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Estate sale

Travel agents and stockbrokers are nearly obsolete thanks to the Internet. Are real estate agents next?

By Michael McCullough

ARTICLE FROM CANADIAN BUSINESS

^ CURRENT ISSUE

Mayur Arora didn't take the death threat very seriously, though he did take the precaution of reporting it to police. He'd heard an earful—all of it angry, much of it anonymous—from fellow realtors, ever since launching his discount real estate agency, One Flat Fee, last March. Under pressure from the federal Competition Bureau, the Canadian Real Estate Association had only just introduced interim rules allowing members to offer no-frills services, including simply posting properties on its listing service and leaving the client to show the property, field offers and seal the deal. Arora, based in Surrey, B.C., was one of the first to take advantage. That made him a target for agents who had long relied on commissions and now feared for their livelihoods.

He was new to the industry. He'd sold only three houses under the old regime, and was almost embarrassed accepting the commission, feeling he hadn't earned it. Seven months later, following CREA's Oct. 24 ratification of a consent agreement with the Competition Bureau that will permanently open "mere posting" access to the Multiple Listing Service (MLS), its proprietary database representing about 90% of the homes for sale in Canada, he has 125 listings—most of them no-frills listings for $649 a pop. If the clients complete the sale without further help from Arora, that's all they pay.

The former restaurateur was inspired to enter the real estate business two years ago, after paying an agent $19,500 to sell his $650,000 Langley City home. "I thought it was like highway robbery," Arora says. He took the necessary courses and exams to obtain his B.C. real estate licence. But instead of getting in on the game, he sought to change it from the inside.

And make no mistake, change is coming to Canada's real estate industry. Nobody's sure exactly how much or how fast, but the transformation promises greater choice and cost savings for the consumer. Not only are realtors facing new competition from people like Arora within their own ranks, but also deep-pocketed companies including Power Corp. are moving in on the for-sale-by-owner (FSBO) space, at long last creating a nationwide alternative to the MLS, which for years has been a near-monopoly marketplace. As a Power Corp.-backed venture challenges MLS's supremacy, a rival FSBO, Property Guys, has found a way to get its listings on the MLS itself—a development that may threaten the uneasy truce.

The disruptive power of the Internet has already gutted (or transformed, depending on your perspective) dozens of industries: travel agencies, stock brokerages, the recording industry, bookstores, classified ads. It has allowed consumers, for little or no fee, to cut out the middleman. Why should real estate sales be any different?

The real estate industry is different in one important respect: it's bigger. Real estate agents and brokers grossed $9.07 billion across Canada in 2008, down from a peak of $9.9 billion in 2007. That gives a hint of the potential savings to be had by consumers. It also represents nearly 100,000 realtors, far more than travel agents or stockbrokers, whose careers and incomes are now at risk.

To date realtors have resisted this change through their status as a self-governing profession and their control of the MLS. The database predated the Internet but seemed made for the electronic medium. Only licensed members of a regional real estate board could post on the MLS, though, and they had to carry out the full transaction. Despite benefiting from productivity improvements ranging from a web-accessible MLS to mobile phones, few realtors were willing to break with the old commission formula. And as Canadian home values ballooned over the past decade well ahead of inflation, being a realtor became all the more lucrative. For the old-style agent charging the standard seven-and-three commission, though—7% on the first $100,000 of the sale price, 3% on anything over that—life is expected to get tougher.

Nicolas Bouchard saw a change coming 15 years ago when, at the age of 21, he founded Duproprio.com. Until then, private sales (without intermediaries) were a function of the buyer and seller's knowing each other, or spotting the other's lawn sign or ad in the local newspaper. Duproprio started as a text bulletin board of homes for sale by owners who opted not to work with an agent. Even in those early days, Bouchard already had a dream of a national electronic marketplace to compete with the MLS and the accompanying high commissions for agents.

That was easier dreamed than done, though. Real estate markets are notoriously local, and initial attempts to attract home sellers outside of Duproprio's home province of Quebec failed. "The market was way tougher than we were expecting," Bouchard says. Gradually, Duproprio got established in its hometown of Quebec City (where it now claims to have 17% of residential listings), expanded to Montreal, then started an Ontario arm, Bytheowner.com.

Then, three years ago, Bouchard was approached by Square Victoria Digital Properties, a subsidiary of holding company Power Corp. that controls the high-profile web portal Workopolis and the Olive Media online ad sales group. With financial backing from Square Victoria, Duproprio embarked on a buying spree, this year snapping up regional FSBO companies including ComFree in Manitoba and Alberta, Skhomes4sale in Saskatchewan and PrivateRealEstate in Ontario. It was a good time to buy. In certain markets and at certain times, FSBO sites have become essential viewing for anybody looking, and the segment had expanded furiously during the boom years from 2003 to 2007. It became vulnerable as the market cooled and sellers whose houses languished on the market reverted to a realtor.

Today, Duproprio's group has 12,000 listings, making it at least three times larger than the next biggest FSBO company, Moncton-based franchise outfit Property Guys. Bouchard says his site hosts 1.25 million visitors a month—respectable, though still far short of the 200,000-plus listings and 12 million monthly visits of the MLS.

Nonetheless, Realtors were concerned enough about the FSBO threat they launched lawsuits, complaints to provincial regulators and an advertising campaign that ridiculed unqualified sellers help, ranging from a mother-in-law to a personal trainer, risible stand-ins for the FSBOs. CREA runs ads with a similar message today, though they focus more on the upside of dealing with its members than scare tactics regarding the alternative.

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The Competition Bureau got involved when a realtor himself made a complaint that the MLS rules were anti-competitive. Lawrence Dale attempted to set up an agency offering different levels of realty services back in 2001. When the Toronto Real Estate Board barred him from posting on the MLS, Dale—also a lawyer—took it to court and, three years later, won. But he shut down the business in 2006, maintaining that real estate boards still discriminated against his business model, and in 2007 took his case to the federal agency. After three years of investigation and discussions with CREA, in February this year the Competition Bureau formally charged CREA with stifling competition before the Competiton Tribunal, at which the professional body altered its rules to allow differing levels of service. That put services like Arora's One Flat Fee and Ottawa–based Best Value Real Estate, which promises to list a home on the MLS for just $109, in business.

The Bureau was unsatisfied with the changes, which gave regional boards the power to opt out. The two sides continued to negotiate into September, when they reached the consent agreement ratified by 97% of the country's 101 regional boards in St. John's, Nfld., on Oct. 24.

The agreement, lasting 10 years, allows a realtor "to provide innovative service and pricing options to customers," the Competition Bureau said. Basically, real estate boards are now legally forbidden from discriminating against any member's offering a "mere posting" of a home for sale. While maintaining that organized real estate in Canada "always has been and always will be" highly competitive, CREA president Georges Pahud announced to the assembled board representatives that he was "pleased this agreement lets us get back to doing what we do best."

One unresolved matter, however, is compensation for the buyer's agent. The agreement calls for the agent to be compensated even in sales closed by the seller, but that fee is not stipulated, meaning it theoretically could amount to as little as a penny. Another potential flashpoint is the proxy posting of FSBO listings on the MLS by licensed agents. Property Guys has entered into an agreement with a Hamilton realtor, Kimberley Leone, to post its Ontario listings on the MLS. As of this writing, 65 such listings were on the MLS with 72 more awaiting listing. Property Guys director of partnerships

Walter Melanson says he's talking with realtors about offering the same service in other provinces.

The problem then is that the realtor is relying on information provided by the owner, says Keith Braun, president of Re/Max Real Estate Mountain View in Calgary. "If that realtor doesn't go out and physically measure that property, he's putting his neck way out on the chopping block." The reason CREA restricts postings to its members, he argues, is to protect the consumer. "The minute you let the public in there and do whatever they choose, the integrity of the database is gone."

Like most Realtors, Braun insists that his profession has offered consumers a choice of services and fee options all along and that the new rules won't change much. Others, though, say this is a watershed. The MLS rule changes will usher in a new upsurge in competition, predicts Jane Saber, a marketing professor at Ryerson University. Three years ago Saber and the University of Alberta's

Paul Messinger conducted a survey for the Alberta Real Estate Foundation probing the demand for FSBO and flat–fee services. They uncovered deep dissatisfaction with real estate agents. In the context of the then sizzling real–estate market, 78% of respondents said they would consider using an alternative to a commissioned agent the next time they sold their home. "Because of the availability of information about properties on the Internet, both buyers and sellers valued the services of real estate agents lower as a result," she says.

How quickly FSBOs and flat–fee realtors make inroads into the marketplace here will depend in large part upon market conditions, Saber continues. In the United States, which opened up its MLS to marketing–only services in 2008 as part of a settlement of an antitrust suit brought on by the Department of Justice, flat–fee brokers today represent about 10% of the marketplace, and the FSBOs, according to a 2009 National Association of Realtors survey, 11% (though, it's important to note, the U.S. market has been severely affected by the sub–prime mortgage crisis and had lower commissions in the first place). These alternative models serve only sellers—the buyers are expected to find houses on their own—and in a down market like today's, sellers are more likely to seek the help of a realtor. But the competition will come eventually. There may be pressure on traditional commissions, but more important, there will be a realignment of agents' service model with their customers' needs. Though Saber doesn't see realtors going the way of travel agents, "I do expect they'll have to significantly adjust their business model and their sales model and their strategy model and their service model."

Another lesson from the U.S. experience is that consumers' empowerment by the Internet does not end with FSBO sites and flat–fee listings on the MLS. American buyers and sellers don't just troll the MLS but also Trulia and Zillow and Google Street View and Yelp, points out Butch Langlois, president of Zoocasa, a real–estate–themed advertising site started by Rogers Communications (which also owns Canadian Business) two years ago where agents can post free listings. It's happening here too. A Zoocasa–sponsored survey by SRG Group showed that the Canadian buyer spends an average of 11 months researching the housing market online before making a purchase. "You don't trust the fact the agent knows every house. You have to go online. You have to examine every option because you can," Langlois says.

It's a good moment to reshape our business and merge our best practices," Bouchard says in the wake of the MLS vote. By the end of the year, Duproprio/Bytheowner plans to unveil a single brand identity and standardized offering for clients across the country, which Bouchard calls an "assisted sale." That is, the company will not only advertise your property on its site and provide instructions and legal documents to sell it yourself, but also offer sales coaching, legal and appraisal services from qualified third–party professionals, all included in the fee.

After the verbal abuse he took at first, Arora says realtors are more accepting of his service. "What we're finding is if the house is priced right and there's a fair commission offered to the buyer's realtor, there's no reason why they won't show our property," he says.

Still, the new entrants to the market, whether flat–fee realtors or FSBOs, have to prove one important thing to win a significant share of the market, Arora says: that the houses they list are actually selling.

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