



White Paper

The Evolving Real Estate Economy

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The Traditional Real Estate Model Has Changed

The foundation of the real estate economy is based upon the commission earned from the buying and selling of property. In every transaction, there is a buying side and a selling (listing) side. Real estate companies focus more on the listing side because listings also attract buyers. In most markets, if you control the listing market you will have market share (more transactions). The company can also increase market share by recruiting more agents.

Most companies' recruiting efforts focus on promoting their market share, "brand" awareness and office culture. Agents are attracted by the potential of "business opportunities" provided by a company's listings. This "value proposition" is particularly important to newer agents who do not have the benefit of repeat clients and referral business. In the past, agents had the opportunity to obtain customers (primarily buyers) by servicing "walk-ins", and ad or site sign calls. These walk-ins or calls resulted not only from the volume of listings, but also from Realtors controlling the general sales process.

Until recently, the real estate sales process was controlled by Realtors because Realtors controlled the information. Only Realtors had complete access to MLS listings and housing information. Even if a buyer saw a house in an advertisement, it usually never contained an address. This forced the buyer to call or visit a real estate office for more information and to interact with an agent. Buyers were forced to work around the Realtor's schedule in order to start looking at houses. Realtors would also selectively eliminate homes from consideration to help narrow the choices for buyers. Although this service was appreciated, it limited the information and amount of homes a buyer would be able to consider. The Internet has forever changed this process.

Technology has created a generation conditioned to be instantly gratified. This generation wants and expects to maintain control over the process and have access to the information. The resources available online has subsequently minimized the occurrence of walk-ins and calls resulting from advertisements. Traditional real estate companies and traditional Realtors must therefore adapt to these tech-savvy home buyers.

Unfortunately, there is a generation gap forming between buyers and Realtors. The average age of a first time home buyer is around 32 years old. The average age of real estate agents is 53, and the average age of real estate brokers is 62. For traditional real estate companies to compete effectively, they must learn how to market to the Internet generation and start attracting younger people into the industry.

Get Ready to Lose Control of the Process

Today's homebuyers have more information available to them than ever before. Because of this, Realtors no longer control the process.

Thanks to the Internet, buyers can do most of the leg work themselves. Sites like Realtor.com, as well as regional and local MLS (multiple listing services) oriented sites, allow buyers to filter listings down to very specific criteria. Buyers now have access to assessed values, taxes, previous sales history, and community information such as schools, parks, and public services. Buyers can even take complete virtual tours of homes without ever setting foot on the property.

As a result, there has been a dramatic shift in control over the sales process. Buyers now drive the process and dictate the sales timeline. They no longer walk through the doors of real estate offices or call Realtors on the phone when they want information or to look for a house. They visit Web sites or blogs and would rather communicate through email or over Instant Messaging.

The Internet Has Become the New Marketplace for Real Estate

According to the National Association of Realtors (NAR), 84% of all buyers used the Internet when searching for a new home. 29% of home buyers first learned about their home on the Internet—a number that is up 5% from 2006¹. Another survey reported that 92% of Internet buyers found their agent on a Web site and 63% found them through an Internet search engine. Over 50% of young buyers use social networking sites like Facebook and MySpace.

These numbers will only continue to grow. In fact, a new survey² of college students found that:

- 97% own a computer
- 94% own a cell phone
- 76% use Instant Messaging

- 15% of IM users are logged on 24 hours a day/7 days a week
- 34% use Web sites as their primary source of news
- 28% author a blog
- 44% read blogs
- 75% of college students have a Facebook account³
- 60% own some type of portable music and/or video device such as an iPod

These technologically savvy students will become the home buyers and Realtors of the future. And these buyers will expect the same technological fluency from their Realtor.

Therefore, as this next generation of buyers comes into the marketplace, the need for Realtors to adapt to technology will be critical to the buying side of the process.

The Shift to a Customer Service Model

For real estate companies to meet this new challenge, they will need to adapt to the new customer-driven market place by investing in and embracing new technologies. Moreover, real estate companies must start recruiting younger, more tech-savvy, Gen X, Y and Millenials Realtors who will relate better to buyers' expectations and who will bridge the buyer-agent generation gap.

To attract these younger agents, real estate companies must re-evaluate their business models. Younger agents expect the workplace mobility that technology offers. Advances in communication technologies (i.e., cell phones, Blackberries, IM, etc.) have decentralized the traditional brick and mortar office in almost every industry and shifted to the need for virtual offices and remote agents. By allowing agents to work from home while being supported electronically from the home office, real estate companies will be able to significantly reduce overhead, invest in technology and training, and adapt to the needs of the younger, tech-savvy agents. ZipRealty.com and Realestate.com have already proven the effectiveness of this model.

The 90-10 Rule of Modern Real Estate

Like their target audience, today's young Realtors grew up with technology and heartily embrace it. They also understand that technology allows for a wider variety of options for consumers, so a true customer-centered approach is essential for success.

Success now requires Realtors to be proactive. They can no longer wait for customers to come to them. They must go to their customers. And in today's real estate world, buyers are on the Internet.

Realtors need to develop consumer-centric Web sites that provide useful and relevant information. As the use of technology continues to grow, Realtors also need to start engaging buyers through blogs and by using other social technologies that have become part of the buyer's everyday life, such as Twitter, Facebook and MySpace. Realtors have to be willing to provide quality information and services up-front without expecting any commitment on behalf of the buyer.

In other words, Realtors now have to earn the business.

Technology has not only forced a customer-centered approach, but it has also increased the real estate sales cycle. In the past, if someone walked into a real estate office, they usually had a strong need for a home. The Internet allows people to look at their leisure and far in advance of their actual need to buy a home. Studies have shown that 10% of buyers registering on a real estate Web site are qualified leads—i.e., will buy within the first six months, usually do not have an agent, and wish to speak with a real estate professional (Figure 1). The other 90% are still potential business opportunities but their time lines are much longer.

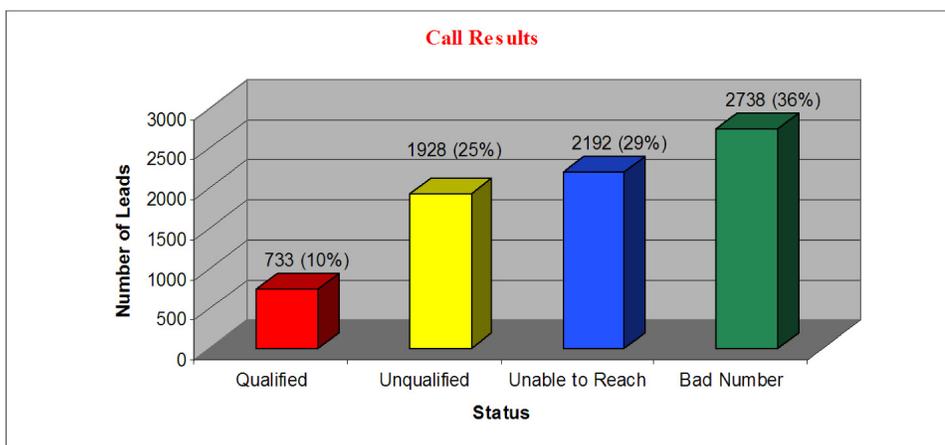


Figure 1: A study of 7591 leads generated by Virtual Homes, Inc., an online CRM and lead generation service for the real estate industry, shows that 10% are qualified leads.

Connecting with and converting business opportunities obtained via the Internet is the key to working with Buyers, and developing

practices to identify the crucial 10% of buyers requires the proper use of technology and customer-oriented approaches.

Using Technology to Convert More Transactions

The real estate industry has always focused on the listing side of the business as a way to attract buyers. The more listings a Realtor had the more buyers the Realtor would attract. Providing outstanding customer service as a way to attract buyers was a secondary consideration.

Times have changed. Today's buyer will not tolerate poor customer service. If they feel that their needs are not being met, they will move on instantly and find someone who will meet their needs. Realtors need to be re-trained to provide a level of customer service that effectively communicates, connects with and establishes a rapport with buyers.

Integrating technology into their business processes, and in particular using the Internet to generate leads, is one way Realtors can greatly improve their customer service and conversion rates. It can also help build a continuous pipeline of customers.

The new consumer-centric process begins with a Web site that attracts visitors. It should offer valuable content to encourage registration and capture contact information. Research shows that consumers typically register on Web sites as long as the information they are trying to access has value to them.

The Realtor then needs to follow up—and quickly, but can only do so if he/she is immediately notified of a buyer's registration. Studies by the NAR have shown that an immediate response to a buyer inquiry is essential for converting Internet leads. Another study by real estate customer relationship management company Virtual Homes, Inc. shows that 71% of Internet leads that were successfully reached and qualified through their system were contacted within 3 minutes of registration (Figure 2).

Qualified Leads - Reached Call Attempts

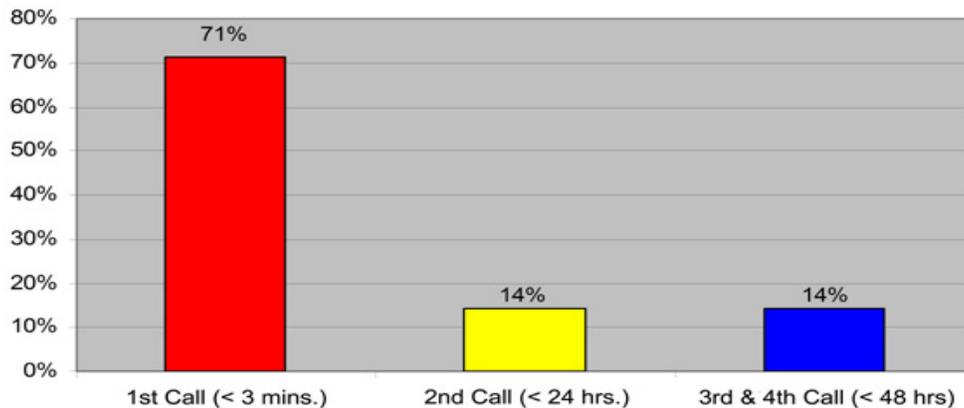


Figure 2: Of 13,000 leads generated since July 1, 2007, 10% were of referral quality. Of those referrals, 71% were reached on the first call (3 minutes). The remainder was reached with 2-4 calls. (Virtual Homes Research Study)

In fact, most buyers visit multiple Web sites, so first responders have the best chance for success. For longer-term buyers, technology tools that allow agents to easily manage nurturing activities and future follow-up are essential to maintaining a pipeline of future business.

Most real estate companies do not have the expertise, time or investment capital to internally develop the Web site lead generation, notification, and follow-up processes necessary to convert Internet business. However, success depends on it. Therefore, it is important to find a vendor that offers engaging content on their Web site, and the tools to manage and develop long-term business opportunities.

Customer relationship management (CRM) systems are crucial for managing customers, prospects and clients. CRM systems help Realtors create relevant dialogues with buyers and accurately elicit and capture a buyer’s needs and wants. Since most Internet leads are at least 6 months out from making a decision, a CRM system becomes crucial in helping nurture the sales process over long periods of time and in maintaining a pipeline of business.

Furthermore, Internet communication technologies such as Webinars, IM and micro-blogging sites such as Twitter and Pownce can also help Realtors interact with today’s buyers in ways their customers prefer. These technologies also maximize the reach of the Realtor by providing constant, up-to-the-minute accessibility.

Since the Internet is the new marketplace and younger agents are the

best suited to service the tech-savvy Internet buyer, then attracting new and younger agents will be critical to the success of real estate companies.

Attracting New Agents

In the old days, agents were attracted to a real estate company based on branding value, market share and training. New agents would become established by working their sphere of influence and taking floor time (working the buyer flow from ads, walk-ins, etc.). If they worked hard, they would survive and eventually thrive.

However, as stated earlier, this business model no longer works. Customers are no longer walking through the door to talk with Realtors. To attract new agents, real estate companies must establish a viable online marketing process that will replace the old buyer flow.

Real estate companies must also understand that younger agents have different expectations today. They expect comprehensive training and support. They expect to use technology as a way to communicate instantly and effectively with customers. And they expect the technologies to be in place to help them perform their jobs.

Future Success Will Depend on How Quickly Companies Can Adapt

The real estate industry is currently in flux. Traditional real estate companies are finding it harder to compete with increased offline and online competition. And the generation gap between buyers and Realtors threatens to limit the success of companies.

To succeed in a Web 2.0 world, real estate companies must embrace and adopt this new customer-focused, technology driven business model. This means developing the necessary tools and resources internally or engaging with vendors who offer the technologies and processes to increase lead production and successfully service Internet Buyer leads.

Companies need to invest in training, as well. Realtors with less experience in technology need to know how to use these new technologies efficiently and effectively. They also need to learn the customer service skills that today's generation of buyers expect.

Finally, real estate companies must also start getting younger. Just as they have to adapt to a new breed of buyer, they must also adapt to a new breed of worker to attract new agents.

The future will not accommodate a middle ground. Companies that can't—or won't—adapt will be forced out of business. For those companies that can adapt to these changes, the future of real estate looks brighter than ever.

References

¹ NAR – 2007 Profile of Home Buyers and Sellers (November, 2007)

² Connecting to the Net.Generation: What higher education professionals need to know about today's students, NASPA; First edition (March 29, 2007)

³ Heidi Przybyla "Obama's `Youth Mojo' Sparks Student Activism, Fueling Campaign", Bloomberg.com (May 7,2007)