

Project Name: The Future of the MLS

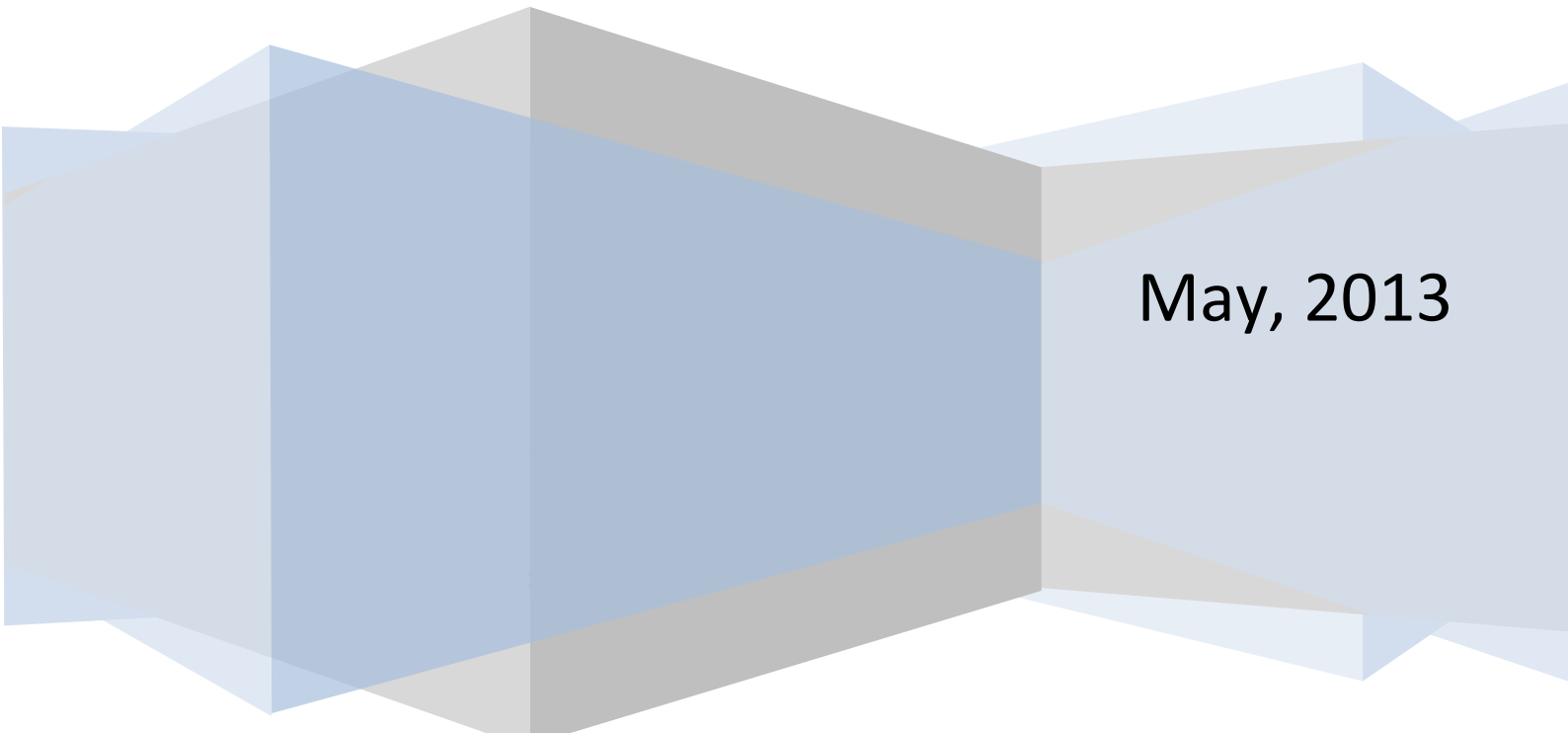
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The Future of the MLS

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Forward

The Board of Directors of the Connecticut MLS (CTMLS) is highly supportive of the white paper, “The Future of the MLS” written by Cameron Paine, CEO of CTMLS. We feel that it is a thoughtful, well supported critical examination of the MLS industry.

CTMLS is a Board of Directors that strongly believes in the unification of the multiple listing services as bringing strength to our industry. The “Future of MLS” helps us probe into seeking answers to the difficult questions. The dialogue and exchange of ideas is imperative and demonstrates the road map to building a strong network.

Diana McDougall

President

Connecticut Multiple Listing Service, Inc.

May 2013

Overview

Multiple Listing Services today use a variety of corporate models, many of which stem from being founded by or within a REALTOR® Association framework. Over the last thirty years, the MLS has grown from its initial “dependent” status into a stand-alone enterprise in its own right (some would say in a position of primacy over the Association). However, despite the dramatic expansion in size, products, and services offered, many MLSs retain the governance, expectations, and mission that reflect a legacy Association model rather than the reality of a modern technology company.

There are a number of reasons why the MLS is a very different animal from the Association. Thanks in large part to technological advances, what was once simply a means of sharing listings at a local Association of REALTORS® meeting became a far more complicated proposition. Beside the fact that most MLSs are usually for-profit and Association usually not-for-profit, it’s become more than just a question of whether to share listings and offer cooperation/compensation with a particular broker. Technology has expanded access to listing data to include the public, expanded the reach of brokers and agents outside of niche areas of expertise, and pushed the MLS to meet broker’s needs by becoming a provider and/or facilitator of high technology.

Yet, many MLSs are accidental technology providers at best, trying to operate in a hi-tech marketplace with a business model and staff hired and trained for Association management. While this may seem to make sense for “dual use” staffs that handle both Association and MLS business, in reality it places them in the impossible position of trying to meet the needs of both models – but with only the Association management training, tools, architecture, and governance to assist them.

At their heart, our Associations are designed for consensus building – which, incidentally, is exactly how a membership organization *should* be governed. The job of the MLS, however, is both to facilitate the offer of cooperation and compensation (using technology) *and* to meet membership demands for technology services and products. The problem is that just as the technology demands on the MLS are increasing, our ability to meet them is in jeopardy.

As a result of the economic and real estate downturn, most MLSs have seen declining subscribership over the last five years. Like our Participant brokerages and subscribers, the MLSs have had to cut spending, downsize, and otherwise find ways to operate with declining revenues. Some have chosen to increase fees; some have chosen to hold the line. No one knows what the future holds, so the purpose of this paper is to examine whether current MLS models can survive prolonged flat or declining markets and whether and how the MLSs needs to adapt.

1. Purpose

What is the purpose of the modern MLS? Is it the same as it was twenty or thirty years ago? Can we continue to exist in our current form or is the only way for the MLS to stay relevant by operating a different corporate model?

Some believe that the MLS' only purpose is to facilitate cooperation and the offer of compensation, essentially an unchanged definition from before the technological revolution. To my mind, by ignoring the obvious effects of technology on our industry we risk obsolescence. By ignoring the prime drivers of evolutionary economics (better, faster, cheaper) we willingly blind ourselves to the fact that our product is not so special or irreplaceable - nor are our subscribers so loyal - that better, faster, and cheaper will not be motivating factors in our replacement.

As it stands today, many MLSs provide some or all of the following to their membership:

- a. Tax data
- b. Mobile access
- c. Technical support
- d. Demographic information
- e. Parcel mapping
- f. Electronic showing/scheduling
- g. Online training
- h. Market statistics
- i. Public facing website
- j. Short Sale, REO, Foreclosure data
- k. CRM/Transaction Management
- l. IDX/Data Feeds

For those who contend that the MLS should only be the platform for the sharing of listings and the offer of cooperation and compensation, look at the list above and answer this; are we an MLS that also handles technology, or a technology company that provides MLS services?

To an impartial observer, it's pretty clear that the moment MLS listing data went online, every MLS *de facto* became the latter. In a very short period of time MLSs became technology companies because their brokers demanded it of them, but we were ill-prepared; while some MLSs embraced change others fought (and are still fighting) against it. Yet, despite the fact that there are massive disparities between the qualities of MLSs, the bitter irony for many brokers is that unlike the unrelenting market pressures faced by them, MLSs have been essentially insulated from the competitive market pressures that would have made us better. More intent on defending "our" turf than seeking pro-competitive consolidation, we have fuelled the pretence that local expertise should mean local data. Make no mistake: Technological advances have made trying to protect data by exclusion a fool's errand.

Can MLSs stay competitive in the virtual world of databases, Meta data changes, web services, and computer hardware/software? Can we be better than the technology companies that make it their business to provide better and faster technologies? The answer is no, not as we are now, and it must change if the MLS industry is to remain relevant. But change without understanding what is *driving* it is meaningless. Better understanding which factors create change in our industry and how we can meet both the current and future needs of our brokers and agents is critical.

2. Perspective

In Connecticut, 63% of CTMLS brokerages are medium or small sized firms (the vast majority of which have 10 agents or fewer) that do not, or cannot, dedicate resources for full-time tech staff. The remaining 37% making up the top 10 firms are comprised of four large brokerages and six significantly smaller brokerages. The disparity in resources, products, and services between the top four and the remaining six of the top ten is nearly as great as the difference between the six and the smaller 63%.

However, what can get overlooked is that without the small and medium-sized firms, the 10 large firms that account for 37% of CTMLS membership do not have enough agents to support CTMLS operations at the current price point by themselves. Like MLSs around the country, while some CTMLS products and services may benefit some companies more than others, in our market medium and small brokers help to defray the cost to large brokers of MLS provided products and services – including the per-member price for the MLS service alone.

Can someone else do it better? Ours is an industry of lost opportunity. We learned the hard way that not listening to consumers meant that we abdicated vital portions of our industry to 3rd party vendors. The industry fought against MLS public websites, which allowed Trulia, Zillow, and others to seize the opportunity left by our absence. Initially, syndication of listing data was seen as a threat by many brokers, yet has proved to be a vital part of most brokers' on-line strategy. Some MLSs make it difficult or prohibitively expensive to provide data feeds to their brokers, which forced brokers to look for other ways to advertise their data. By pure short-sightedness we lost the opportunity to succeed and profit from vast portions of our industry now controlled by vendors charging brokers for their own data.

A perfect example: There are still parts of the country (some of them well populated) where no public records data is available. Who better placed than the REALTORS® to collect the data, manage, and *own* it? If the MLS was the only public records data vendor for the entire state, imagine the revenue stream! Why haven't MLSs stepped in to fill the void? Good question.

Think of the missed opportunities: MLS vendors, public records vendors, showing appointment vendors, IDX vendors, public real estate websites, agent ratings – all could well have been part and parcel of the MLS service. We are too busy fighting amongst ourselves, too scared of change, don't have the money, and

lack the scale necessary to compete because of lack of consolidation. I stated above that we, “learned the hard way,” but we haven’t. Everyone seems to have forgotten that brokers and MLSs are supposed to be on the same side - and we’re a big, fat, tempting target. Think about it; one million REALTORS® subscribing to MLSs around the country. How much do they pay, each, per month? What is that amount multiplied by one million REALTORS®? Now multiply that by twelve months and you get the idea of *why* there’s some pretty strong interest from some rich and powerful corners.

As long as the real estate industry remains at odds over cooperation, consolidation, purpose, etc., we will be at the mercy of anyone who can bring more money and better organizational efficiency to the problems we are unable or unwilling to solve ourselves.

There may not be just one correct answer to the following questions, but addressing them will be critical to meeting the future needs of Participants and Subscribers and for our industry to thrive in the future.

- Who should own the MLS?

Cameron: Brokers are the responsible party and they are held responsible by the MLS for everything from fines on their agents to unpaid balances. Since the MLS makes decisions that materially affect the livelihood of brokers the upside of that responsibility should be, at a minimum, control of the MLS. That being said, brokers ignore their agents at their peril. An MLS model that benefits only brokers – or a few select brokers – at the expense of agents seems ripe for change.

- Who owns MLS listing data?

Cameron: Often a bone of contention between brokers and the MLS, technically it breaks down that each broker owns their own listing data, but once they enter their data into the MLS and it becomes combined with other listing data, the MLS owns the compilation. However, if the MLS is owned and controlled by brokers, AND is a corporation that can render profits back to the brokers, ownership of the compilation and potential revenue from that ownership remains in the hands of brokers.

- What should the objective of the MLS be?

Cameron: To serve our subscribers in the best way possible. That may include finding ways to help members reach other markets and sources of revenue that are not part of the current brokerage model, but ARE part of the emerging data economy – which traditional brokerages play a role in, whether they know it or not. Products introduced by RPR/LPS and Core Logic prove beyond the shadow of a doubt that broker listing data is being monetized now, in certain models without a penny accruing to the broker, agent, or MLS.

- Is MLS data valuable and should it be monetized? If so, who should benefit?

Cameron: MLS data is valuable, but we are only beginning to understand how valuable and in what ways it can be used. While there are, rightfully, very strong reservations to the idea of monetizing MLS data, the fact is that it is happening now. Companies are simply scraping MLS data or paying brokers to provide MLS data feeds to get data, then selling it to banks, lenders, etc., on the grey market. There are ways for the MLS to monetize data that do not violate the privacy rights of property owners. Specifically, allowing MLS data to be used in aggregate (e.g., x number of homes sold in x price range in x town, but without specific homeowner data). Clearly, appropriate safeguards and trustworthy partners would be necessary in any use of MLS data. For most brokers and agents, it would not be acceptable if the monetization of MLS data gets used to sell back products or services to agents and brokers.

Who should benefit? Failure of MLSs to successfully build a model to monetize their own data has led to 3rd parties filling the need on the open market. Consider that Realtor.com, Trulia, and Zillow all have massive listing coverage. It is only a matter of a few percentage points' accuracy that may determine whether a bank will choose to use their data or MLS data. As their accuracy grows, our chance to control marketing and income of our own data diminishes.

It is important to note that the value of MLS data is in the aggregate. Large national and multi-national corporations just don't care about anything less than about 1,000,000 data sets (listings). For perspective, CTMLS represents approximately 30,000 and, if we attempted to find a market for our data, we would be hard pressed to find buyers, except possibly among Connecticut-centric companies. Therefore, a broker's ability find a market to sell their own data to without the MLS compilation would be even more limited than the MLS' and would require the technical monitoring, feeds, etc., to be handled by the brokerage.

As the originators of the data, brokers should benefit from any monetization. In one scenario, the MLS could act somewhat like a data broker and may choose to charge a small fee for the hosting, compilation, access, etc. that would be paid out of the profits from use of the data. The MLS would also be responsible for ensuring the data is used appropriately. Vendors would essentially buy a time license to access portions of the data and would renew as needed.

When it comes to monetization of data, strength comes from size. The MLS will be more effective than the brokerage, state-wide MLS more effective than those that aren't, and a cooperative of MLSs would be more effective than a single MLS. Ultimately, greater size provides greater negotiating power and greater resources for policing data usage.

- Could 3rd party website aggregators of listing data become an MLS if they wanted to?

Cameron: Absolutely, but why would they want to? It's a lot easier to sell advertising on websites than it is to sell real estate or deal with 800+ MLSs across the country. The margins are bigger where they are and that's where the smart money says they will stay.

- Are MLSs technology vendors?

Cameron: Of course. From the moment the MLS first become responsible for hiring a vendor to facilitate electronic listing data we became a technology vendor. Everything we do today is technology based and everything we will do in the future will be technology based. Providing technology solutions to our subscribers is vital to their success in an online environment, so if the MLS is not a technology vendor, then Apple is just a computer company.

Just like the technology many MLSs use, most MLSs are legacy systems originally designed many years ago. Designed with the assumption of constant growth in membership, most MLSs were ill prepared for the downturn. Many have approached the downturn in the same way, which is budget cutting while hoping for a turn-around in the economy. These are short-term approaches that do not resolve the underlying problem.

Like any company, MLS expenses will only increase over time. With revenue likely to remain flat or decline, even with drastic cost-cutting measures it will only delay inevitable, severe cuts to core MLS services if the market does not turn around. Further exacerbating the problem, cuts to core services will serve only to further open the industry to attack from the outside. The MLS must either adapt by finding new sources of revenue not related to membership growth, or it will be replaced by something that can do it better, faster, or cheaper. This is evolution.

- Is the current number of REALTORS® sustainable?

Cameron: Current MLS models were built with the assumption of reasonably constant membership growth. Is this still accurate, or have the last six years inalterably changed the market? The best way to answer this question is to examine what has happened qualitatively and quantitatively to MLSs, brokers, and agents over the last five years.

The Connecticut MLS saw a decline in total membership of 20% between 2007 (12,921) and 2012 (10,349), statistics that are, anecdotally, representative of the industry. However, total membership can be a misleading statistic because not all members actually have transactions to their credit. So, the real question is how many CTMLS members actually had a transaction between 2007 and 2012?

	Total Membership	Membership with >1 Transaction	% of Membership with 0 Transactions
2007	12,921	9,562	26%
2008	12,445	8,463	32%
2009	11,549	8,048	30%
2010	11,011	7,708	30%
2011	10,456	7,319	30%
2012	10,349	7,141	31%

Note: Membership statistics counting zero transactions include appraisers and team members. Though CTMLS is unable to track total appraiser membership because they are coded in the system the same as REALTORS®, team members account for less than 1% of CTMLS membership. Licensed administrative assistants were not included in the count of how many agents did not make a sale when calculating the number of agents without a sale.

Astoundingly, an average of 30% of CTMLS subscribers has had no transactions every year since 2007. It is a reasonable assumption that if the overall membership statistics of CTMLS are similar to the overall trend in the industry, the number of agents with zero transactions should also be similar. Clearly, even taking into consideration that appraisers may make up a significant portion of the 30% doing no business, there remains the troubling fact that a large number of our subscribers do no business in any given year.

Frankly, I am at a loss to explain why year-over-year more than 1,000 subscribers (potentially as many as 3,000) choose to pay for a service from which they do not benefit, but the potentially catastrophic effects on the MLS of their potential departure cannot be overestimated.

I have no answers for the following questions, but I believe finding answers to them will be critical to our industry:

Question: *Is the current MLS membership model sustainable in the future?*

Question: *As they currently operate, can MLSs survive the departure of 10%, 20% or 30% of their subscribers?*

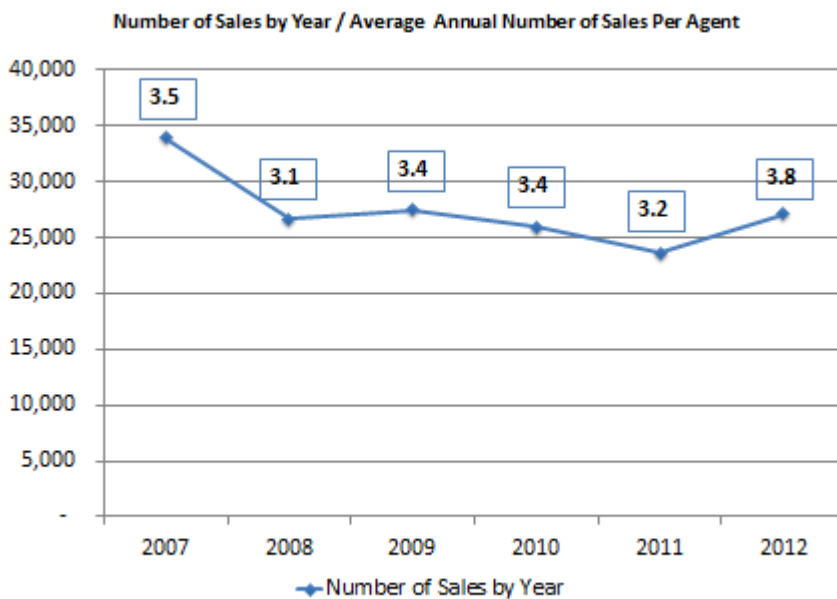
Question: *Is this a trend born of the market difficulties, or is this a hidden “fact of life” for MLSs that has always been the case?*

Question: *How can MLSs mitigate the threat of a 30% revenue “cliff” hanging over our heads every renewal period?*

Question: Can an “average” agent still make a living today?

1

CHART 1

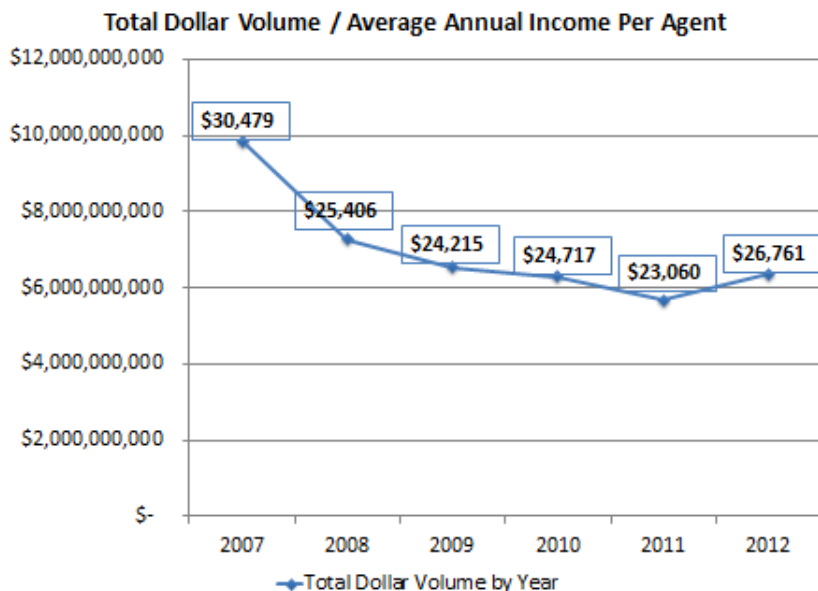


Despite declines in sales of 20% between 2007 and 2012, the average number of sales per agent did not decline dramatically [CHART 1].

However, there weren't just fewer sales, each sale brought in less money [CHART 2].

2

CHART 2

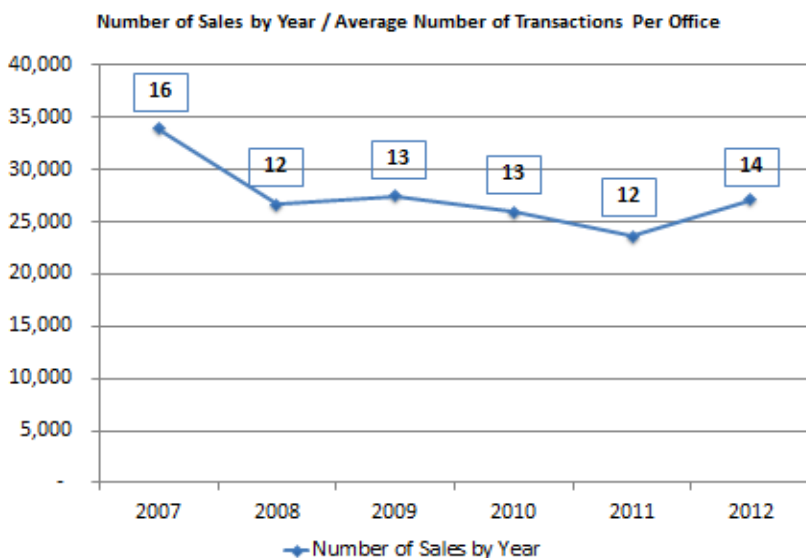


Even though the number of agents with one sale or more dropped by 25% between 2007 and 2012, the income made by the agents in the market fell by 24% [CHART 2]. Even the improvement recorded in 2012 represents only a modest recovery.

Brokers felt the pain, too; even though there were fewer offices making the sales, the average number of transactions per office [CHART 3] declined 25% between 2007 and 2011.

3

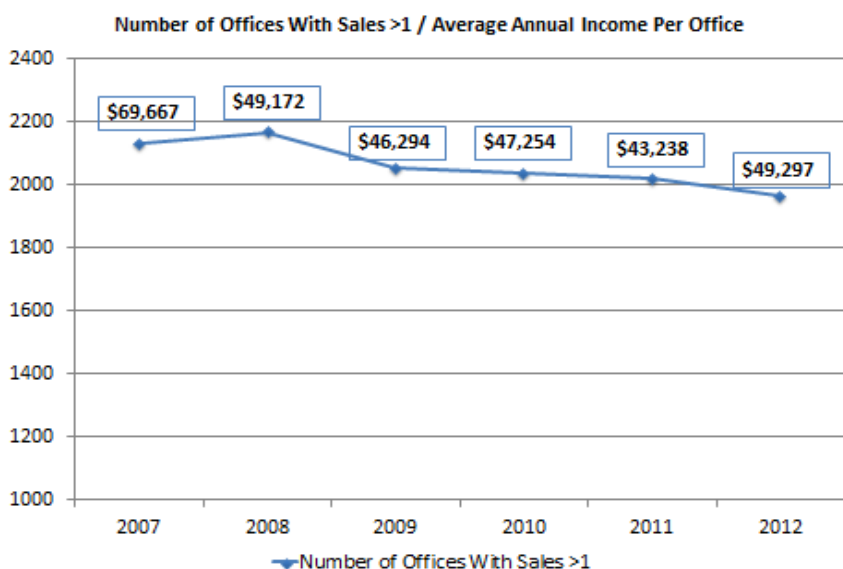
CHART 3



In addition to the decline in the number of sales, brokerage incomes were deeply affected by the declines in sale prices.

4

CHART 4



NOTE: Statistical data drawn from CTMLS, between 2007 and 2012 and is deemed reliable, but not guaranteed.

NOTES ON THE FORMULAS:

Every company sets its own commission rates, which is impossible to accommodate when creating a calculation. Therefore, the formulas expressed in the graphs above are meant to illuminate the effect of market declines on membership. For the purpose of gaining representational insight, I have made assumptions on commission rates and broker splits. Brokers and agents should use their own commission/broker split information in the formula for office-specific results.

Some agents do more business, some do less; the point is that the formulae detailed in the INDEX permit replacement of average with actual number of sales per agent for individual results.

Licensed administrative assistants were not included in the count of how many agents did not make a sale when calculating the number of agents without a sale.

Disclaimer: CTMLS acknowledges that every brokerage sets their own commission rates and has no desire to control or influence commission rates. The formulae models expressed above and in the INDEX are meant for demonstration purposes only and are not a recommendation, suggestion, or attempt to set commission rates.

- Can MLSs ever cut enough expenses to get ahead?

Cameron: This is a market dependent question, but the premise of this paper is that it is possible that the current extended flat or declining membership is the “new normal.” Without changing how we operate, most MLSs do not have the reserves and cannot cut enough from the budget to meet another 3-5 years of flat or negative growth without cutting vital products, services, or staff.

- What should the value proposition of the MLS be?

Cameron: One thing that separates the MLS from being a simple “middle man” in the exchange/use of broker data is that our aggregate membership allows the MLS to negotiate from a stronger position than individual brokerages can. Obviously, this position of strength is improved even more if MLSs consolidate. Ultimately, the MLS can provide brokers with products they would not otherwise be able to afford, or would pay more for. In addition, the more progressive MLSs manage data feeds, etc., in-house on behalf of its brokers - which is the lifeblood of today’s online, information-age real estate market.

In Connecticut, only a small number of brokerages have any serious online presence. Without the technical assistance of the MLS facilitating data feeds, syndication, MLS public website, etc., most MLS Participants would not have the technical ability to have a meaningful presence online – or would need to designate considerable financial resources to do it. Still, there are brokerages that don't need the MLS to provide data feeds or technical assistance.

Since the MLS is filling the role of technology provider now by evolution, more than by design, perhaps an MLS designed to meet the technology needs of its brokers and agents is the future.

In an effort to control costs it makes sense to start with the biggest single expense - MLS Services. Cooperation with other MLSs in terms of a shared system or a common back-end data base is our best hope of bringing significant cost reductions. Because of scale, even lowering MLS expense by \$1 per member/month could mean significant savings.

Thanks to technological advances that enable database creation, maintenance, and support via remote access, it is now possible to make partnerships with other MLSs throughout the country unhindered by geographic proximity. Such cooperative ventures could enable MLSs to benefit from greater economies of scale and may open additional products and services that they had not previously been able to consider because of cost. In addition to improved economies, we would also improve our position vis-à-vis vendor negotiations.

Ultimately, sharing products and/or services will mean a certain loss of control of unilateral decision making on some parts of the MLS, so the question is whether the gains outweigh the loss. Governance of these shared entities/cooperatives will be a critical piece of their success or failure; it may be possible, or even preferable, to build a corporation under the NAR umbrella, but retaining the best features of the more nimble, for profit corporation. It may be that moving away from the Association based, committee oriented governance model will serve to enable future MLS corporations to better meet the needs of subscribers and stay competitive with 3rd party vendors. Moving forward, it will be up to Boards of Directors to determine how much change they can live with – and at what cost.

- What should be the role of National, State, and local associations in the MLS?

Cameron: There can be benefits to the MLS having a close working relationship with National, State, and local.

NAR has clearly cottoned on to the revenue potential of MLS data but, at least for MLSs that already provide public records data/products to their members, the RPR monetization of data only accrues to NAR's (and LPS') benefit.

3. Summary

We are an industry that lives in fear of someone taking what we have. Ironically, well-funded non-industry companies (now an entrenched part of the industry) seized the initiative while we were busy not cooperating with each other. They were able to do so because as an industry we hate change. Agents loath new MLS systems, brokers think the MLS “levels the playing field” with new products and services, and MLSs and their leadership have never had to face a truly competitive market. Plus, despite the clear pro-competitive benefits of MLS cooperation and consolidation for the consumer, when it comes to MLSs defending territory, we often have a foolishly short-sighted aversion to cooperating with one another.

Our governance structure is designed specifically to moderate rapid or large changes. Even when those few of us embrace change, the change we effect is not large enough or adopted by enough MLSs to change the industry. Imagine what California, Texas, Florida, Illinois, or New York could do if they had one, state-wide MLS. In terms of resources alone it’s mind boggling. Negotiating power? Incredible. Yet, without them, our subscribers will continue to be at the mercy of any company savvy and well-funded enough to cobble together a nationwide footprint (and influence) MLSs have failed to do for ourselves.

By now, most of us have accepted that the Realtor.coms, Trulias, and Zillows of the world are not only here to stay, but play a significant role in the modern real estate industry. In hindsight, few would argue that we shouldn’t have done what they did if we had the resources, scale, and most importantly, the vision to do so. But we can’t have it both ways. If as an industry we can’t bring (or at least facilitate) equally good products to market then we have to accept that the role of the MLS will be diminished in the future – and that our subscribers will become ever more reliant on those who can. If, on the other hand, we decide that we’re going to evolve to meet the new technology needs of our members, it only makes sense that we *also* evolve our ability to compete successfully on a national scale through consolidation of our resources. *“Together we stand. Divided we fall.”* is not just an empty motto.

INDEX and NOTES

¹ CHART 1 – Number of Sales by Year / Average Number of Sales Per Agent

	Number of Sales by Year	Members with >1 Sale	Average Number of Sales Per Agent
2007	33,873	9,562	3.5
2008	26,614	8,463	3.1
2009	27,466	8,084	3.4
2010	25,953	7,708	3.4
2011	23,586	7,319	3.2
2012	27,136	7,141	3.8

Average Sales Per Agent Formula: (Total Number of Sales) / Total Members With >1 Sale)

² CHART 2 – Total Dollar Volume / Average Annual Income Per Agent

	Total Dollar Volume by Year	Total Number of Sales	Sales Per Agent	x .03
2007	\$ 9,832,621,496	33,873	3.5	\$ 30,479
2008	\$ 7,270,383,212	26,614	3.1	\$ 25,406
2009	\$ 6,520,519,770	27,466	3.4	\$ 24,215
2010	\$ 6,289,115,181	25,953	3.4	\$ 24,717
2011	\$ 5,665,638,305	23,586	3.2	\$ 23,060
2012	\$ 6,370,078,366	27,136	3.8	\$ 26,761

Average Annual Income Formula: (Total Dollar Volume) / (Total Number of Sales) x (Average Number of Sales Per Agent) x (3% Sample Commission Rate)

³ CHART 3 – Number of Sales by Year / Average Number of Transactions Per Office

	Number of Sales by Year	Members with >1 Sale	Average Number of Sales Per Agent	Offices with >1 Sale	Average Number of Transactions Per Office
2007	33,873	9,562	3.5	2,127	16
2008	26,614	8,463	3.1	2,165	12
2009	27,466	8,084	3.4	2,051	13
2010	25,953	7,708	3.4	2,033	13
2011	23,586	7,319	3.2	2,018	12
2012	27,136	7,141	3.8	1,961	14

Average Sales Per Office Formula: (Total Number of Sales) / (Offices with >1 Sale)

⁴ CHART 4 – Number of Offices With Sales >1 / Average Annual Income Per Office

	Number of Offices With Sales >1	Total Dollar Volume	Total Number of Sales	Average Sales Per Office	x 3% Split	x 50% Broker Split
2007	2127	\$ 9,832,621,496	33,873	16	\$ 139,334	\$ 69,667
2008	2165	\$ 7,270,383,212	26,614	12	\$ 98,344	\$ 49,172
2009	2051	\$ 6,520,519,770	27,466	13	\$ 92,587	\$ 46,294
2010	2033	\$ 6,289,115,181	25,953	13	\$ 94,508	\$ 47,254
2011	2018	\$ 5,665,638,305	23,586	12	\$ 86,476	\$ 43,238
2012	1961	\$ 6,370,078,366	27,136	14	\$ 98,593	\$ 49,297

Average Annual Income Per Office Calculation: (Total Dollar Volume) / (Total Number of Sales) x (Average Sales Per Office) x (3% Sample Commission Rate) x (50% Sample Broker Split)

NOTES: To improve accuracy, when counting agents and offices I excluded any subscriber or brokerage that did not register any transactions in the MLS. As discussed above, I used sample commission and broker split rates simply to have number to work with. They are in no way an endorsement of any particular commission rate, structure, or model.