A Changing Landscape

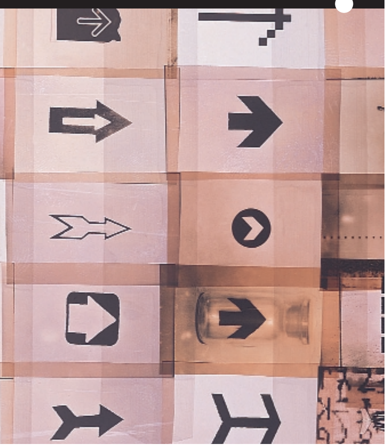
An Examination of Key **Trends** Shaping the Real Estate Industry

A Report By:

Strategic Issues Subcommittee

Association Executives Committee

National Association of Realtors®



OVERVIEW

Today's real estate industry faces a dramatically changing landscape. A new consumer with changed expectations, and the rise of technology are rewriting the roles of brokers and agents. Competition is increasing, while commission levels are falling. Alternative business models are emerging that are challenging the traditional method of delivering services. In short, virtually every aspect of the industry is rapidly evolving toward an uncertain future.

In this time of dramatic change, the Strategic Issues Subcommittee of the National Association of Realtors®' Association Executives Committee was charged with identifying issues that will have the most impact on the real estate industry in the next few years.

The subcommittee held a series of structured discussions from November 2000 to March 2001, including candid "focus group" sessions with brokers representing a variety of business models and consultants familiar with the changes in the industry. For reasons of confidentiality, the names of those participants are not included in this report; however, their comments are cited as direct quotations.

The result of those discussions is this report covering:

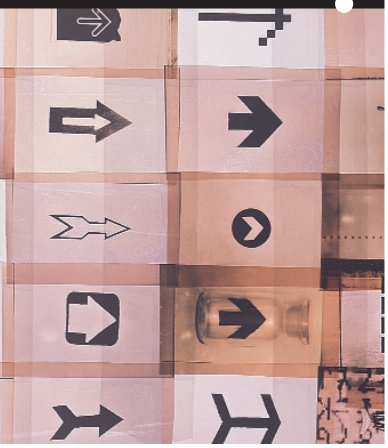
"It takes a bold move to change your company around at a time when it's doing well . . ."

— consultant

- Major drivers of change
- Stabilizing forces
- Other trends to watch
- New business models
- Evolution of the broker-agent relationship
- Technology issues

In keeping with the subcommittee's mission, this report draws no conclusions and makes no recommendations. However, it can be a useful tool to frame local discussions. Any action you take as a Realtor®, Association Executive or other affiliated professional should be your own decision based on your own unique market and skills. This document is intended to provide an objective look at the industry in the dawning years of the 21st century. On some issues, there appears to be a consensus; on others, there are clear differences of opinion. Hopefully, this report will offer a glimpse of the challenges and opportunities now facing the real estate profession. "It takes a bold move to change your company around at a time when it's doing well," said one consultant. "But changes are coming, and they're coming from everywhere."

Jerry Matthews,
Chairman
April 16, 2001



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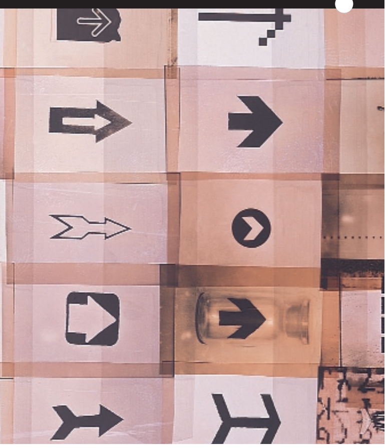
WINDS OF CHANGE

The North American real estate landscape is changing rapidly, with potentially profound consequences for every aspect of the industry. Here is a closer look at some of the key trends shaping the marketplace.

Major Drivers of Change

When you mention change in real estate the list can become overwhelming. However, there are significant movements that will have a long term and profound impact on the business of real estate.

■ **Changing consumer values and behaviors.** There is a "new consumer" who is technically competent, has access to deep pools of information, and demands to be included in the decision process. These consumers are extremely price sensitive on goods or services seen as commodities, but willing to pay a premium for items perceived to have high value. They expect superb customer service, attention and communication and they are prompt to provide feedback, both positive and negative. Today's consumers constitute a more varied market than at any time in recent history. The recently released U.S. Census report outlines the major demographic shifts over the past decade, including changes in population, age, race, and ethnicity. While this diversity makes it difficult to generalize about the American consumer, it is evident that values and behaviors are changing for a large segment of the population.

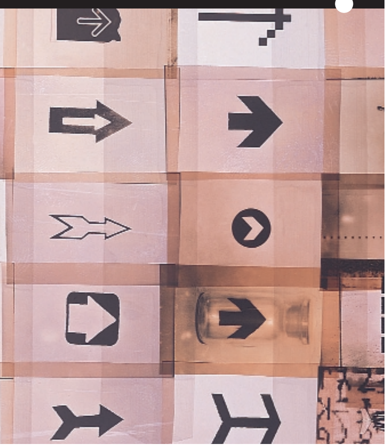


■ Diverse approaches to the home transaction. For many groups of consumers the financial impact of buying a home will continue to be the primary consideration. But for many other consumers time is also a scarce resource. These consumers may prefer "one-source" solutions that go beyond the purchase or sale of real estate, and extend into the ongoing issues of home ownership. These informed, activist consumers also look at the home transaction as part of their overall financial picture, from taxes to their investment portfolios. A buyer concerned about a decline in the stock market, for instance, might decide to purchase a more expensive home — or vice versa. Therefore, serving this consumer segment effectively may require real estate professionals to expand their knowledge base, training and services. "For some consumers, buying or selling a home is already part of an interconnected financial decision," said one subcommittee member. "That means a Realtor needs to understand the broad financial picture to serve the client effectively."

■ Rise of the Internet. In the past five years, the widespread posting of real estate listings, neighborhood, demographic and community information on the Internet has both empowered and confused the consumer. Buyers and sellers now have easy access to data from a variety of services – but, for the most part, still desires the personal guidance and services provided by a real estate professional to help them through the transaction. This shift is permanently changing the role of the sales agent (and brokerage firm) from being a source of information to being a provider of personal service. As one broker said, "The Internet is forcing brokers to offer a broader menu of products and services, as well as supporting the consumer by interpreting the information they get off the web. We must address those issues, or we'll have substantial additional pressure on pricing."

■ "Commoditizing" aspects of the transaction. Some parts of the typical real estate transaction have become commodities, in which price is the basic deciding factor. This is often the case for mortgages, title policies, homeowners insurance, and other ancillary services, and may become true for property information in the MLS. Virtually every part of the real estate transaction can become a commodity. The last piece is the home itself – can it become a commodity also? This possibility suggests that brokers and associates may need to operate more efficiently and productively to continue to compete on price, or look for new ways to add value to the transaction, such as offering extra services, or take both approaches.

■ Financial challenges faced by brokerage firms. The average net profit per transaction for a real estate company is moving downward to a recent broker's estimate of about $150 per transaction side. Under the traditional brokerage model, top sales agents are taking a higher share of the commission "splits," reducing the profitability for realty firms. New low-cost com-

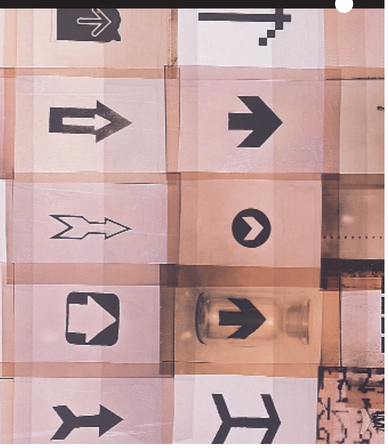


petitors using Internet technology are also continuing to erode commission levels. At the same time, brokers feel it necessary to invest in expensive new technology for their agents, as well as in marketing their services to the public. One consultant reported that the net national average actual commission percentage realized is only 4.2%. "Commission rates are declining nationally, while payouts to agents rise the further south and west you go." Brokers admit it is very difficult to lower labor costs (commissions to agents) so they must focus on enhancing revenue through new services to agents and consumers.

■ **Potential entry of large-scale financial institutions.** A key issue for brokerage firms is the possible entry of banks and other large-scale financial institutions into the real estate business. These companies have the working capital, branch networks and back-end technology solutions to become powerful competitors. And they have access to capital at a discount, a significant advantage. It is also possible that financial institutions could become strategic partners with existing brokers or purchase their realty firms outright. Brokers interviewed by the subcommittee expressed totally differing points of view on this potential. Some felt it was important to "keep the banks out" of the real estate industry. Other brokers wanted "a more level playing field" in which they could offer financial services themselves. A third opinion was that the entry of banks and insurers would have little impact: "They just don't understand real estate. Others like them have tried this in the past and have failed." said one broker.

■ **Brokerage as a loss leader?** In the evolving financial marketplace, it is possible that traditional brokerage services could become a "loss leader" in order to sell mortgages, insurance, financial products, appliances or home ownership services to the consumer. This could occur if brokerages expand their offerings, or if financial institutions add real estate brokerage to their portfolio of services. Brokerage could become only one piece of a series of transactions related to home ownership where profit in services overcomes loss in brokerage. As one consultant said, "Real estate may become part of a banking transaction, not the other way round."

■ **Regulatory and licensing rules as impediments to change.** With unlicensed competitors entering the real estate market and providing transaction related services – especially those offered by Internet providers – many brokers and agents are questioning current federal and state regulatory and licensing rules. "What is the purpose of a real estate license?" asked one broker. "My new competitors on parts of the transaction are not licensed. Does licensing restrict our business growth?" A particular concern expressed by several brokers was the potential negative impact of RESPA on the future of their business. "The best thing the NAR can do is to get rid of RESPA," said one. For larger real estate firms, another issue is the complex web of state rules and regu-



lations that make it difficult to apply common business practices across state boundaries. "If the purpose of the license law is to protect the consumer there are much better and more modern ways to do it than licensing," stated one subcommittee member.

■ **Broker frustration with current MLS systems.** Another key issue for brokers is the need to format data differently for different systems. The technical incompatibilities of MLS systems make it difficult for large brokers to aggregate data to their internal systems. This significantly increases their operational costs. While cooperation or reciprocity among MLS systems would appear to be a more efficient model, there may be too much "politics" and geographical issues involved to make that change, according to several brokers. Those "human factors" can hinder the transmission of data as much as the technical issues, in their opinion. There does appear to be support for a continuing role for MLS systems if these problems are addressed.

■ **Economic value of information.** A broker's information on a single listing might have value to a particular provider of services (a furniture store, roofing company, etc.). On the other hand, there can be even greater value in pooling that listing with other data. As one participant said, "It's not my listing that has value — it's being part of the whole, like all the listings in the neighborhood, that really has value. The true value of data is in the aggregation and the searchability."

Clearly, data on listings, sellers and buyers has economic value in the marketplace. But issues of who owns this information, controls its use and derives revenue from the data are far from settled. Brokers who provide data through the MLS to an aggregator would like to be compensated — either directly or indirectly. Brokerage firms dislike seeing their data appear on a competitor's web site – especially an aggregator offering reduced commission or fee-based services, or even third-party use and sale of the data back to the broker. On the other hand, an aggregator could apply "data mining" techniques to a broker's database to improve lead generation and productivity, thus delivering an added value to the broker.

■ **Fear of aggregators.** Many brokers fear the potential power national website aggregators have to enter their core business. As aggregators expand their service offerings to include market analysis, financial instruments, and intelligent databases, as well as co-branding partnerships with other industry players, they encroach on the traditional brokerage services. As one broker said, "The aggregators want to roll up the entire real estate transaction. And they have access to capital to directly compete with us, thanks to our giving them the listing database to build their business." Although there were positive comments on the national aggregators performance in consumer contact, this was overshadowed by the many negative references by brokers, indicating their deep concern.

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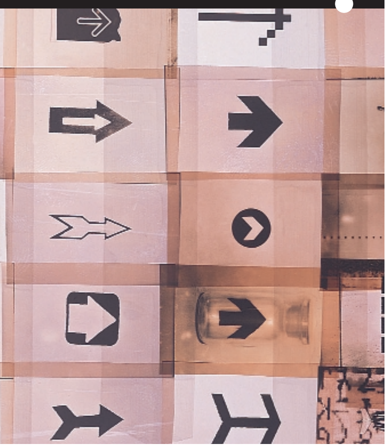


"Less than 1 percent of our traffic comes from realtor.com. About 99 percent of our traffic is coming locally."

— broker

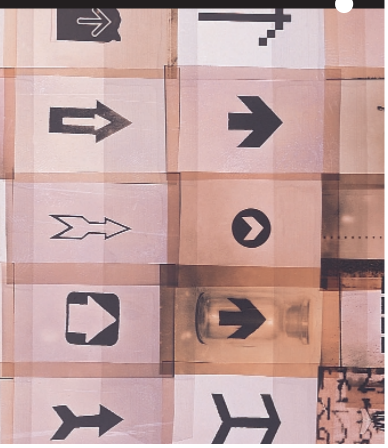
■ **Broker Reciprocity.** In addition to giving brokers greater control over their own data, the planned adoption of Internet Data Display (IDD), known also as Broker Reciprocity, may have profound and unintended implications for real estate. For instance, it may allow national aggregators to access MLS databases more easily. It may lead to combinations of larger brokers directly sharing data rather than a central MLS database — a trend that could have antitrust implications. And finally, there may be a continuing need to develop effective business rules to ensure data integrity, security and policy enforcement. Adoption of IDD is a major change in the industry's operating procedures, and such abrupt changes usually create unanticipated consequences – good and bad. "The data is already out there," says one consultant. "You can't just circle the wagons. But what it all means is still very unclear."

Stabilizing Forces

In the midst of all this turmoil there were several areas of comforting stability that give a foundation to many of the change waves.

■ **Consumer desire for professional assistance.** Consumers are expected to continue to seek out real estate professionals for assistance with selling or buying their home. The dramatic increase of information now available to the consumer has also increased their confusion. Although the FSBO segment is expected to increase, an estimated 75 percent or more of all transactions will still involve a real estate professional. "The percentage of customer managed transactions will grow from 12-15 percent on average now, to about 25 percent in ten years," said one consultant. "The traditional model still has years of success ahead." Consumers who have been through the purchase and sales process, and who value the support of a traditional sales agent will continue to support the traditional brokerage. This continuing trend may allow real estate agents to expand on that relationship and provide other counseling services either directly or through assistants. It also suggests that brokerage firms and agents should continually seek to enhance their image, service and professionalism.

■ **Local nature of real estate markets.** Although some aspects of a transaction (mortgage, insurance, etc.) can be handled by a regional or national provider, real estate markets will continue to be local in nature. This indicates that an agent "who knows the neighborhood" and can give professional advice will continue to add value to a transaction. Several brokers reported that their Internet site traffic is primarily local, with 90 percent or more of their leads coming from their local area. "Less than 1 percent of our traffic comes from realtor.com," said one regional broker. "About 99 percent of our traffic is coming locally." Also, in projecting any national trend, it is important to note that consumer preferences and behaviors vary from location to location. Said one broker at a national firm with an alternative business model: "We were surprised at how consumer



expectations and demands were very different in various markets."

Other Trends to Watch

Although not on point with major trends and business evolution Brokers interviewed mentioned other trends that might have future impact and bear watching:

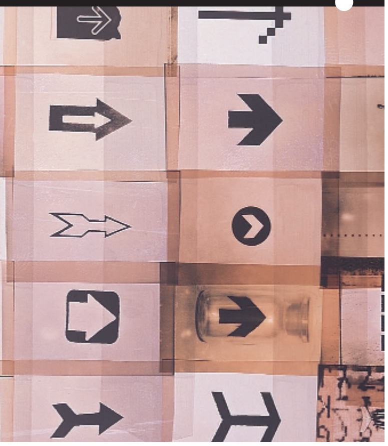
■ **Hidden problems?** Housing in most markets has been in high demand for several years. This has continued even in the midst of a recent slowing of the economy in many other areas. A strong real estate market may be hiding structural problems within the industry – such as the decline in brokerage profitability – that would be more apparent in a slower market. A downturn in the market brings these problems to the surface and will surely intensify the search for new business models and accelerate internal changes.

■ **Development of buyer listings.** As the demands of buyers increasingly drive real estate markets, it is possible that real estate associations and firms may develop listings of buyers, perhaps in similar format to current listing data. Having data on a homebuyer's preferences may soon prove to be just as valuable to a brokerage firm as having a listing – as is often the case in commercial real estate. This concept is already happening in several parts of the country. As an industry that is structured from the listing viewpoint a switch to the buyer's viewpoint would demand significant change in processes.

■ **Lease or own?** Many members of the younger generation are comfortable with leasing a car, renting apartment furniture, etc. When it comes time to settle into a home, will they entertain the possibility of leasing a home rather than buying it? Another possibility is an increase in corporate purchases of homes, which would then be leased to employees. Also, with the last eight years of a bull stock market, real estate has not been seen as an "investment," an attitude that could change in today's more volatile stock market. Clearly, any decline in overall home ownership would impact agents, brokers and other professionals. For instance, the current emphasis on marketing the Realtor to the public might be completely lost on a generation that is not convinced that the real estate product is worth purchasing in the first place.

New Business Models

The next few years are very likely to see continued experimentation with new business models. Although traditional brokerage is expected to remain the dominant model for the immediate future, it is likely to coexist with many other types of models, as well as gradually morph into a new definition of "traditional". As one broker said, "We are in transition from one basic controlled business model to a marketplace that has a large variety of models: everything from low to medium to high cost models to low, to medium to high service models." The consensus seems to be for an evolution to a multiple business model industry rather than a revolution to a single



new business concept. But the adoption of multiple models will present significant challenges to all aspects of the brokerage and association community.

■ Home Ownership Services model.

In an effort to maintain current commission levels or build revenue from ancillary services, many brokerage firms are adopting or considering the home ownership or "concierge services" model. As one broker said, "We're no longer in the brokerage business; we're in the home services business." In some cases, the realty company designates a salaried coordinator to maintain contact with the client throughout the sale process and afterwards, while other models are based on agent support.

"We're no longer in the brokerage business; we're in the home services business."

— broker

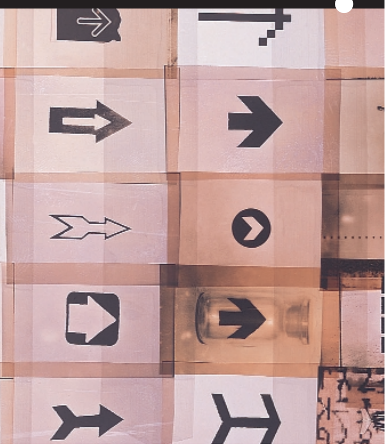
The benefits of the concierge services model to brokers are clear: ability to maintain a full-commission structure, strengthening of their relative position in the marketplace, and potential to build long-term customer loyalty, transaction after transaction. As one broker said, "Our firm's model is to be a one-source provider of services to clients over the entire home ownership process, which tends to be 7-8 years. Our industry's current business model is antiquated and suboptimizes the potential of the relationship with a customer. No broker will be successful going forward without a menu of products and services provided to clients beyond brokerage."

This evolving business model is designed to cater to consumer needs. However, it is possible that consumers eventually will prefer to go to their agents rather than brokers for "one-stop" services. In addition, this approach raises significant issues of client "ownership." When does the agent turn the client over to the home service employee? If the homebuyer is ready to sell again, does the original associate automatically get lead for the potential listing? These types of "turf" issues could become more complex if the brokerage firm contracts with a third-party home services provider, such as a customer contact center or Internet application services provider.

Other questions from the broker's standpoint include how to assure quality delivery of services through an independent or semi-affiliated network of providers, and how to manage potential liability for the actions of these service providers. Yet, with all this, the brokers involved in this new model, whether through contracting with a major service provider or through internal development, are uniformly excited about its positive future impact.

■ The Internet model.

By using Internet technology, new real estate "e-firms" offer lower commissions or "unbundled" fee-for-service plans. Currently, firms serving the consumer exclusively through the Internet have not been a significant factor in the market. In fact, some of these pioneering firms have gone out of business or been



acquired by larger companies for their technology. In the past year there has clearly been a move to "bricks and clicks" models, or an aggressive adaptation of Internet strategies by traditional companies rather than pure Internet companies.

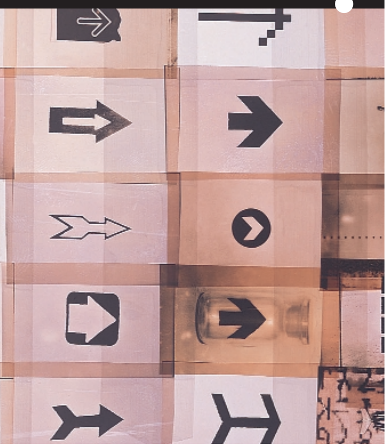
However, this situation could change overnight if a particular brand or service offering suddenly became popular with consumers, as Amazon.com did several years ago. Another possibility is that an e-firm could use other on-site communities, such as Yahoo or eBay, for leverage. A recovery in the nation's technology market would give these e-firms the financial strength to aggressively promote their services, build a brand identity, and perhaps improve their to-date miniscule market share.

At present, these "e-firms" generally cater to the FSBO market, and are likely to provide an attractive option to owners who want to minimize their sales costs. Therefore, this model is expected to put continuing pricing pressure on traditional commission structures, even if e-firms remain small players in a market. However, there may be opportunities for larger brokerages and e-firms to team up or unite under common ownership in order to provide a more varied menu of services to consumers. As several consultants suggested, the impact of this model cannot be dismissed, since even adaptation of individual aspects of this approach will have a great impact on the industry.

■ **The P2P model.**
With the rise of the Internet, peer to peer (P2P) models, like the famed Napster music sharing site, have received continued attention in the press. However, the value of this model lies in an easy and efficient exchange of data, making it unlikely that currently possible P2P models will dominate the real estate industry. Of course, this idea assumes the connection would be between buyers and sellers.

On the other hand, a P2P model in which the peers are defined as participating brokers has the potential to become an alternative to the MLS system in markets where several large firms control a majority of listings. "With sophistication of search engines and open platforms that share information, those companies with similar models can easily share information back and forth with each other," said a consultant. The value is in the combined exchange – and all who are in it.

However, there are significant legal, consumer, process and technology challenges that would need to be resolved before this type of P2P model – a series of connected servers operated by different brokers – could be successfully established. With one or more broker-controlled sites serving a market, issues of data integrity, access to data, security, and enforcement would need to be revisited. Otherwise, brokers and customers might not trust the data – and loss of trust would mean the end for such a system.



Technology is a larger issue that must be addressed in a P2P broker-controlled model. Such a site must be accessible to consumers 24/7 with virtually no downtime with a high degree of security. They would need to be made fairly secure from hackers, and personal information ("buyer not home, key under mat") would have to be protected from prying eyes. Servers in the brokerage community are not yet reliable or secure enough to guarantee that goal – meaning that brokerage firms would be required to invest significant dollars to achieve those objectives.

■ **The NASDAQ Model.**
An intriguing alternative to the current brokerage model is NASDAQ (National Association of Securities Dealers Automated Quotations system), which involves an exchange of financial assets between buyer and seller using an electronic brokerage intermediary.

In terms of regulations, market information and risk management, the NASDAQ model provides a different approach to informing and protecting the consumer than the real estate industry's licensing laws and other regulations. Public protection would be handled through transaction insurance required of brokers and agents rather than license laws. In any poorly executed transaction the public would be made whole and the practitioner would be disciplined.

If the NASDAQ model were to be applied to the real estate industry, brokerage firms (or large financial entities) would purchase homes from sellers, then offer them to buyers. An obvious advantage to this is liquidity: a buyer with financing could come to a brokerage firm, select a home, fill an electronic form connected to external databases, and complete the transaction within a few minutes. This model might blur the lines between brokers and agents, especially if successful sales professionals purchased their own properties (individually or as a group) for resale to buyers.

Additionally, the transaction would be handled electronically with all players linked. All aspects of the process would essentially become commodities, and price for the consumer would be driven down. A side benefit of lower transaction costs could be an increase in transactions. If a homeowner could move to that larger house down the street for a few thousand dollars in a frictionless process, perhaps buyers would move more often than the norm today.

However, the major difference between the NASDAQ model and the real estate industry, is that the home purchases are not true commodities. Unlike shares of stock, every home is different – and a buyers' perception of home values also differ. But adoption of part of the NASDAQ model (such as third-party purchase and sale of homes or self regulation) could radically change brokerage operations.

Evolution of the Broker-Agent Relationship

Financial pressures and the rise of new business models are expected to accelerate the evolution of the broker-agent relationship.

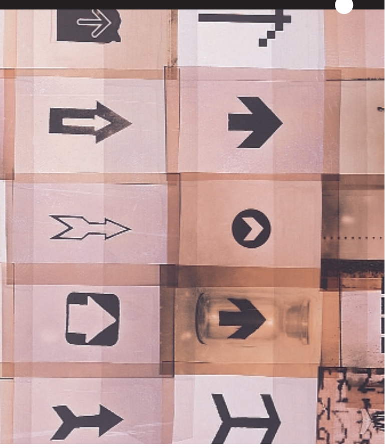
■ **Brokerage consolidations will continue.** Smaller and mid-size brokerage firms are disappearing from the scene, as larger companies become more dominant in the marketplace. While smaller, boutique firms will continue to serve their niches, brokers are likely to become bigger, strengthening their "clout" with sales agents. As the real estate business models evolve scale becomes an increasingly important factor in success.

■ **The active sales force will shrink.** In the next decade, the number of full-time active real estate agents is expected to shrink. The underlying reason is an increase of productivity on a per agent basis. Market conditions usually impact the size of the sales force, with higher levels of sales bringing more people into the business. Although there is little financial incentive for brokers using the traditional model to reduce their labor force other economic drivers and competition in real estate models will reduce the number of agents.

■ **Agent productivity will increase.** Agents who remain in the profession will generally be more productive, thanks to technology tools. One good indicator, the number of transaction sides per agent, has been increasing consistently in recent years. "Brokers will be looking at the quality of people and their effectiveness," said one consultant. In calculating productivity, it is important to remember that many of the assistants and specialists in the agent's team are not "members" of any organization, so their contributions to agent sales ratios are not included, skewing individual productivity statistics as well as distorting the true number of people in the business.

■ **More agents will build their own teams.** To build maximum sales volume, more agents will be supported by their own team of licensed and unlicensed assistants and specialists. These teams might directly conflict with support specialists hired by the broker. This growth in agent "firms" within a brokerage firm has the potential to increase broker-agent conflict, and could lead to more spin-offs.

■ **Changing revenue models.** Some brokers will continue to use their associates as the primary sales channel. Others will bring in salaried employees to perform some aspects of the transaction at a lower cost. Still other brokers may focus on selling their tools to sales professionals. Which new model will be most successful? One consultant said, "The most likely model is where the company is responsible for generating the customers and clients through its marketing efforts and technology, and where the sales agent, either independent or salaried, delivers the service."

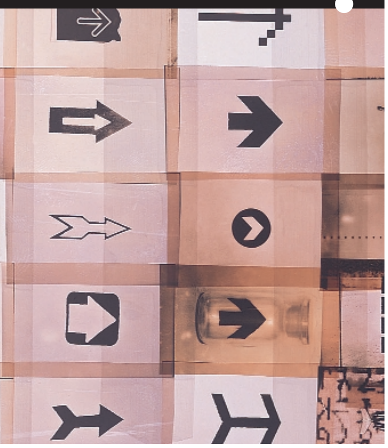


■ **Broker-agent friction will continue.** Many brokers would like to see a lowering of their labor costs through a recapture of a "better split" in their commissions. In many markets, top agents now get between 50 and 90 percent of the gross commission. By utilizing in-house employees to deliver transaction-related services, brokers can reduce the associate's commission split. "With this model it's only 30-35 percent of commission split going to agents," said one consultant. "That gives brokers more money to spend on marketing and technology and still have a higher profit." This approach has the potential for increasing conflict within a firm — although it is also possible that many agents will prefer to spend their time in a sales role and increase their transaction volume with the support provided by in-house brokerage personnel. As one broker said, "We're not trying to get between the sales associate and the customer. People want a relationship with people on key areas of their lives, and the relationship an agent has with a customer needs to be nurtured and maintained."

■ **"Channel conflict" in changing models.** As brokerage firms try implementing new models in the midst of their existing approach, conflicts of philosophy and delivery are likely to arise. An example of such structural conflict is a traditional firm establishing a discount store in the same market area or moving some aspects of the transaction to the internet. This also applies to attempting new agent relationships. Such conflict has the potential to damage both the existing system and the new one at the same time.

■ **Can the current sales force be transitioned to new business models?** The outlook for most agents to transition to new business models is poor, according to several real estate consultants and brokers. "Transitioning the current sales force is not possible" said one broker. Another added, "It's easier to build a new model from the ground up by hiring customer service professionals in other industries and getting them licensed, than changing a traditional company's agents."

■ **Will brokers still be needed?** Most top sales professionals will continue to want an affiliation with a "brand name" brokerage, national referral networks, coverage of overhead costs, and some insulation from liability. The high cost of technology – such as second and third generation web sites – also strengthens the broker's position. Many brokers today are now offering unique services, such as customer care services, automated direct marketing packages, online catalogs, and web services in an effort to retain and strengthen their agents' ties to the company. However, agents have other sources than brokers for these tools, a factor that could eventually weaken one of the broker's key roles. Said one broker, "We are at risk of losing our position with agents as they can increasingly get each of our services from other sources."



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— broker

Technology Issues

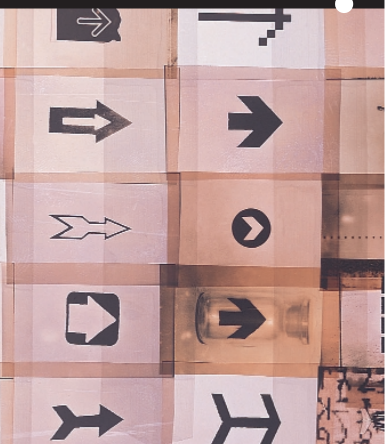
With its promise of faster, smoother and more reliable transactions, new technology will continue to propel the evolution of the industry. Technology has become the enabler of transformational change and not the reason itself. Yet, there are important parts of the puzzle that need to be resolved for real estate professionals – and the consumer – to reap the full benefits.

■ **Compatibility.** One of the chief technology problems – and cost - for brokerage firms is data incompatibility. Property information must be supplied in different formats for different MLS systems; back-end technology varies from company to company. Yet internal systems of increasing complexity have become crucial for firms of even moderate size, not just the large ones. This difficulty in communication from system to system hinders the development of new services and business models. This growing problem must be solved, or the result could be revolution in the industry, not evolution.

■ **Role of MLS systems.** For brokers, associates and consumers, MLS systems remain the key suppliers of accurate reliable base line property data. Most MLS vendors have the capability to develop new tools and platforms, but they are facing fierce competitive pressure from other sources. If other suppliers achieve a clear technological advantage – such as intelligent software agents that can gather listings on multiple websites more efficiently – the usage of the traditional MLS system could plummet. And there is the overriding question of whether a central database of listings distributed to users is still a valid business concept, given increasing technical sophistication at the agent and consumer level. The answer to all these challenges might be based on scale alone. MLS systems have the advantage of a history of service and certainly have the potential to make the transition.

■ **Measurement applications.** For brokers to make intelligent business decisions about their web investments, they need accurate measurements of where Internet traffic is coming from, how many leads turn into closed sales, etc. To date, brokers have not gathered this data — in part because the technology to track this data is not readily available and in part because brokers have relied on their busy agents to provide the information. However, brokers now perceive that the vast majority of valid business leads come from local websites, not the large aggregators.

■ **Transaction management platform.** One of the most hotly debated issues in the industry is the importance of a transaction management platform that would allow consumers, agents, brokers and affiliated professionals to coordinate the process of a transaction using an Internet-based platform. Several brokerage companies are testing these types of platforms, which they believe have a bright future by speeding up the transaction, squeezing costs and boosting profitability. Other brokers and consultants dis-



agree. “Where is the real value?” said one consultant. “This is a technology answer in search of a question.” One looming concern is who will pay the cost of offering transaction management services – the broker, the associate or the consumer? “For brokers and associates, the platforms are not useful unless they integrated into a complete system that includes lead generation and post-sale care,” said one broker. “Theoretically the revenue to sustain these platforms will come from ancillary services. That’s still very iffy. This is a good idea, but only if costs are passed along to a customer.”

A Parting Thought

Constructing a conclusion to this report seemed anticlimactic. But there is one question that must be asked of every reader: If these trends are true, what should I do now?