

**REALTOR[®] Consumed Services Outlook
White Paper**

**Center for REALTOR[®] Technology
National Association of REALTORS[®]**

Oct 8, 2003



Table of Contents

Introduction	4
Section 1: REALTOR® Consumed Services.....	5
Listings.....	6
Internet Data Exchange (IDX)	7
Virtual Office Web Site (VOW)	7
IDX versus VOW	8
Future Outlook.....	8
Sales and Commission Tracking	9
Future Outlook.....	9
Web Application Hosting.....	10
Future Outlook.....	10
Tax Records and Property History	11
Future Outlook.....	11
Technology Support/Helpdesk	12
Future Outlook.....	12
Customer Relationship Management	13
Future Outlook.....	13
Transaction Management	14
Future Outlook.....	14
Section 2 RCS Providers	15
Associations	17
What is an Association of REALTORS®	17
Association Models	18
Future Outlook.....	18
Brokerage	19
What is a Real Estate Brokerage?.....	19
Broker Models.....	19
Future Outlook.....	20
Multiple Listing Service	21
What is a Multiple Listing Service	21
MLS Models	22
Association-Owned Models.....	22
Association Outsource Model	23
Association Co-op Model	24
Future Outlook.....	25
Agents.....	26
What is an Agent?.....	26
Emerging Competition	27
Lenders	27
Software Vendors.....	28
Unbundled Service Providers	29



Section 3: Industry Outlook..... 30

- MLS Model Alternatives 31**
 - Broker-owned Model..... 32
 - Broker Co-op Model..... 33
 - Broker-Association ASP Model..... 34
 - Vendor Outsource Model..... 35
- National MLS 36**
- Real Estate Transaction Standard (RETS)..... 37**
 - Future Outlook..... 37
- Consolidation and the Regional MLS..... 38**
- Conclusion 39**
 - The MLS/Vendor Paradigm Shift..... 39**
 - Demand..... 39
 - Innovation..... 40
 - Smart Choices 40
- Contributors..... 41**
- Bibliography 42**
- Acknowledgements 43**



Introduction

The marketplace for REALTOR[®] Consumed Services (RCS) has undergone a major shift with the widespread adoption of the Internet as a method of communication and information exploration. As recently as five years ago, REALTORS[®] could succeed with business tools as simple as listing books and telephones. The Internet has changed the competitive landscape to such a degree that reliance on paper listings books and land-based telephones can severely inhibit a real estate practitioner's prosperity. E-mail, Web sites, electronic listings, cellphones, personal digital assistants (PDAs), and laptop computers are now essential to REALTOR[®] success and client satisfaction.

For technology vendors who have not yet become participants in this growing market, the time is ripe. This paper will describe the scope of the market and explain what real estate practitioners need from vendors. For vendors already in the market and for real estate practitioners, this paper will give an overview of the technologies currently in use and preview those that will be widespread in the next few years.

The first section of this document addresses REALTOR[®] Consumed Services, specifically those RCSs most affected by the recent Internet/technology paradigm shift. While some paper listings books are still being published, they are rapidly disappearing. In fact, the multiple listing service (MLS) itself is no longer the sole source of listing information in most regions. This publication discusses the many sources and providers of new information services, describes those services in detail, and examines the possible implementations of RCSs in the future.

Section 2 studies the different categories of real estate market participants, including REALTORS[®], brokers, MLSs, associations, lenders, and software vendors. It examines the differing business models of the various parties, with emphasis on their suitability for continued success in the real estate marketplace. Changing market conditions and the effects of technology are discussed as they pertain to the major players.

Section 3 considers the increasingly complex landscape of the marketplace as a whole. It discusses the interactions and competition among the various categories of industry entities. While this publication primarily focuses on those services used by REALTORS[®], it also considers the interrelationships between the service providers and their associated business models.

Section 1: REALTOR® Consumed Services

REALTOR® Consumed Services can generally be characterized as a package of essential information for REALTORS® combined with a distribution method. Today, these services are often distributed using technologies like the Internet. However, RCSs themselves are hardly a new concept. Many of today's RCSs started as paper-based services that evolved to take advantage of new technologies as they became available. The number of RCS offerings is increasing as the demand of REALTORS® for information grows exponentially.

Traditional RCSs were once offered exclusively by the MLSs, brokerages, or associations. However, today's REALTORS® enjoy many options for services and have access to a multitude of offerings that were unavailable in the pre-Internet era.

This publication discusses several REALTOR® Consumed Services, as well as today's providers, in detail. It also examines the future of the services, with emphasis on the possible scenarios for acceptance of new technologies by the real estate industry.

Listings

Property listing services are integral to the real estate industry and are the single most important information source for REALTORS[®]. A listing is a description of a property for sale distributed among cooperating brokers by a multiple listing service (MLS). (Occasionally, the word “listing” may refer to the contract between a property seller and the listing broker or agent.)

Before the Internet, listings were distributed to REALTORS[®] and brokerages in printed form on a periodic basis. It could take several weeks before a listing was made available to the complete MLS membership. Although the MLS is now more efficient at distributing listings to its members, listing distribution channels and methodologies continue to evolve at a surprising pace.

Today, robust MLS computer systems, combined with the communication available via the Internet, allow listings to be distributed almost instantly. Depending on the technology offered by the MLS, a residential listing might find its target homebuyer within minutes of entry into the MLS database. Some properties appear in and disappear from the market within hours. New transaction management systems are further increasing the speed of listing distribution. REALTORS[®] who lack immediate access to electronic listings will likely find themselves at a disadvantage to their competition.

While the benefits of new technologies are clear, the Internet has spawned an environment that blurs the lines of information ownership and invites abuses of listing information. NAR has supplied the foundation for acceptable Internet practices with policies governing the use of electronic property listings. The Internet Data Exchange (IDX) and Virtual Office Web site (VOW) policies address two of the most popular methods of listing distribution.



Internet Data Exchange (IDX)

The IDX policy, also referred to as Broker Reciprocity, a trademark of the Regional Multiple Listing Service of Minnesota, was proposed by the NATIONAL ASSOCIATION OF REALTORS® (NAR) and approved in May 2000. From the policy document:

“Associations of REALTORS® and their Multiple Listing Services are encouraged to immediately, and must by January 1, 2002, enable MLS Participants to display on Participants' public Web sites aggregated MLS active listing information subject to the requirements of state law and regulation.”
(NAR IDX 'Virtual Kit' 2001)

The policy gives MLSs and participants broad latitude on the types of information they may display on public Web sites. As a result, some MLSs significantly limit the information available for IDX Web sites, while others distribute their data liberally on the Internet. IDX policy allows participants to opt out of the service, effectively removing their listings from other IDX Web sites. However, those that opt out of the program are prohibited from using IDX for their own Web sites.

Virtual Office Web Site (VOW)

The VOW concept extends the allowable use of listing information via the Internet. Adopted in May 2003, VOW policy addresses Web sites specifically designed as communication tools between VOW participants and consumers with whom the participant has established a relationship, rather than the general public. From the policy document:

“For purposes of this policy, the term Virtual Office Web site ("VOW") refers to a Participant's Internet Web site, or a feature of a Participant's Internet Web site, through which the Participant provides real estate brokerage services to consumers with whom the Participant has first established a broker-consumer relationship (as defined by state law) where the consumer has the opportunity to search for MLS data, subject to the Participant's oversight, supervision, and accountability.”
(NAR VOW Policy Document 2003)

VOW Web sites require password protection, and participants grant access only to those with whom the participants have established a lawful relationship. A VOW Web site may provide information in more detail than an IDX site since the consumer and the participant are actively searching for a specific property.

IDX versus VOW

IDX Web sites primarily serve as marketing tools. They provide an Internet presence for the REALTOR[®] in the hopes that a consumer will make contact. To encourage the consumer to contact the REALTOR[®] for more details, IDX sites often do not display property addresses or listing agent contact information.

VOWs serve as business tools. The information on a VOW may be more revealing in nature and could lead a prospective client to a competing REALTOR[®] were it made available to the general public. However, use of a VOW requires an ongoing relationship between REALTOR[®] and consumer. A VOW increases the efficiency of a REALTOR[®] by encouraging consumers to actively seek out desired properties without direct contact.

Future Outlook

Listing offerings and availability are likely to remain stable for the foreseeable future. VOW and IDX have taken center stage with regard to REALTORS[®] demand for listings and will likely be the major topic of listings discussions for quite some time. Electronic listings have almost completely replaced the listing book, which will become extinct within the next few years.

The MLSs and associations remain in a strong position with regard to listings governance and management. Although the ownership and the distribution model for listings are unlikely to change quickly, brokerages and other market players are intent on diversifying the current landscape to suit their needs. The MLSs must react to changing market conditions, or brokerages will likely find an independent solution.

Sales and Commission Tracking

Sales tracking helps facilitate the compensation agreement between cooperating brokers by tracking the identities of all parties involved in a real estate transaction. The service is typically provided by the MLS and eliminates the need for agents to personally calculate and settle compensation issues.

With automated listing databases, MLSs are ideal providers of sales and commission tracking information. Linking sales tracking and listing systems result in a robust central repository that streamlines both compensation settlement and dispute resolution. Individual REALTORS[®] and brokers are increasingly more likely to use personal or corporate sales tracking software to manage income, revenue, and sales.

Future Outlook

Demand for sales tracking services is high and growing, according to the *2003 MLS System Survey* conducted by the Center for REALTOR[®] Technology. Commission-based agents have a vested interest in the accurate recording of sales and compensation, and the MLS is expected to continue as the most popular source of this data in the foreseeable future.

Web Application Hosting

The application service provider (ASP) paradigm arose with the widespread adoption of the Internet as a business tool. ASPs provide access to software via the Internet for a rental fee that includes the maintenance of hardware, data backup, and system monitoring. ASP services can benefit smaller organizations lacking the resources to obtain licenses for expensive software packages or the technical expertise to implement and maintain complex systems. Larger companies use ASPs as an outsourcing option as well as a method to manage long-term costs.

The rise in REALTOR[®] demand for a branded, online presence has led to a proliferation of companies providing Web-site hosting services to REALTORS[®], multiple listing services, brokerages, REALTOR.com, hosting companies (ASPs), and occasionally do-it-yourself REALTORS[®] are increasingly entering the Web-hosting marketplace. Since an ASP can be characterized as any organization that sells hosting services, many MLSs and other traditional real estate players offer an ASP-type service.

Some hosting companies may provide only data center space, computers, and software. Others provide an array of additional services, which are often packaged as a complete real estate solution and offered to the REALTOR[®] for a monthly or annual fee, thereby pushing the hosting company into the ASP business model. Today's real estate ASPs provide services such as customer relationship management (CRM), technology support, and traditional Web hosting. Real estate ASPs provide tax and sales tracking services to MLSs and county governments as well.

Future Outlook

Application service providers are currently hosting real estate applications and property listings. An ASP provides economies of scale for smaller players in the industry and may be instrumental in lowering the price and barriers to entry for some RCS consumers. It also eliminates the costs to a brokerage of creating complex information services. The ASP allows organizations to deploy services they did not previously have due to a lack of expertise or financing.

Tax Records and Property History

Tax records and historical property sale tracking information are typically obtained through the county government. Governments have traditionally maintained a paper data store but have recently begun to provide electronic access to county records. Municipalities may provide their own service, but in many cases electronic service is outsourced to a Web host (or an MLS acting as a Web host). The information often includes such details about the property as tax liabilities and ownership history. Brokerages and MLSs track similar historical tax and sales data, allowing them to provide property tax information to their constituents.

Independent of origin, tax and history services are extremely important for REALTORS[®]. Homebuyers want to know specific liabilities when purchasing a home, and part of this information is obtained through property tax and ownership history.

Future Outlook

Transaction history and property tax services are continuing to mature. Forward-looking local governments now provide tax information online, and these services are likely to remain in the domain of the government or municipality. Although brokerages and MLSs may employ their own systems to track property taxes as well as individual property sales, the local government generally provides the official data.

Online tax record services have become important now that online access to property listings is available. As with property listings, consumers want quick access to tax data, forcing paper-based records to be made available over the Internet. Most county governments have neither the financial resources nor the expertise required to provide these services to the public. Taking advantage of economies of scale, local governments are likely to outsource these services in the future.

Technology Support/Helpdesk

Many sources for technical assistance are available to REALTORS[®], from brokerages and associations to computer and PDA manufacturers. As REALTORS[®] increasingly evolve into a technology-enabled class, demand for helpdesk services is rising dramatically. A large portion of the NAR membership works with limited technical expertise and without the training or support to successfully troubleshoot and maintain advanced technology. REALTORS[®] are often susceptible to technical problems and are highly likely to use helpdesk support if available.

According to an article by Sarah A. Worthman in the Spring 2003 *REALTOR[®] Association Executive*, the Florida Association of REALTORS[®] has created a comprehensive technology support hotline, which many other states have contracted with FAR to use. Through FAR and other vendors, a technology support service is now available to nearly half of the membership of the National Association of REALTORS[®].

Many associations have begun to provide the helpdesk function to their members, either as a benefit of membership or ala-carte. These helpdesk services are more than simple support of provided software. They attempt to provide support for nearly any technology product a REALTOR[®] might use, from Top Producer and Supra to general technology products like Microsoft Office, e-mail, and virus protection.

Future Outlook

Helpdesk service demand is expected to grow dramatically over the near term. Due to their size and access to resources, large brokerages are well positioned to provide helpdesk support to their staff. Smaller companies will increasingly find more resources are required to support new technologies than they can provide, and this may inhibit their ability to grow. Technical problem resolution is expected to remain a fundamental requirement for the independent REALTOR[®] and broker. Associations have begun to provide additional helpdesk support to members, and helpdesk services will be a critical REALTOR[®] Consumed Service for the foreseeable future.

Customer Relationship Management

Today's real estate professional relies on a myriad of independent tools, including the telephone, pager, cellphone, fax machine, voicemail, and PDAs. All of these instruments are used to improve communications with existing and prospective customers. They are also used to access and disseminate information. Personal Web sites, e-mail, desktop listing managers, contact managers, and various other real estate tools have become commonplace. These tools and the activities they support make up what is now termed Customer Relationship Management. CRM is the systematic use of technology and processes that enables a company to maximize the value its customers derive from their relationship. For REALTORS[®], this means a strong one-to-one relationship.

CRM software packages are available from a number of sources, from software vendors to MLSs. Some are little more than contact management offerings; others record a detailed history of client behavior and create profiles. Advanced CRM tools integrate directly with the MLS and can forward listing information directly to a client based on a client profile. These tools promise to bring a new level of efficiency and interaction to the REALTOR[®]-client relationship.

Future Outlook

CRM technology is sure to play an important role in the future of real estate marketing. It is based on the premise that customers are best served when the contact point person (REALTOR[®]) has full knowledge of both the customer's history and the services the REALTOR[®] has supplied in the past. Like e-mail and cellphones, CRM is another way for REALTORS[®] to communicate with their clients. Real estate software vendors are betting heavily on the expanded use of CRM by making it a key component of their offerings.

Transaction Management

The goal of transaction management is to reduce both transaction time and cost, which has many benefits for agents and brokers. Effective transaction management can speed up the sale and closing processes, giving a REALTOR[®] an advantage over other practitioners who do not have this capability. The ability to complete a transaction in a timely manner is of particular importance in active (hot) real estate markets.

The “one-hour transaction” is the goal of J. Lennox Scott of John L. Scott Real Estate in Bellevue, Wash. Under such a system, a listing agent might begin the transaction from the home of the seller by entering the listing data and signing an electronic contract onsite. This listing can be sent to the MLS via wireless technology. The MLS can then enter the listing into its database immediately. In real time, the listing is made available through IDX or VOW to brokers who, also in real time, may then forward the listing to a client whose profile matches the newly available listing.

At this point, the sales associate may contact the potential homebuyer and immediately set up a visit to the property. Once the property has been viewed, a mortgage-approved buyer may make an offer on the home. Another electronic contract is then forwarded to the selling agent so that the seller can approve the offer and send the electronically signed contract back to the buyer's broker to complete the transaction.

For the most part, the technology already exists to make this type of transaction a reality. However, a lack of consistent transaction standards across various sectors involved in a real estate transaction have thus far limited its application.

Future Outlook

Transaction management is an exciting development in the real estate industry. As in many other industries, time to market is becoming a competitive edge. The cost of providing transaction management may mean that it will be many years before this service will be available to the majority of REALTORS[®]. However, as forward-looking agents and brokers adopt new technologies to serve their constituency, transaction management should remain in the forefront.

Section 2 RCS Providers

The REALTOR[®] Consumed Services (RCS) previously discussed are now offered, maintained, and improved by both traditional and nontraditional service providers.

Traditional RCS providers include the mainstay real estate entities: multiple listing services, REALTOR[®] associations, and brokerages. As the integral components of the real estate industry for decades, traditional providers set the standards for quality and availability that REALTORS[®] now expect.

Due to their long participation in the marketplace, traditional RCS providers control substantial market share. Most real estate brokers in an MLS's region subscribe to the MLS and maintain membership in the local association, receiving varied services from each entity. In addition, many agents operate within brokerages that provide RCSs quickly and cheaply.

However, the traditional RCS providers now find themselves challenged by emerging market players. Nontraditional providers such as financial institutions and software vendors are aggressively moving into the real estate vertical market. Banks continue to lobby the government for legislative approval to operate as real estate brokers, while software vendors now compete directly with MLS operations to host data and supply listing software.

Once comfortable operating within long-established business boundaries, traditional providers now compete directly with each other. Some brokerages are expanding their capacity to provide and maintain proprietary listings databases in order to circumvent MLS restrictions and NAR mandates as well as to strengthen data ownership and control. Many associations are providing technology support services to retain members and allow REALTORS[®] to operate independently of brokerages that supply equivalent services. An increasing number of MLSs compete with neighboring MLSs to provide listing services to Association of REALTORS[®] (AoR) members.

The real estate services marketplace is extremely diverse and dynamic, and the competitive landscape will likely become more volatile in the near term. Associations are expected to provide more than the typical education and lobbying fare. No longer content to offer listing data alone, MLSs are expected to accelerate their data services. Brokerages are expected to take an active role in developing technology services and may fracture the traditional model of regionally aggregated data stores. All real estate industry segments are competing, either directly or indirectly. The challenge for both traditional and nontraditional RCS providers will be to increase the quality and quantity of services while maintaining the efficiencies that lead to profitability.

As competition increases, consolidation is likely to increase as well. Larger market players are expected to absorb smaller organizations, with effective management and

economies of scale determining which participants remain. Some emerging players will succeed and others will fail. Some will replace bastions of traditional services and others will form completely new paradigms.



Associations

What is an Association of REALTORS®

An Association of REALTORS® is primarily responsible for member governance in the region it serves. Governance activities include establishing ethical guidelines and rules regarding acceptable business practices. For example, the local policies that encompass electronic property listings (IDX/VOW) may fall under the direct control of the association.

The association's governance activity is vital to the marketplace. A form of self-regulation, AoR governance provides a framework of rules for members to adhere to when conducting business. Although competition is encouraged, the association enforces a system of ethics and etiquette that allows members to have reasonable expectations concerning the operation of the marketplace. For instance, if a member violates an association's code of ethics, other members expect appropriate disciplinary action or even expulsion from the association. This system of ethics empowers REALTORS® with the necessary confidence to operate a legal and ethical business practice.

AoRs also provide education and certification training and legal services to members. Members are assured that the educational offerings presented by their local association conform to national standards for real estate education and certification.

Current marketplace conditions have encouraged AoRs to provide new services, especially technology-related offerings, to attract and retain membership. Technology helpdesk support is increasingly available through local associations. According to recent surveys by NAR, helpdesk is in high demand from REALTORS®. Many AoRs realize that providing new services will be essential to their continuing survival in the "new economy."

AoRs provide valuable networking opportunities. For a REALTOR®, personal contact and networking are crucial to creating and maintaining a successful business practice. Association membership is the main conduit for relationships for many real estate professionals.

Associations may also serve as political action organizations and trade unions by providing a voice for REALTORS® at all levels of government. Although individual REALTORS® may have little direct influence on real estate industry law, the association can support legislation beneficial to the entire membership. NAR is one of the largest political lobbying organizations in the world. One of its functions is to protect the "REALTOR®" trademark and how it is used. A real estate agent may not use the REALTOR® trademark unless he or she belongs to the National Association of REALTORS®.



Association Models

The following models were developed by the National Association of REALTORS® Association Model Work Group. The models are meant to serve as guidelines and points of comparison to other organizations within the industry. They are not meant to serve as exact descriptions of particular organizations. In fact, most organizations are a combination of the models.

Administrative. The administrative model represents the minimum quality service level that an association must provide to its members. The association staff understands the general activities of its members and can provide the most basic information that a member may need in performing day-to-day business activities. The administrative-level AoR staff member is *familiar* with the skills necessary to serve REALTORS®.

Management. The management model adds an additional layer of service quality not found in the administrative model. Basic association activities are covered, but the AoR is more proactive regarding its members' needs. Members can count on regular contact and communication from the association. Management-level associations have a staff that is *proficient* in the skills needed to serve the REALTOR®.

Leadership. The leadership model describes an association that takes the lead in major governance issues and demonstrates a highly sophisticated and innovative business outlook. The association possesses an *expert* and provides the most value and services to its members.

Future Outlook

The future of today's associations lies in member value. Associations will grow if real estate practitioners can see clear advantages to joining them. Membership value will depend on the level of service the AoR provides to REALTORS®.

AoRs should continue to cater to individual agents and small independent brokerages, but they must also attract the agents and management of large brokerages. They should explore a myriad of services to deliver, using a la carte or premium pricing to help satisfy the demands of large brokerages.

Attracting the agents of large real estate brokers to association membership may prove difficult. Many brokerages provide high-quality services to their agents, and associations must offer a wide-ranging suite of additional services to attract new members.

Brokerage

What is a Real Estate Brokerage?

Real estate brokerages leverage economies of scale to sell real estate efficiently. They generate revenues using commission-based, fee-based, and full employment models. Brokerages attempt to provide their agents with the tools and services they need to market and sell real estate effectively.

Unlike associations, brokerages are driven and defined more often by business relationships and financial needs than by politics and policy, though they are licensed by the state and must hold their agents' licenses. While both associations and brokerages may provide political and educational services, brokerages also provide office space, telephones, marketing tools and, more recently, Web sites, e-mail access, and other technology-related services. In return, agents pay for service delivery either by commission sharing or by direct fees (unless they are employees).

As for-profit institutions, brokerages are encouraged to limit expenditures to those activities that actively promote increased revenue. In contrast, associations are nonprofits whose goal is to provide the greatest benefit package to their membership.

Increased and heated competition between brokerages has dramatically changed the traditional broker-agent relationship. The introduction of the 100-percent commission model (also called the agent service bureau) changed the paradigm of the traditional brokerage. The 100-percent commission has become fairly common (although not an industry standard).

The 100-percent commission model presents unique challenges for brokers. Traditionally, brokerages grew by increasing the number of individual agents in order to increase the number of transactions and thus the amount of revenue. However, the 100-percent commission model pressures this growth strategy since it appeals to the most productive agents. A primary strategy for brokerage growth now involves providing ancillary services to consumers and increasing brand recognition in the marketplace. As the real estate marketplace evolves, many brokerages are diversifying their product offerings to maintain growth.

Broker Models

The 2003 NAR Research Division report *The Future of Real Estate Brokerage* defines three brokerage models: traditional brokerage, vertically expanded brokerage, and agent service bureau (100-percent commission model).

In the *traditional brokerage*, sales associates operate as independent agents and their compensation is based strictly on commissions. A traditional brokerage usually does not

offer ancillary services such as title or mortgage offerings. Rather, it is primarily concerned with increasing sales volume and generating maximum revenue from sales commissions.

The *vertically expanded brokerage* operates much like the traditional brokerage but offers additional services, such as mortgage, title insurance, and relocation. It is not content to derive revenue solely from commissions but rather seeks to expand into other business verticals. The brokerage then leverages its existing customer base in those other verticals to grow revenue.

The *agent service bureau* is a brokerage that compensates agents with as much as 100 percent of property sales commissions. The agents pay the brokerage periodic fees for essential business services, including phone lines, office space, and technology-enabled RCSs like Web sites and helpdesk support.

Each of the three models has its own advantages. For example, traditional brokerages have lower overhead costs. Vertically expanded brokerages have better access to capital. And agent service bureaus have high volume. The best business model for a given company depends on its business plan and where it wants to focus its assets at a given time.

Future Outlook

New models of brokerage activity are beginning to appear as brokers continue to adapt to changing market conditions. *The Future of Real Estate Brokerage* further identifies three emerging models that may significantly affect the real estate industry: the unbundled service provider, the market maker, and the corporate model.

The *unbundled service provider* (USP) is a “no-frills” model that offers consumers low-cost brokerage services with a limited scope. The USP may include only marketing services or low-cost contractual and closing services. It offers a low-cost alternative to the full-service brokerage that is increasingly popular, especially with home sellers who might otherwise go the FSBO (for sale by owner) route.

Market makers sell property via auction. The number of potential buyers and the information available to them are of utmost importance in a market maker transaction. Buyers typically need to be very informed about the offered property (through a property inspection, among other things) before they will participate in an auction.

In the *corporate model*, a large corporation such as an insurance company or a bank buys or starts a real estate brokerage. Its customers are leveraged as potential clients for other corporate divisions. A typical example of the corporate model involves banks driving real estate brokerage business to an in-house mortgage services unit. While current laws do not permit this model in many cases that could change.

Multiple Listing Service

What is a Multiple Listing Service

A multiple listing service (MLS) operates as the market focal point of its real estate area. Several contiguous areas may pool their resources to create a regional MLS. The central purposes of an MLS are to provide cooperation and facilitate compensation between brokers. It also provides a listing database through which members can communicate the availability of their products to the community. The MLS generally provides an economical listing environment and a set of rules and ethical standards for members. It facilitates contractual relationships between two or more unrelated parties that describe a method to conduct business without creating a specific contract for each independent transaction.

The most emphasized function of the MLS is the listings service: a central repository for ads for salable properties. These ads (listings) are submitted by a specific real estate agent or broker and serve as a way to notify other real estate professionals and the home buying public about the availability of the home.

Equally important, if less visible, MLS functions include rules enforcement and a means of agreeing on compensation among MLS participants. Everyone who uses the MLS listings database agrees to the rules of compensation determined by its membership. Sales tracking systems allow the MLS to collect data regarding transactions closed through the system. These sales records are used to determine or affirm compensation to both the listing and the selling brokerages. The MLS does not set fees or compensation; it merely facilitates the transaction.

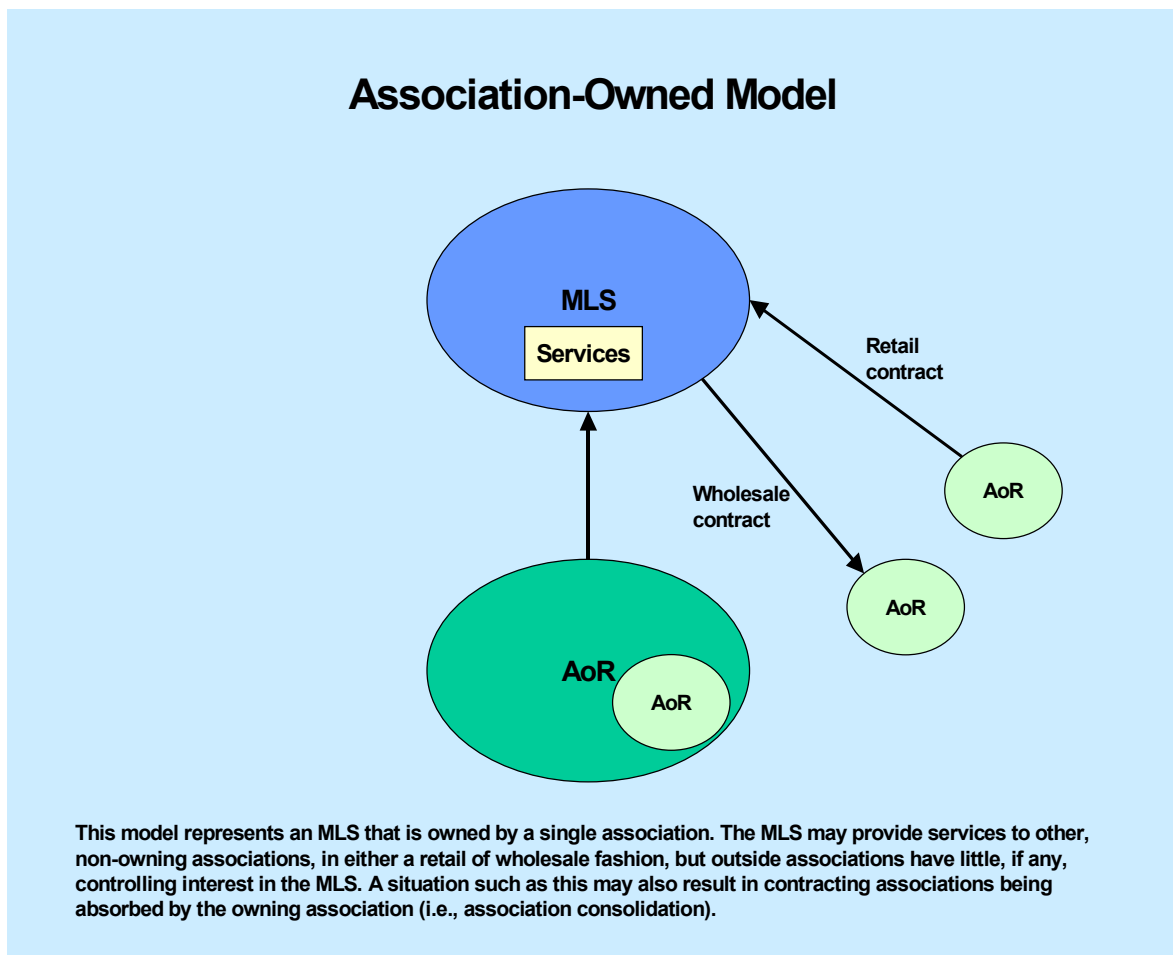
The combination of the listings database and sales tracking makes the MLS an effective marketplace tool. It gives agents an outreach method to advertise their properties to a large audience of real estate professionals. Agents can conduct business confidently because they are reasonably assured that transactions will follow established rules. The unification of the listings database and a guarantee of compensation create much of the value that the MLS provides to the marketplace.

MLS Models

The Center for REALTOR[®] Technology has identified three widely used MLS models: the *association-owned* model, the *association outsource* model, and the *association co-op* model. These abstract models are not meant to classify the business strategy of any particular organization. In fact, many MLSs combine components from each model.

Association-Owned Models

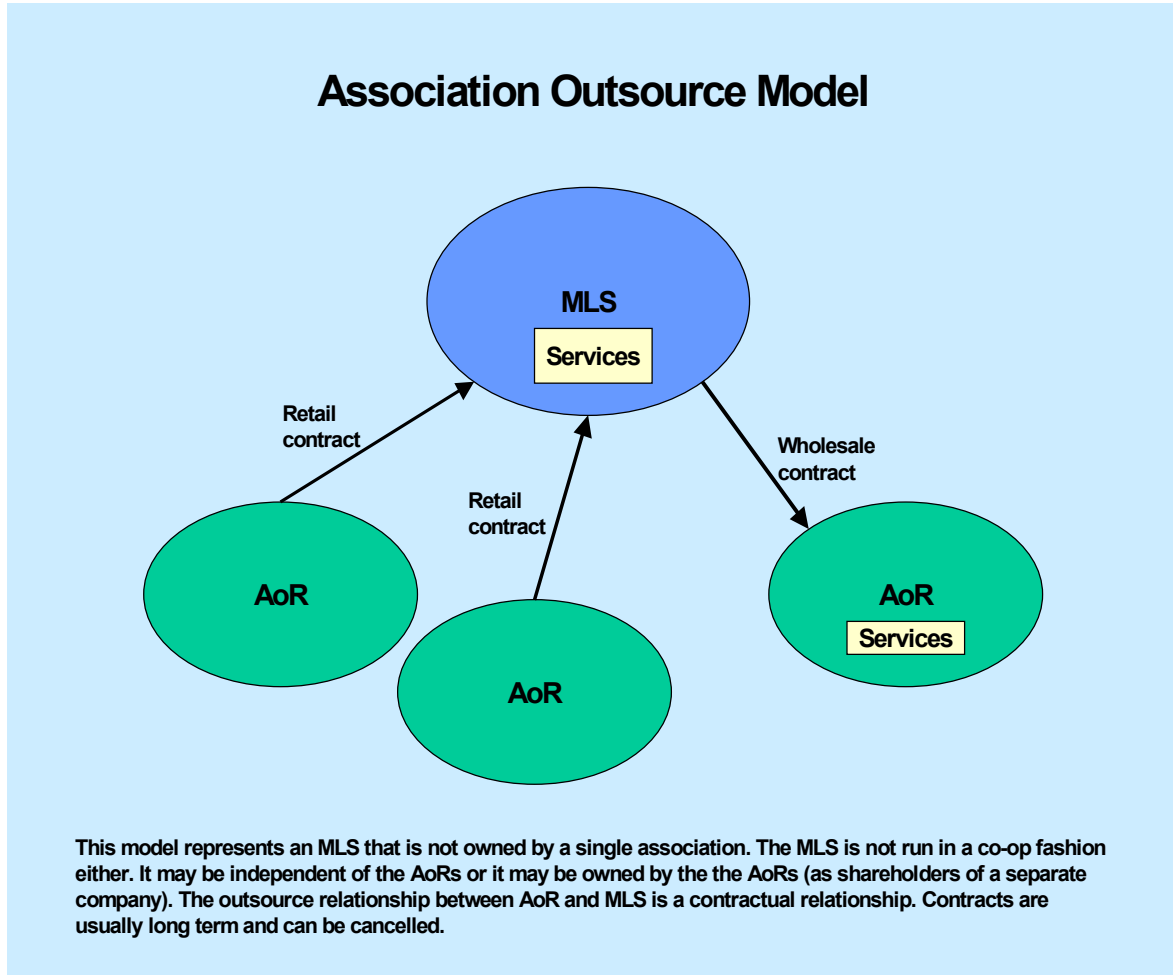
In the association-owned model, the MLS operates as a wholly owned subsidiary of the association. The MLS exists exclusively to provide services to the members of the owning association.



Associations directly own many multiple listing services since this model was extremely popular in the pre-Internet era. Changing technology needs have forced many associations to abandon this model, but it still dominates the MLS arena.

Association Outsource Model

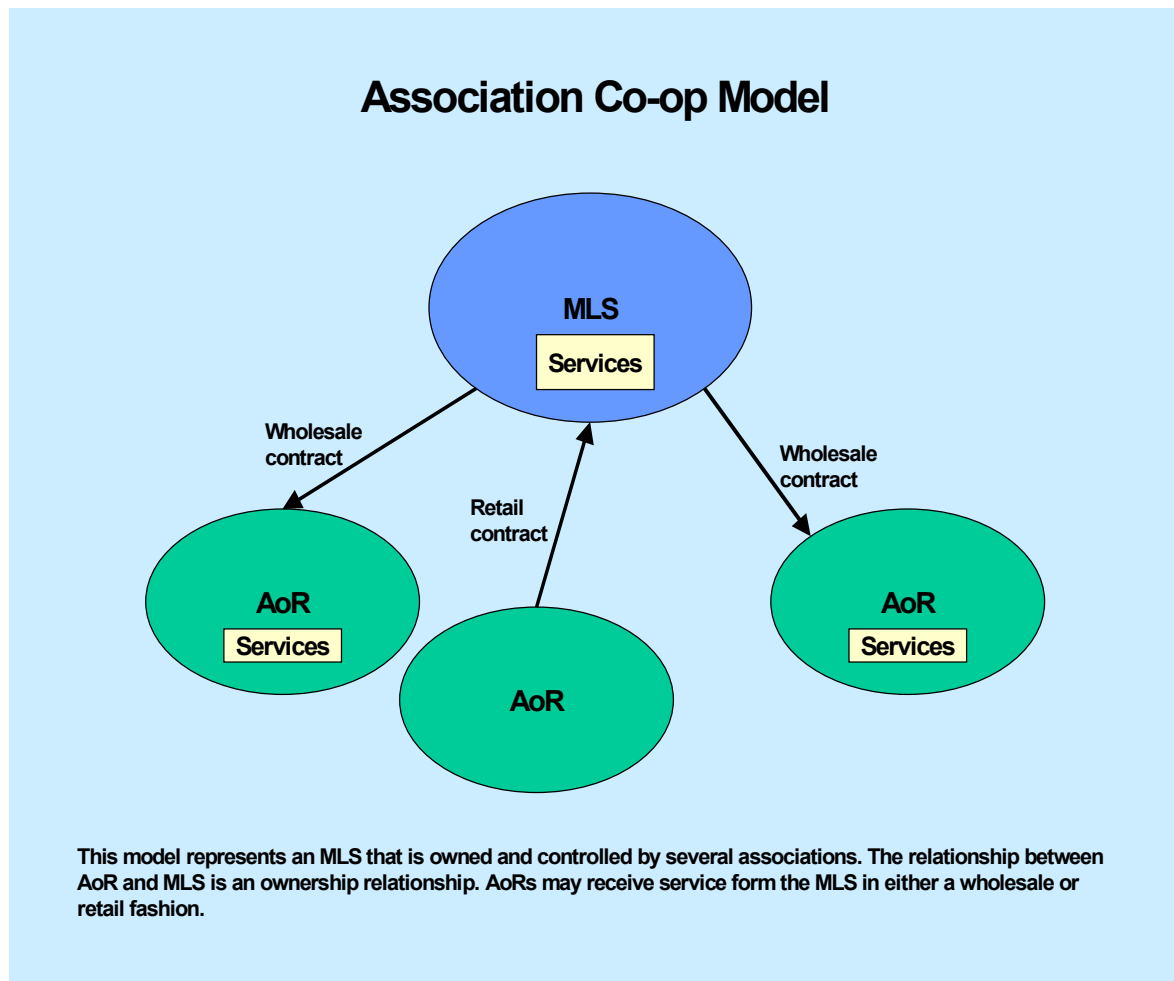
The association outsource model describes a contractual relationship between AoRs and the multiple listing service. No association owns or controls the MLS directly, and the MLS may contract with several associations.



Associations enter into wholesale or retail contracts with the association outsource MLS. The wholesale contract covers associations that resell MLS services using their own branding. The retail contract requires association members to contact the MLS directly for services.

Association Co-op Model

In the association co-op model, multiple AoRs establish a multiple listing service in a cooperative effort. The co-op MLS is owned by the associations, with each AoR acting as a shareholder. As in the association-owned model, the MLS exists exclusively to provide services to the members of the owning co-op.



Service may be provided to member associations on a wholesale or retail basis. The wholesale method allows associations to resell MLS services using their own branding. The retail method requires association members to contact the MLS directly for services.

The association co-op model uses economies of scale to provide services to small to medium-size associations that would be prohibitively expensive for them to purchase individually. Co-op members share data center and communications costs. And the buying power of the co-op often warrants bulk discounts from software vendors. Co-op resources are used to run large data-center operations for listing databases and other technology-related services.

Future Outlook

The future of multiple listing services is uncertain, but significant changes can be expected. The scope of the next generation MLS will be determined by governance changes from the associations, the offerings of software vendors, the needs of large brokerages, and the acceptance of standards like RETS by the entire industry.



Agents

What is an Agent?

Real estate agents facilitate the process of buying and selling real estate. They act as representatives for buyers and sellers and are often the first contact for both marketing and sales of real estate. Agents list properties in the MLS and market them by many means. They sell by helping clients limit the field of available properties to the most likely candidates and showing these properties. Agents do not generally provide RCSs; they are the end users of such services.

Only real estate practitioners who are members of the NATIONAL ASSOCIATION OF REALTORS® may legally use the REALTOR® designation. “REALTOR®” is a registered trademark of NAR and may not be used to describe nonmember real estate associates.

The technology revolution has significantly altered how agents sell real estate. Once paper- and office-bound, agents are now likely to use cellphones and PDAs and work primarily in the field. Successful agents are quick to embrace new technologies without relying exclusively on them to generate sales. Agents will need a thorough understanding of the advantages and limitations of new technologies to compete in the future.



Emerging Competition

Emerging competition includes banks, software vendors, and other service providers that once operated as niche players in the real estate industry. The traditional pillars of the real estate industry (associations, brokerages, multiple listing services, and agents) now find the landscape increasingly populated with ancillary competitors.

Emerging competitors tend to leverage unexploited or underserved segments to obtain a foothold in the marketplace. For example, unbundled service providers realized a demand for low-service marketing, especially from potential FSBOs. Technology changes have also opened the market to software vendors, the most successful of which are building new products with wide customer appeal. In some cases, software vendors are replacing the functions once exclusively maintained by the MLS. National banks, now legally barred from operating directly in the real estate market, are lobbying for legislative adjustments. Swift changes in the brokerage industry are expected to accompany any deregulation for banks.

Lenders

Banks and mortgage companies make up the bulk of real estate lending institutions. Although federally chartered banks cannot operate as real estate brokerages, state-chartered banks and mortgage finance companies are under no such restriction. Thus, mortgage finance companies and real estate brokerages often exist under the same corporate umbrella and may provide a complete buying and lending service package.

Despite ongoing opposition from NAR, proposed changes to current legislation could conceivably allow national banks to enter the real estate brokerage market and could result in significant consolidation within the real estate industry. Large banks would likely use their substantial resources to purchase existing real estate brokerage companies. The customers of the real estate brokerage arm would then become prospects for the bank's financial service offerings.

Software Vendors

Software vendors are generally classified as software sales companies, application service providers (ASPs), or professional services firms.

Software sales companies produce software packages and market them directly to individuals or companies. The software runs on the customer's machine.

ASP service providers offer software via subscription. ASP vendors control the software as well as the physical infrastructure (servers, communications, databases, etc.) and provide gateways directly to the customer (often through the Internet). The ASP model generally gives small brokerages the ability to license software that would be prohibitively expensive to buy. ASP vendors are well positioned to become dominant players in the real estate industry. They can provide everything from a Web presence for REALTORS[®] to a listing service for the MLS. In some regions, the ASP vendor is the sole provider of technology to the MLS.

Professional services firms include consulting and outsourcing services. Software vendors may offer professional services to existing clients; other companies may specialize in consulting services and problem solving.

Software that provides MLS services or office automation is the most widely used by members of the real estate industry.

MLS software vendors play a crucial role in the real estate industry as the providers of listing distribution and database software. An MLS may license the vendor software package and manage it onsite using its own hardware and technical staff. However, several MLS vendors now use an application service provider model. MLSs that employ ASP vendors to manage listings systems can focus on rule enforcement and policy matters since technical operations are effectively outsourced.

Office automation vendors provide software that increases office productivity and efficiency. Microsoft, Top Producer, and Supra all offer products intended to help real estate agents and brokers perform daily business tasks.

Unbundled Service Providers

Unbundled service providers are well-established competitors in the real estate industry that provide alternatives to traditional, full-service brokerage. They appeal primarily to cost-conscious customers who are prepared to do some or most of the work involved in a real estate sale in return for a lower commission fee. The USP option also appeals to home sellers who might otherwise try to sell their homes without the assistance of a real estate professional, often called FSBOs in the real estate industry. The rise of the Internet has seen the emergence of USPs as a significant competitor to full-service brokerages.

USP itself is not a single entity, but rather a category of competition that may include Web sites with searchable property listings, sites promoting a single property, or MLS listings that are not serviced by the listing entity. Some brokerages now offer listing-only services to compete with USPs, but this can cut into profits by exposing a wider potential customer base to low-commission services.

Section 3: Industry Outlook

While we have witnessed dramatic changes in recent years, the real estate industry is poised for even more significant developments. The Internet has been a catalyst for the introduction of e-mail, IDX, and VOW, but other market pressures are present as well. The regionalization of multiple listing services was a significant change in the last decade, bringing efficiency and economies of scale to listings distribution. Market pressure from MLS customers will add more turmoil to an already tumultuous marketplace.

A major force behind MLS regionalization has been the distribution of property listings. Paper listings books are expensive to produce and distribute. Shifting to electronic listings has made MLS operations faster and less costly--but only to a point. Per-REALTOR[®] costs are down, but introducing an electronic listings database can be extremely expensive, and few small organizations have the capability to create such a system. MLSs and associations have found that regional MLSs or MLS vendor solutions are better suited to electronic listings distribution.

New pressure for MLS change is coming directly from MLS customers, specifically large brokers. Traditionally, the MLS has been a member-focused service organization. A listings book was distributed to each MLS member periodically. Now, MLSs and associations are looking to improve their membership offerings with more value-added services, which sometimes conflict with the interests of their larger customers. Brokers provide many services on their own, and they do so out of a desire to gain a competitive advantage in the marketplace. In short, brokers are a strong element driving changes in the operation of the MLS.

The success of regional MLSs has encouraged other changes to the MLS. Large-scale operations have proven cost effective, and thoughts that a national MLS might provide further advantage are not unfounded. MLS vendors have begun to step in where regionalization has not occurred, providing cost-effective solutions for small associations. Another development affecting the marketplace is RETS, the emerging data transfer standard, with its ability to lower the cost of real estate transactions.

MLS Model Alternatives

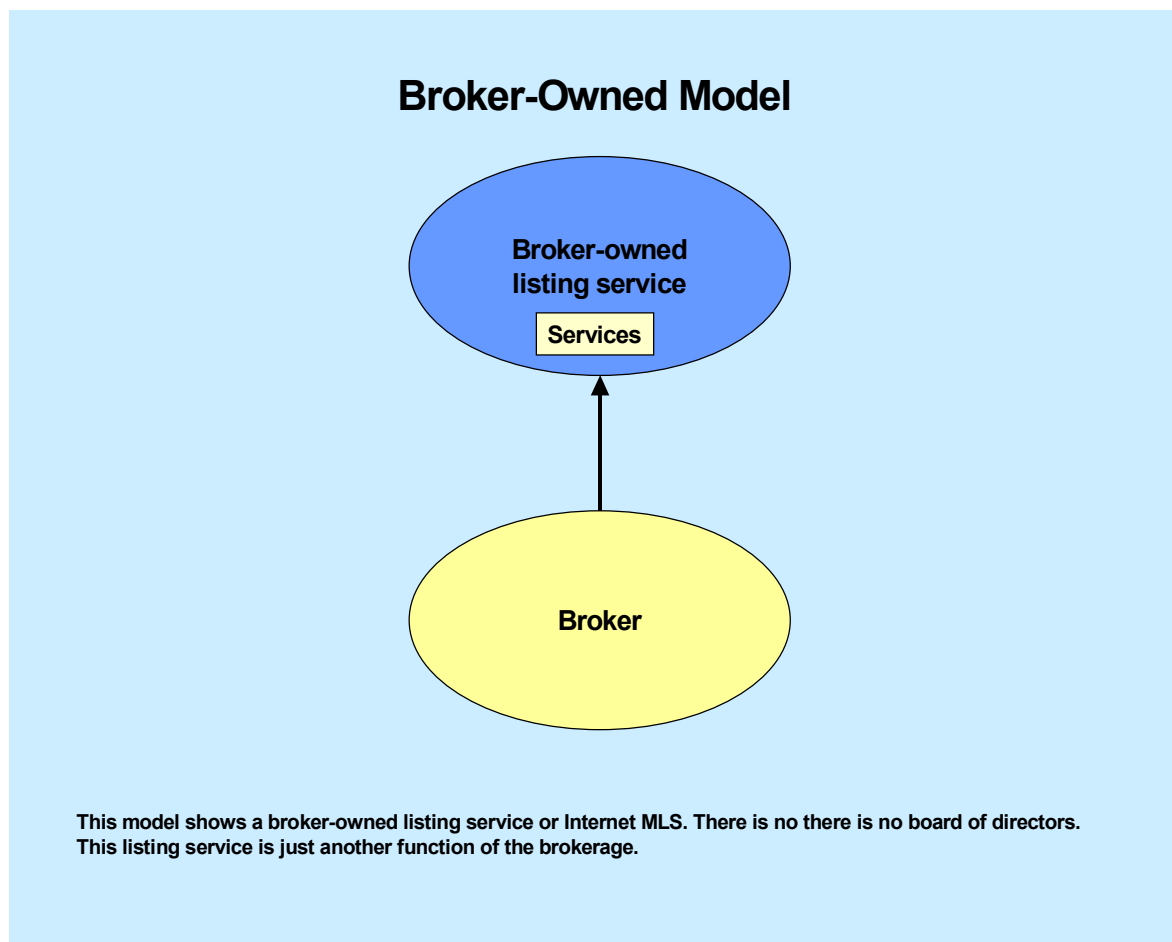
Though the future path of multiple listing services remains indeterminate, we will likely see them grow, disband, consolidate, and transform into new models. Alternative listing sources may also play a large part in their evolution. Pressures are arising from the conflict of serving a market that has strong ties to a membership model, yet wants to explore sales and marketing beyond those found at the traditional MLS.

Like our previous models, these models are not meant to describe specific organizations. They are meant as guides for comparison with other organizations within the industry. A given organization may combine traits of several models. Some of the following models, and variations thereon, have already been seen in the marketplace, though they are not common.



Broker-owned Model

A *broker-owned* listing service, also referred to as an “internal MLS,” is a very likely outcome of the aforementioned pressures. It has several competitive advantages. A brokerage may want to build an internal MLS to use in conjunction with a traditional multiple listing services.

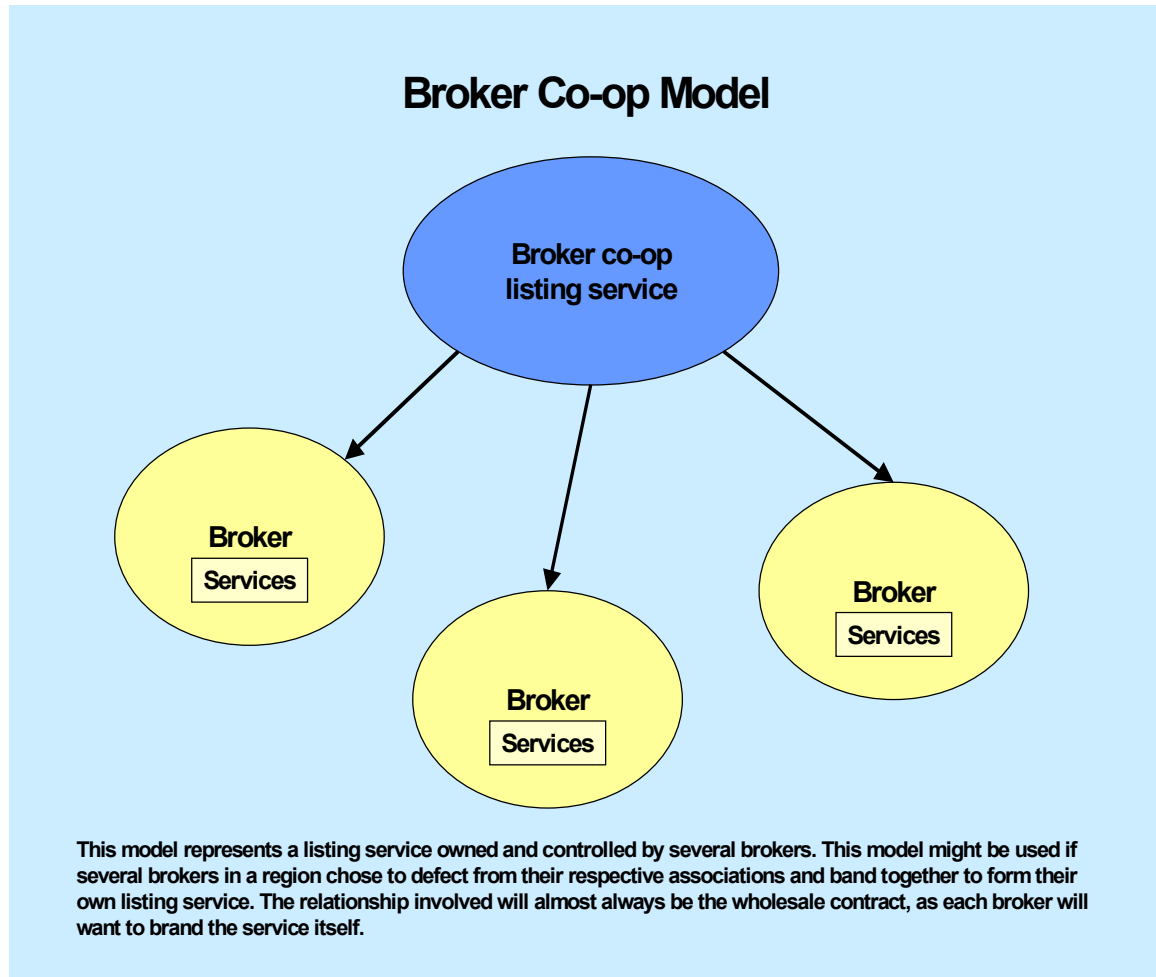


An internal MLS would allow a brokerage to communicate listings information within the company quickly and efficiently, while still obeying the rules of the MLS. This scenario is most likely if the brokerage wishes to augment the service it receives from the traditional MLS.

An internal MLS might also replace an existing MLS. Some brokerages are large enough that their own listing service might generate all the business they can handle.

Broker Co-op Model

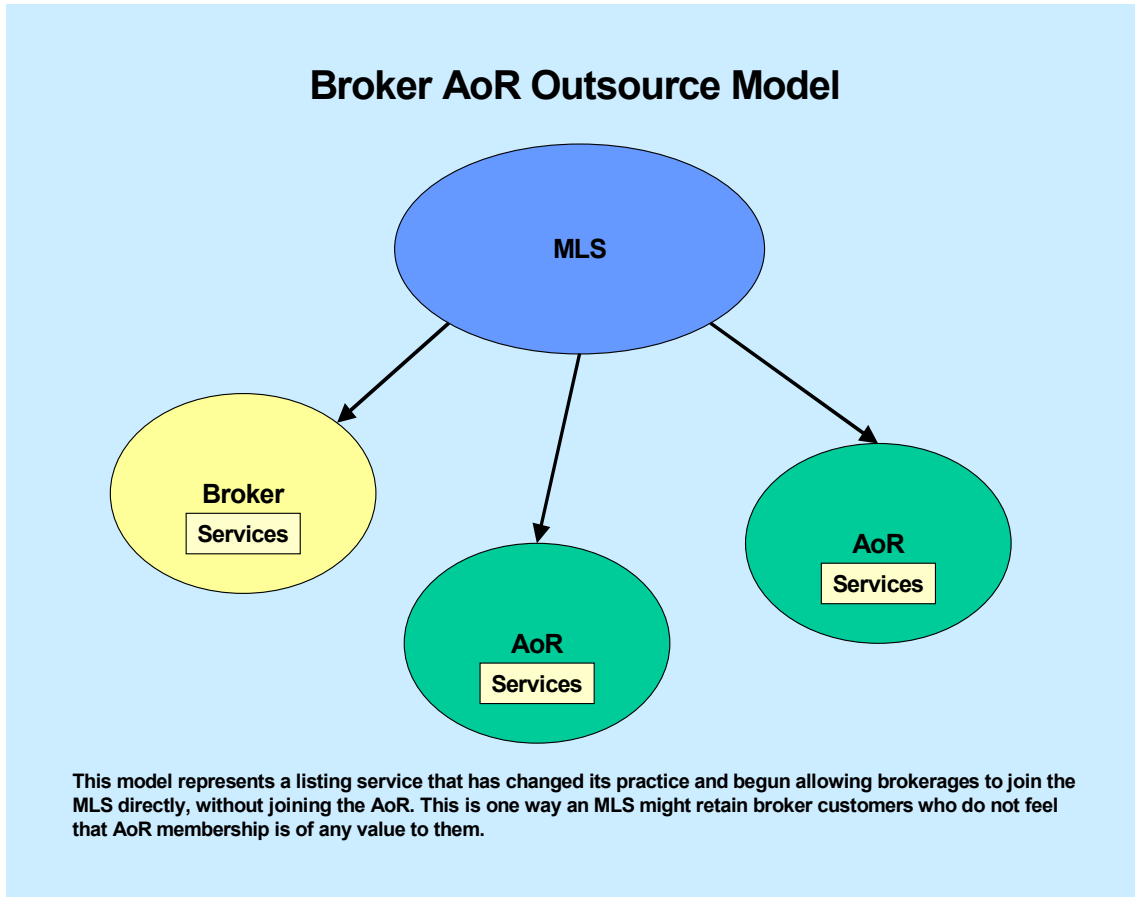
The needs of brokerages and the offerings of associations may not always coincide. If associations and MLSs do not meet brokerages' needs, they may look for other solutions. One possible solution is a *broker co-op* listing service.



Brokerages could create large listing systems by cooperating with each other. Large brokerages possess both the financial resources and technology expertise required to create such systems. This scenario provides a very enticing alternative; it allows each brokerage to control its own listings while generating a larger pool of listings than the brokerage alone could provide its agents.

Broker-Association ASP Model

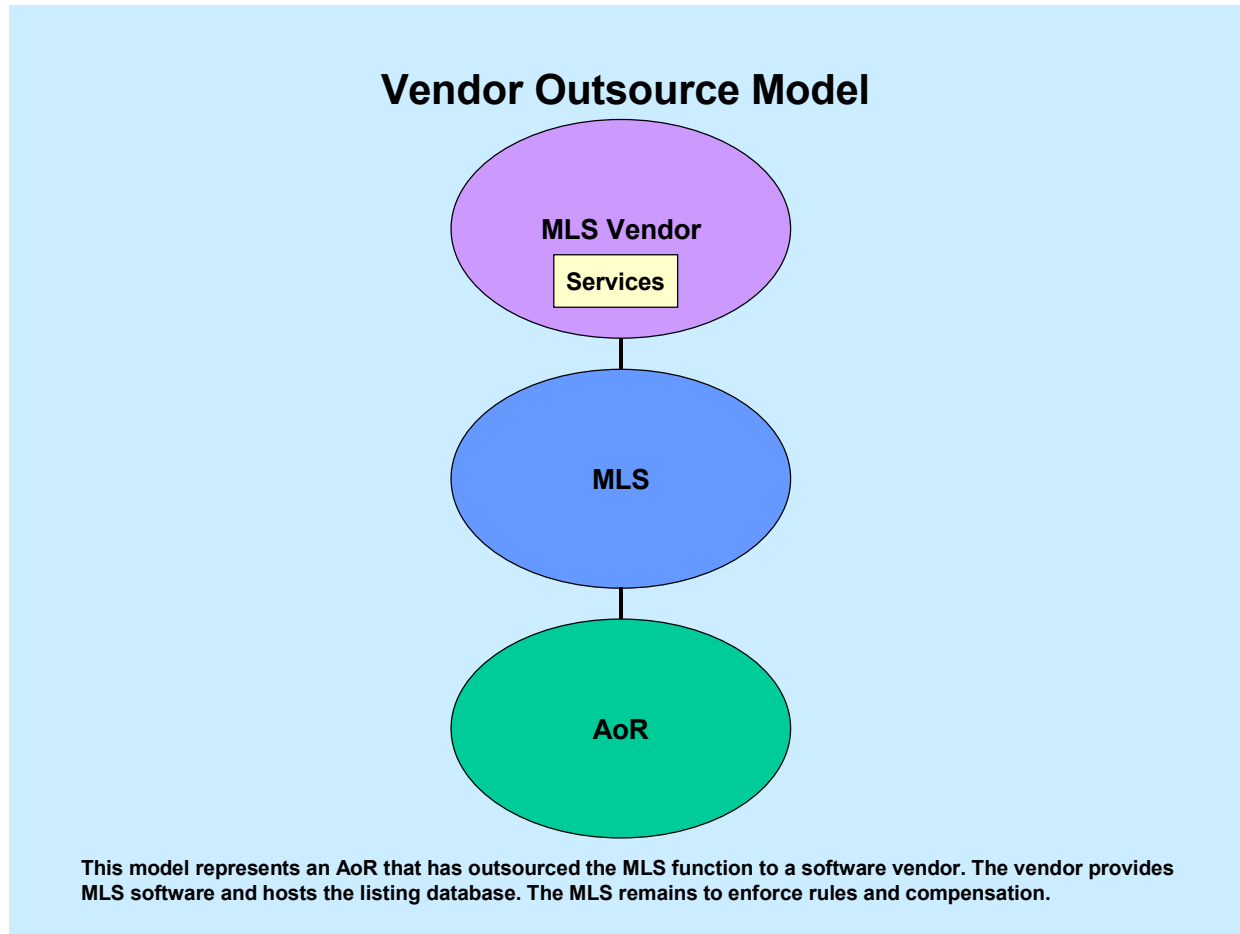
A derivation of the listing service that puts the brokerage in a position similar to an association is the *broker-association ASP*.



The main innovation in this model is that the brokerage is allowed to govern its own listings, much like an association. Broker membership in the MLS may come without association membership. Although this model seems to break from tradition, it may be a way to retain unsatisfied large brokers as MLS customers.

Vendor Outsource Model

Another rapidly emerging model is the *vendor outsource* model, in which the MLS listings operation is outsourced to a software vendor. The vendor provides both the listings management software and data hosting.



The vendor outsource model is a relatively inexpensive way for REALTOR[®] associations to acquire the latest in MLS technologies for association members. Typically, this model does not appeal to large associations, but small associations that do not have the resources to provide their own major technology solutions can benefit from it. The software vendor provides data facilities and technological expertise that only the largest associations and MLSs usually have.

A major disadvantage of this option is that control of data is given to the software vendor. Most software vendor solutions are proprietary, and they may leave little room for individual participants' flexibility. If the vendor does not provide a particular service, that service will likely remain unavailable or will become available only when the vendor's market demands it (a common practice of all software vendors).

National MLS

The possibility of formulating a national MLS for residential property sales has been discussed for a number of years. The big question is whether or not a national MLS would be beneficial to the industry. Many market conditions, from logistical to technological, suggest that this movement is not likely in the near future. Perhaps the question is “How may we derive the benefits of a national MLS without actually creating one?”

A major benefit of a national MLS would be consistency of listings presentation. It would be much easier for a REALTOR[®] to operate across regions, for example, if one provider with standardized access to all listings were the norm. However, unlike Microsoft’s dominance of the office productivity software market, no one single vendor dominates the MLS software market. In fact, it is not uncommon for a single MLS to use multiple, disparate MLS software products. This arrangement presents a problem for real estate agents. While a REALTOR[®] can join multiple associations and use multiple MLSs, the lack of technological standards makes it difficult to share listings across different systems.

A national MLS could eliminate software incompatibilities. Unfortunately, current MLS practice is to use proprietary software (that is, software with strictly controlled interfaces and data formats). These formats are owned by either an MLS that has developed an in-house solution or one of the many MLS software vendors. Listings presentation is far from being standardized, an absolute necessity before industry participants could derive any national MLS-like benefits. Another obstacle is that, while only about two million listings are active nationwide at any one time, the amount of historical information kept by MLSs is colossal, making a national MLS an extremely expensive endeavor.

Data format standardization does not mean that only a single MLS software product be used by all, but rather that all MLS software products may use any MLS data source. Standardization of MLS data formats would allow a REALTOR[®] to select an MLS software package based on functionality rather than the way information is laid out in the database. Standardization would also drive down the cost of other listings management tasks, such as VOW and IDX Web-site creation. Dozens of data formats are currently in use, and building applications and Web sites to conform to every format is expensive and time consuming. One standard that would alleviate the problems caused by format dissimilarity is the Real Estate Transaction Standard.

Real Estate Transaction Standard (RETS)

If real estate information required in all aspects of the transaction were presented in one standard format, both a national MLS and the widespread use of electronic transaction management would become much more likely. In fact, the implementation of a standard data format such as RETS would help remove the shackles of software dependency.

Today, much of the operational effort in many real estate companies concentrates on making different software packages work together. Data from the MLS is often obtained with one software package and copied manually to contact management or brochure software. Manual data replication is tedious, time consuming, expensive, and prone to error.

RETS will nearly eliminate the need for manual replication, saving time and money. It will provide flexibility and freedom in making software choices. It will allow software vendors to offer import and export functions to facilitate office integration. Common occurrences such as changing from one MLS vendor to another will no longer require long and expensive data conversion processes. In fact, the implementation of a standard data format will remove the shackles of software dependency.

RETS will improve the bottom line of brokers and agents. Reducing the cost of a transaction, even by a few dollars, can have a major effect on an organization that is responsible for handling thousands of transaction sides per year. An automated system can eliminate much of the time and cost associated with the human interaction of a transaction.

Today, de facto standard formats such as comma separated value (CSV) and Microsoft Excel exist, but they are not optimized for MLS data exchange. For instance, there is no way for a brochure software package to know enough about a transaction stored in an proprietary MLS repository to produce intelligent output. Rather, the brochure software has to be specially programmed to the particular format of the MLS package.

Easier transfer of data is made possible by the use of meta-data based transfers. These mechanisms include information about the contents of each data element, such as the name and order of each element. In this way, meta-data transfers can determine content order without the need for manually built mappings.

RETS is a meta-data based standard that is gaining in popularity. It is primarily designed to represent listing, agent, and public records information as provided by the MLS.

Future Outlook

RETS has been around since 1999, but its use has increased dramatically over the last year. Today, about 14 percent of the MLS market is using RETS. This number will

probably increase to as much as 50 percent by the end of 2004 due in large part to the support of the RETS format by Homestore, the operator of REALTOR.com. NAR is also leading a consortium of real estate industry groups working to expand and enhance the standard. Many application vendors will soon be offering RETS as part of their import and export features.

Consolidation and the Regional MLS

The consolidation of small MLSs has made possible the rise of the regional MLS. While there is no technical definition for “regional MLS,” we can think of it as an MLS that serves the membership of several REALTOR® associations. Regional MLSs have formed out of many smaller contiguous MLSs to take advantage of the benefits accorded to a larger organization.

Higher demand for accurate and timely electronic listings information has increased the cost of MLS operations. Listings must be published online immediately, and it is difficult for a small MLS to accomplish this feat on its own. Raising dues to pay these high costs would likely drive away members. Using MLS vendors to outsource the service is a popular option, but so is consolidation of MLSs.

It is important to note that all of the three previously discussed MLS operational models can be used by a regional MLS. An association-owned MLS may become regional if the owning association grows very large or joins its neighbors to become one large association. An association may contract to a local MLS application service provider that also serves other associations. Or an association may build a cooperative MLS with other AoRs in its region.

Regional MLSs have even brought some benefits to their members that a national MLS might be expected to provide. Members have access to much larger listings databases and may serve a much larger area. A REALTOR® may find it much easier than before to sell property over several different association territories. The regional MLS's efficiency of operation can save both REALTORS® and the associations served by the MLS time, resources, and money.



Conclusion

The MLS/Vendor Paradigm Shift

The real estate industry and the vendors that serve it have undergone a paradigm shift in the last few years. Paradigm shifts occur when demand and competition change a market's existing dynamic. Markets respond to these shifts with innovative approaches to meet these new demands. Without demand and new ways to do things, there is no reason to change the status quo.

As the real estate industry has shifted, nontraditional players have moved aggressively to attract new customers and to gain market share by offering new products and services. The desire for innovation among real estate technology users has allowed some of these emerging entities to gain footholds in portions of the market. As a result, ancillary services are now being offered by MLSs in competition with software vendors and application service providers.

Demand

Demand for new, electronically based services is increasing because of two important factors. The first driver is the increased technical proficiency of the REALTOR.[®] Although the initial acceptance of technology was slow among industry practitioners, its use is now firmly entrenched as an essential business tool.

Because of this more widespread acceptance, new demand across the entire real estate professional population may appear marginal. Yet, it is much more pronounced among the many, new practitioners now entering the market, as well as among technologically inclined practitioners who want to take advantage of the productivity gains from innovation. As the demographics of REALTORS[®] shifts toward younger participants who grew up with computers and the Internet, the demand for RCS will increase.

REALTORS'[®] business success depends on their ability to deliver their message and their products to clients quickly and conveniently. Consumers are comfortable with the electronic flow of information from the Internet, with 42 percent of buyers using the Internet frequently as part of their home search (*2003 NATIONAL ASSOCIATION OF REALTORS[®] Profile of Home Buyers and Sellers*). Buyers and sellers are also accustomed to communicating via e-mail, handling business and personal research on the Internet, and even shopping online. This comfort level is increasing demand for broadband services. Consumer demand for electronically based information is unlikely to reverse course, providing an important demand driver for RCS. Successful service providers are aware of changing preferences and strive to adopt new delivery methods quickly to meet the needs of customers and practitioners.

Innovation

The real estate market is, and will continue to be, a competitive one, which should help to spur widespread adoption of new RCS as they appear. Availability should be considered in a broader context, however. For example, seeing information in a browser is not as critical as being able to capture and manipulate that information. The ability to reformat data and combine it with other information in forms REALTORS® need would represent huge productivity gains for the industry. Manipulation tools that make these processes possible must be readily available for innovation to drive the paradigm shift.

Challenges that threaten to block or slow down innovation do exist today. Even if new tools are demanded by the industry, debates over issues such as digital rights management (DRM) could stall needed advances. Digital rights management is a technological approach to controlling the access, use, and distribution of information. In an effort to preserve ownership rights and increase data security, the vendor community has proposed several approaches that may actually slow innovation. Special registration, encryption, and tracking techniques threaten to feed a backlash from the consumer market. Unfortunately, consumers became used to the free flow of information over the Internet before ownership and usage approaches were in place. Changing these policies of open access could become an expensive and unpopular proposition. If cost and customer resistance become too great, they can actually stop a paradigm shift from occurring. REALTORS® should become familiar with developments in the area of DRM to avoid impeding innovations that will enhance their businesses.

Another barrier to innovation is the natural tendency for technology to enable distributed computing. Distribution is a natural force in free markets. Immature markets typically begin in centralized form (most or all fabrication and assembly in one location) and move to a distributed basis when maturing (geographically diverse parts suppliers and subassemblers performing only portions of the entire manufacturing process). The technology industry is currently moving into the distributed model, thanks in part to the failures of the dot-com era. Large centralized computing is not compatible with the increases in localized computing speeds and storage or with localized information sources. Certainly distributed computing has fueled the growth in broadband service demand. If REALTORS® disregard current trends and adopt information approaches that rely on traditional, centralized models, the desired paradigm shift will suffer.

Smart Choices

With demand clearly pushing for a paradigm shift, important decisions with respect to innovation are now upon the real estate community and the vendors that serve it. There is no reason to panic or make quick decision, however. Understanding the issues is the most reasonable first step to addressing needed change. Placing as much emphasis on the barriers to innovation as satisfying demand will help the paradigm shift materialize.

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