leader in the region, which uses contractor agents, has almost 25 percent of the market and about eight times the agents Redfin has in the area.

“It's a very, very hard model to scale,” O. B. Jacobi, the president of Windermere, said of Redfin's approach. “You can't go to every major city and hire the amount of people you need to do really well as a company. That's one reason why Redfin has not had the impact on the real estate industry that they would have if they had independent contractors.”

Still, Redfin is growing. The company projects about \$200 million in revenue this year, up about 50 percent from last year, and Mr. Kelman said it currently runs at a slight loss.

Fund-raising for Redfin was brutal in 2008 during the recession, one of the “near-death experiences” that still trouble Mr. Kelman.

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