

Masters of Scale: Rapid Response Transcript – Robert Reffkin

“Why real estate matters more than ever”

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The goal of Compass is to improve the real estate transaction for all stakeholders: the agent, the buyer, and the seller. The pathway to doing that is by supporting agents. Agents are an industry of 2 million entrepreneurs. It's the largest industry dominated by women in the country.

It's the one of the first industries at scale that let the LGBTQ+ community thrive. How do we empower entrepreneurship? How do we empower people to realize their dreams and their goals to create a better life?

BOB SAFIAN: That's Robert Reffkin, co-founder and CEO of real estate platform Compass.

He's had quite a ride over the past year, from a housing market that stopped cold when COVID hit to a boom that's vaulted Compass to a successful IPO.

I'm Bob Safian, former editor of Fast Company, founder of The Flux Group, and host of Masters of Scale: Rapid Response.

I wanted to talk with Robert because how we view real estate dramatically shifted during the pandemic, as urban locations came under new pressure, and a remote-work world fueled relocations everywhere.

Robert's insights on housing prices and the future of big cities, provides an insiders perspective useful to all of us.

And his approach to his business, too, offers lessons about the power of optimism, the role of entrepreneurship, and the responsibility of those businesses fortunate enough to have benefited from a year that he describes as traumatically stressful. It's a house tour worth taking.

[THEME MUSIC]

SAFIAN: I'm Bob Safian and I'm here with Robert Reffkin, founder and CEO of Compass.

REFFKIN: Thank you for inviting us, Bob.

SAFIAN: So, I have to start by congratulating you, first of all, on Compass' recent IPO, certainly a significant milestone for any entrepreneur. And of course, congratulations on your new book, *No One Succeeds Alone*, which came out this month. So, which felt like a bigger deal for you, the book or the IPO?

REFFKIN: Definitely the IPO. That was the hard work of thousands of people over eight years. And for me, it's just a beautiful reflection of what happens when you get determined, passionate people who believe that, really, anything is possible together.

SAFIAN: An IPO relies on so many things and so many people, as you say, including the environment around you. Last spring, when the COVID-19 crisis first hit, the housing market basically shut down. I can't imagine that IPO was necessarily the first thing on your mind a year ago at this time.

REFFKIN: We closed our offices on March 12th. And then just a few weeks later, it was in almost every market that we were in, it was against the law to show property. There was a moment where I looked to my wife, and I said, "I think this could be it. We may not be able to survive this."

SAFIAN: When you're in that moment, and you suddenly realize you're running an illegal enterprise, which I know wasn't the goal of it, but so what did you focus on?

REFFKIN: I was looking to my left and to my right and seeing what other companies were doing. I quickly realized that the goal was no longer to thrive. The goal was just to survive. Just surviving, at that point in time, would allow us to be incredibly successful because, at that point of time, we thought a lot of companies in our space were not going to survive. There was no end in sight into when we were going to be able to start operating again.

And when you look to your left and your right, we saw a lot of companies doing downsizing. And so, we unfortunately had to make the hard decision, and we had to ask 15% of our people to leave.

SAFIAN: As I recall, you also started sending out daily emails to your team, every day, even on weekends, and to agents every other day during the week. What was the thought behind that cadence, that discussion you were having with them?

REFFKIN: For things that are in my control, I like to do whatever I can to help make people feel good. So I thought, "Hey, what is in my control is I can be motivational for the people in Compass." And so, that's why I was sending out the daily emails and the daily social posts. Every morning, it'd say, "Hello, Compass." And I'd be outside. My wife would ... We bought some camera equipment, and she would make the video tape, and it'd be around 30 seconds to two minutes, depending on the topic. And it was all trying to be motivational and sharing this theme that even though you may not be able to grow your business, you can still learn and invest in your business.

SAFIAN: So then you get about, I don't know, eight weeks or so into the pandemic, to the middle of May. And you had an all company meeting, where you declared or predicted to your team that 2020 was going to be the biggest summer ever for Compass.

I'm told that you have a very optimistic mindset. Clearly you do. But in that moment, were you just being positive? Or was there something that you were seeing in the data or in the marketplace?

REFFKIN: In May, I started seeing some transactions come back. A number of states started to allow agents to sell property again. They were defined as essential workers. Agents were one of the first professions out there sanitizing homes, wearing gloves, wearing masks, trying to help clients realize their goals.

Now, it wasn't in New York. In New York, at that time, they were still unable to show property. But we did see people leaving the cities and moving to the suburbs. And we started seeing people moving within their suburb communities to places with pools, because they wanted to have a summer experience. And from that data, I made the statement publicly that this is going to be the biggest summer in the history of real estate. And I'm happy to say we were right.

SAFIAN: When you look back, was it the numbers, or did you just feel like this has to turn?

REFFKIN: At Compass, we serve over 20,000 real estate agents across 300 cities, and at the time I was going to sales meetings with our agents in each region. Every day, I was going to probably five, six, seven sales meetings, talking to agents, and asking them, what were they hearing? They were hearing the demand from their clients to start looking for a new home, because they were so unhappy in their current circumstance. And the demand was for more indoor space, more outdoor space, more private office space, and then, more second homes. And that's what gave me the confidence to say that the transactions will follow that sentiment.

SAFIAN: So the summer comes, and all this comes to fruition. There's this boom that's fueled and pushed, as you're describing too, by a pandemic environment, where people adjusted what they felt their needs were. And then it gets to the fall, and it's not like this boom in housing subsides. It just continues. How much of it, I guess, is about the pandemic, and how much of it is about other factors that were in place before and have been supercharged or accelerated in some way?

REFFKIN: I believe there's a permanent shift in demand for home ownership. And that's because people are going to be in their homes more, going forward, than they have in their past. The ability to have a hybrid work environment where you can work from home or work in the office, that means we're going to use it more.

But then there are also second homes that people are getting in lower cost areas, places like Raleigh, North Carolina, or Nashville, or Austin, where people believe they're going to be able to work a few months of the year from a different area. So those are two reasons why people are buying homes more. Then on top of that, there's effectively been through COVID a multi, multi, multi-billion-dollar free advertising campaign to everyone in the country saying, "Do you like everything about your home? How would you change it?" You've been stuck in your home for a greater percentage of time than any point in the history of the United States, and it's forced people to really reevaluate what they want in their home needs. On top of that, we've had record low interest rates, and the Fed has said they're going to keep interest rates low for at least the next two years. So that's also supporting this activity.

SAFIAN: That's interesting. I hadn't thought about that, what you described as a multi-billion dollar advertising campaign, basically. We're all being told something that we hadn't really been reinforced to this degree before.

REFFKIN: Yeah. The home really matters, right? It's not just a home. It's a neighborhood. It's a community. It provides you with a sense of belonging. I think a lot of people were just busy moving around from job to job, from vacation to vacation. That's really driven this boom in second home ownership because if you don't know if you're going to be able to rely on a vacation to another city or another country, having a second home, and again, it doesn't have to be in a really expensive place, like the Hamptons or Santa Barbara, it could be in a lower-cost area of the United States. That gives people the security to know that they can always take their family somewhere and escape.

SAFIAN: There's been a lot of news coverage for primary homes about people fleeing denser, urban areas, like cities, because of COVID fears. Do you think housing patterns about where we live have permanently shifted over the last year, or is it too soon to know what's permanent and what may be just transitional?

REFFKIN: I think second home ownership is permanent, and the desire to have a second home in a lower-cost area, I think that's permanent. I think the desire for an extra room so you can have a private home office, I think that's permanent. I think what isn't permanent is the flight from the cities. We're already seeing it in New York. It is completely bouncing back. Over the long run, everything that people love about the cities are still there. New York still has the MoMA. It still has the Met. It still has Central Park. It still has the theaters. There's been a shift over the last 30 years from the suburbs to the cities for that reason, and I believe it will continue.

SAFIAN: In cities, there are companies that may not need as much space as they had before. That may mean less foot traffic in certain areas. The commercial real estate market and the housing market don't necessarily run together, but what impact do you see there?

REFFKIN: I think on the commercial side, it's still too early to tell. On one hand, you could say, "Hey, these companies aren't going to need as much space, because a lot of their employees are going to work from home." On the other hand, you could say, "Oh my God. They're going to need a lot more space," because a number of these cities have built trading floor, Bloomberg-style floor offices. Really, the employee demand is what drives how the company is going to operate because there's a war for talent, and everyone wants the best talent. So if the employees say over time, "Hey, we need more private offices and more separation," that could actually create a demand for more space.

SAFIAN: Have Compass's physical commitments shifted at all since the pandemic in cities like New York or Seattle or other places around the country?

REFFKIN: So this has been the riskiest event in the country in terms of COVID. There hasn't been something that's happened where the consequences of getting it wrong for our company could be more dire. So we are not being a first mover or the leader in making the decision on how to come back to the office. We have a principle at Compass called learn from reality. What that means is the greatest advantage you have in life is

the speed at which you learn, so you have to learn fast and be the fastest follower of proven solutions. So we're looking very closely at how other companies are bringing people back to work, whether that's Google, Microsoft, Amazon on one hand or whether it's Goldman Sachs, Morgan Stanley, JP Morgan on another hand, and we're going to see what is working and what isn't and then follow it quickly, as soon as we get the confidence.

SAFIAN: Pre-Covid, you spent a lot of time visiting offices and agents. During one stretch in late 2019, you went to 21 office holiday parties in 14 days. You thrive on in-person and face-to-face. And then suddenly you're at home, and you're interacting with people remotely. Has that been hard?

REFFKIN: Yeah, we are a very personable company. I would travel four days a week. I could be in two cities, sometimes even three cities in one day. So it was a big shock for me to not travel at all for, what's been now, a year.

But it's been great for my family. I have a seven-year-old daughter, a five-year-old daughter, and a two-year-old boy. Also, look, I may just be a glass half full, but I'm actually meeting with more agents now than I was before, because it's just on Zoom video conference. I can go from one office meeting in Washington, DC with 200 agents. They're all asking questions on the chat, and then I can go to Austin literally 10 minutes later, and then Los Angeles 15 minutes later, and then Hawaii 15 minutes later after that. It's really pretty effective.

SAFIAN: I mean, it's funny. Those capabilities were there before, but you didn't necessarily use them. Now that you're using them when it becomes ... I mean, real estate is such a face-to-face in-person business, or always has been. Now that you've been forced to be virtual, will you be more virtual, going forward, and how will that balance work?

REFFKIN: I think you can do both. I think about email versus handwritten notes. I've personally written over 10,000 handwritten notes. I think there's something to showing the effort to the person on the other side. So I think there's that dynamic here where yes, email is really efficient, but there are reasons to do in-person. So I think it's: how do we get the best out of both, going forward?

SAFIAN: So much of house buying became virtual, and I saw a stat today: 63% of people made an offer without seeing the home. Do you think that's going to persist? Is that going to be the norm in some way, or is that going to fade away?

REFFKIN: I think the percentage of people that buy homes sight unseen will go down over time. If given the option, people will always rather see the property. I think what we have right now in this environment, things are so competitive, there are so many offers on homes relative to actually winning that people are being more aggressive than they have been in the past. I think what technology will do to make that simpler and more efficient is there will be 3D virtual tours, which we launched during COVID to help support our agents, livestream open houses, livestream tours. I think there'll be more tools for agents to interact with their clients virtually.

At Compass, we launched digital CMAs and digital listing presentations. So, you can do the home valuation presentation and the listing presentation virtually. It doesn't have to

be with paper in person, and we're constantly looking at other things we can do to support our agents in a time of COVID but also recognizing that it will continue post-COVID.

SAFIAN: When you talk about all the demand, driving people to buy houses without looking at them, or make bids on them, a lot of the markets this year have seen booms – some of which spur concerns about bubbles from GameStop to NFTs to crypto, whatever. Do you worry at all that housing prices are a little ahead of themselves?

REFFKIN: In most markets, I am not worried. Again, let's take second home markets. I think the demand for second homes in places like Santa Barbara or the Hamptons, that's permanent. And when there's more demand relative to supply, and the supply is not growing, that is what is increasing the prices. Ultimately, until we have a surge of new supply in this country of homes, that lack of supply relative to the demand is going to keep the prices at healthy levels.

SAFIAN: Do you mean that there's not enough housing stock available for everyone who wants one?

REFFKIN: And there's also not enough housing stock that is new and updated or renovated for everyone that wants them. That's the sub issue within real estate. We launched at Compass something called Compass Concierge where we front load the cost of home improvement services such as painting, deep cleaning, cosmetic repair, flooring, roofing, so that when homes are sold, we can help a seller sell a home that is in an updated condition because buyers, now, they want things that are move-in ready.

SAFIAN: There's so much that's happened this year. I was looking over your book *No One Succeeds Alone*, terrific, personal story, entrepreneurial lessons, eight lessons that you rely on. Are there any life moments that you found yourself particularly reflecting on this year?

REFFKIN: I've really reflected on the power of community and making sure that the community has the right mindsets, a growth mindset, a positive mindset. I really believe that mindset matters.

I've just seen this company in the middle of COVID where so many people were giving up, were frozen, were unable to move, I saw us rally around each other, supporting each other emotionally, supporting each other with tools, supporting each other with coaching. I saw how it allowed us to perform. The market in Q1 of this year versus prior year grew in real estate transactions 14%.

But our principal agents grew their transactions over the same time 39%. So, it showed that, hey, together when we have the right mindset, and we support each other with the right tools, the right coaching, the right community, that great things can happen, and you can always bounce back.

SAFIAN: And as you mentioned mindset, the last year has been intensely stressful for a lot of people. Has it been a stressful year for you? How do you manage your own stress?

REFFKIN: Yeah. I think that it has been very stressful for me, and I think it's been more stressful than I am able to process. What I mean by that, I had a conversation with

someone that I work with, and I was just telling him that it's hard for me to get excited about the rebound from COVID. I felt in the fall that, hey, every month is going to get better, and then it didn't. It's hard for me to feel right now that, hey, every month's going to get better.

There's so many reasons why, with the CDC saying that now you don't have to wear a mask if you have the vaccine. It's like, "Wow, things are really going to get better," but I can't feel that way. I was telling my friend, it reminds me of how I felt after my wife had her first miscarriage. The moment she told me that she was pregnant, I never felt so happy. I felt so happy, and I was crying with joy. Then a week later we found out that she lost the baby, and in the pregnancy since, I've never been able to have that same feeling.

So, I was explaining that to him, and what he said which really stuck with me, he said, "Yeah. This is a real form of trauma." And I think our country, we're going to have to figure out our own individual ways to deal with that, but we've all gone through real trauma over the last year. So, yes, we've had to support each other over the past year, but we'll need to continue to support each other going forward even after this is over.

SAFIAN: In the big picture, what's at stake in this moment for Compass?

REFFKIN: The goal of Compass is to improve the real estate transaction for all stakeholders: the agent, the buyer, and the seller. The pathway to doing that is by supporting agents. Agents are an industry of 2 million entrepreneurs. It's the largest industry dominated by women in the country. It's an industry that pushes people in their sixties and seventies to grow and get better, doesn't push them out of the door like so many other companies. It's an industry of families that work together. Of our top 100 teams, over 20% of them are families. It's the one of the first industries at scale that let the LGBTQ+ community thrive, and here we are powering entrepreneurship.

So, what's at stake, and I think this is an issue for our country beyond just Compass, is how do we power entrepreneurship? How do we empower people to realize their dreams and their goals to create a better life? We're not doing that across every sector. Right? So Shopify does that for merchants. We're doing that for real estate agents, and I want us to be the company that can continue to invest the most in agent's success and building for them in ways that they know that they need support, where there's more technology, more marketing, where there's things like Compass Concierge, or Bridge Loan Services.

With the successful IPO and more capital from fundraising, which was the goal of the IPO, with the increased activity in the real estate market leading to out-performance on our financial results it's empowering us to continue to invest in building a platform that will enable agents to grow their business better than any other platform out there.

We have a tool called the feedback tool, and that's where they put in their ideas, and other agents can vote them up or down. So we can literally see what agents are saying will help them the most. And that feedback tool and the results of that, that's what I get really excited by, because it's what our customers are asking for. And so that's where I spend a majority of my time, trying to push the organization with capital and resources to the demands and dreams that our customers, agents have for the future.

SAFIAN: And so that becomes like a tool to say, "Here's what we should build next," or, "Here's what they need next"? Are there things that came out of that this year that you would point to?

REFFKIN: Yeah, there's a graveyard of technology companies that have come into real estate, and they were unable to recognize the importance of the agent. And one of our competitive advantages is understanding that they are the center of this multi-party transaction.

We launched Compass Academy, which is a virtual learning guide with videos and checklists so that agents could, even while they were not able to show properties, they could still invest in their business by learning and growing on Compass Academy. And then more recently, starting the summer, they told us where to launch. They said, "Launch in Hawaii." They said, "Launch in Raleigh, North Carolina." They said, "Launch in Florida in places like Tampa and Orlando." And we did that, listening to them, and thank God we did because that's where a lot of their clients ended up moving. I think that's one of the reasons we've been able to grow our market share faster than the market and our number of transactions faster than the market is because we listened to our agents on where their clients were going to end up moving.

SAFIAN: You mentioned Compass Academy. You ended up opening that up not just to your own agents, but to any agents, right?

REFFKIN: Yeah. At Compass, we don't just stand for Compass agents, we stand for all agents. And my mom is an agent. She's been an agent virtually my entire life, the first 15 years as a life insurance agent, ever since as a real estate agent, and I care deeply about agents as a profession. And so we launched Compass Academy, not just internally to help our own agents grow and learn in the middle of COVID, we opened it up for all agents.

SAFIAN: So you're trying to help everybody. You feel like giving back is important.

REFFKIN: I'm very thankful, and I'm full of gratitude at this time. I recognize that real estate was one of the industries that was able to not just survive but thrive in the middle of a very hard time for a lot of individuals and companies. I really want Compass to be a company that can play a positive role in the larger communities that we serve. We have something called Compass Cares where for every single transaction we invest back in the community through donations. And I just hope for the listeners out there, just know that we're very thankful as a company.

I was part of a single parent home. My mom was also disowned by her parents for an interracial relationship, and what she did that was really smart is she connected me with seven nonprofits to give me an extended family of support that she couldn't provide just her by herself. And so the communities that support each other, which Compass is a community like that now, it matters deeply to me, and I want us to be the kind of company that can support the communities that we're in. And that's why Compass Cares, where we give a donation back to the community with every transaction at Compass, matters. That's why with this book, we're giving the proceeds and profits back to charities that help young people realize their dreams, and I think that's the least that we can do given that this company has had success in this type of environment.

By the way, I think it's important for all these companies that were able to realize outside success in COVID. I think we all have responsibility to recognize the role that luck played and to give back to our communities accordingly.

SAFIAN: Well, Robert, thank you. Thank you for spending this time with us and taking the time to share your experiences. I really appreciate it.

REFFKIN: I'm glad to be here and to support in any way I can.