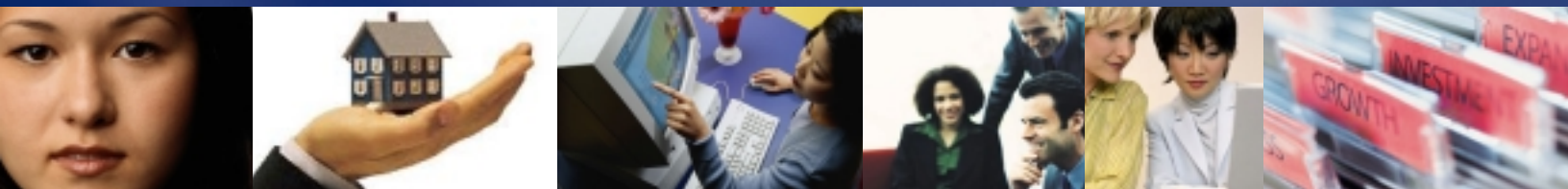


THE FUTURE OF REAL ESTATE BROKERAGE

Challenges and Opportunities for REALTORS®



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

CHANGE, IS IT A CHALLENGE OR AN OPPORTUNITY?

Growth and development of our markets, our economy and our society comes with change. From mass production to the microchip, the way we produce goods and serve consumers has evolved and improved. The real estate industry is no different.

Change in real estate brokerage reflects the following paradox: the more things change, the more they stay the same. Real estate firms use the latest technology to communicate with buyers and sellers, but they play the same key role in facilitating real estate transactions.

Changes in technology, the regulatory situation, the economy and the competitive landscape are transforming the environment for real estate brokerage. The industry is evolving and creating a wealth of opportunities for today's real estate brokerages and tomorrow's entrepreneurs. While the future is never certain, the willingness to adapt to change will help market participants grow and prosper.

This report, *The Future of Real Estate Brokerage*, examines the changes that technology, regulatory policy, economic trends and the competitive environment have wrought on the real estate industry and describes the current and likely future brokerage business models.



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Chapter I Introduction

Chapter II Drivers of Change

Chapter III The Dominant Business Models

Chapter IV Emerging Business Models Challenge and Enrich

Conclusion Waves of Change

There has been much debate in the real estate industry on the impact of change and the threat of new business models for real estate brokerage. This report finds that the rapid development and application of technology, along with the changing regulatory environment, economic climate and competitive balance, have fostered the evolution of existing business models into modern organizations that meet the needs of consumers. Many real estate brokerage firms have evolved into or adopted these new models, and over the next three to five years, several existing models will become dominant. However, if the trends identified in this report continue, there could be a dramatic change in the competitive landscape of the real estate industry.

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THE NATIONAL ASSOCIATION OF REALTORS® Research Division

DYNAMIC CHANGES IMPACT REAL ESTATE BROKERAGE FIRMS

- Real estate brokerage firms serve consumers and link to international capital markets. Thus, they are buffeted by the changes that affect these diverse elements of the market. Technology has changed the way buyers search for homes. Regulatory policy is impacting aspects of the real estate transaction from search to closing. The economic fundamentals are strong, but rising technology costs are putting pressure on the profitability of brokerage. New competition is shifting the playing field. Waves of change are breaking on the shores of real estate brokerage.
- Change has long been a hallmark of the real estate industry and has resulted in the evolution of business models, as thousands of firms and hundreds of thousands of agents work to serve the needs of consumers in a dynamic environment.
- In 2002, fully two thirds of all adults were online, and higher income adults were even more likely to be linked to the Internet.
- In 2001, 41 percent of buyers used the Internet to search for homes, up from only two percent in 1995, according to *The 2001 NATIONAL ASSOCIATION OF REALTORS® Member Profile*.
- Penetration of other technology is changing communications with real estate professionals: 96 percent of these professionals used cell phones in 1999.
- The continued amendment and enforcement of the Real Estate Settlement Procedures Act, a consumer disclosure and anti-referral fee act, requires consumer disclosures and specifies distinctive roles for real estate professionals and related service companies.

- Consistent growth in population and economic production along with low mortgage rates have produced a strong base for home sales.
- Multiple listing services have rapidly evolved from paper to cyberspace, survived the rise and fall of many national aggregators, and will continue to change.
- Non-brokerage firms envy the access to consumers enjoyed by real estate professionals and are working to link real estate brokerage to other aspects of the home sale.

DOMINANT AND STRONG

- The 30,000 traditional brokerages represent the largest number of real estate brokerages.
- Technology use varies among traditional brokerages; as of 2001, half of traditional firms did not have web sites, but seven percent generated more than 20 percent of their leads from the Internet.
- Traditional firms require little capital and their limited access to capital may inhibit growth opportunities associated with investment in technology and infrastructure.
- Vertically expanded firms are brokerage firms with more than 200 agents that have broadened their operations and product lines to include ancillary services.
- Referral networks allow vertically expanded firms to tap into the resources and leads of a much larger organization.
- Concentration is low in real estate brokerage, but the share of the top firms is increasing: by 2001, the Top 250 firms represented 24 percent of all agents and one in six home sales.
- Vertically expanded firms represent less than one percent of all real estate brokerage firms.

- Middle market firms — smaller firms that offer ancillary services — are more likely to be franchised firms and use this affiliation to offer larger firm services.
- The agent service bureau model is an extreme form of the traditional model, offering a 100 percent commission to agents in return for a monthly service fee.
- Compensation of agents with 100 percent commission was more than 50 percent higher than that for agents earning commission splits, as of 2001.
- The corporate model is characterized by the purchase of residential real estate brokerage firms by non-brokerage real estate or financial services companies, such as title insurance firms or banks.
- The entry of non-brokerage firms into the brokerage business is likely to change the brokerage industry most quickly by their acquisition of existing brokerages with the largest market share and broadest reach. However, in some cases, regulatory approval would be required.

CHALLENGE AND ENRICH

- Unbundled service providers (USPs) offer an à-la-carte menu for the price-conscious consumer and do-it-yourself home sellers who are willing to conduct some aspects of the real estate transaction themselves.
- Customers of USPs are likely to be drawn from the for sale by owner (FSBO) clientele, who represented 13 percent of transactions or over \$110 billion in sales in 2001.
- The market maker model could add liquidity to the market by enabling buyers and sellers to purchase or sell their property using a real estate professional as the intermediary with an electronic platform that facilitates execution of the transaction.
- The market maker model is dependent on the complete dissemination of information to all parties. The real estate professional adds value to the market maker model through new services before the sales contract is drafted, during the process, and after the closing.
- Real estate brokerage firms are resilient and agile in the face of change in part because of their unique structure: independent contractors work in more than 50,000 firms.
- The drivers of change — technology, regulation, the economy and industry trends — will continue to wash over the real estate brokerage industry.
- The most likely key changes over the next three to five years are consolidation, rising costs of technology, changes in the activities of real estate agents and brokers, and regulatory impacts.
- Firms of each model will be successful, but change will affect all of the business models.
- To anticipate the next change, brokers, owners and agents need to become aware of the competitive threats and opportunities associated with each model to develop further business strategies and long-term plans that maximize profitability.

WAVES OF CHANGE

➔ Concentration is low in real estate brokerage, but the share of the top firms is INCREASING: by 2001, the Top 250 firms represented 24 percent of all agents and one in six home sales.

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The Research Division of the NATIONAL ASSOCIATION OF REALTORS® produces the premier measurement of residential real estate activity – the existing home sales series – and analyzes how changes in the economy can impact the real estate business. It examines trends in real estate practices, and how NAR members are adapting technology in their business operations. NAR Research also looks at recent regulatory and legislative policy proposals and how those policies could affect REALTORS® and their clients, America's property owners.

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