

# It's Always OPEN HOUSE As Real Estate Goes Online

## Internet's easily accessible info shifts power from agents to sellers, buyers

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For six months, Nancy Teer-Sims tried selling her parents' home in Durham, N.C., with a real estate agent. The results: few showings, no bids. So when the agent's contract expired in December, Teer-Sims dumped the agent, cut the asking price and listed the home on five websites, including eBay, Craigslist and ForSaleByOwner.com.

"By selling it ourselves, we could lower the price by \$50,000," she says, because she wouldn't have to pay the standard 6% commission. In four months, she's shown the house 10 times and had three offers.

Though the offers so far were too low, she's amazed by the flood of responses: 1,400 visitors to her website ([www.43beverly.com](http://www.43beverly.com)) and dozens of e-mail inquiries from people interested in the property. "It's been remarkable, the feedback," says Teer-Sims, 49, a manager of small online companies.

Her story illustrates how the breadth of information now available on the Internet is shifting the balance of power in the real estate industry, giving home buyers and sellers more control over the deal than ever before and fueling competition among agents.

Gone are the days when real estate agents could guard the information about homes for sale in their Multiple Listing Service. Now, buyers and sellers can see all the homes for sale on 800 regional multiple listing services on the Web. They can see thousands of newly built homes for sale and apartments for rent nationwide. They can view aerial photos of homes and neighborhoods. They can get appraisals or see how much the house down the block fetched. They can shop for loans and compare mortgage rates. They can check out local schools and community features for towns across America. They can ask questions and get answers in online forums.

And all of it's free.

"The Internet has done what no consumer advocate could ever do: It has reduced the distance between the consumer and the real estate expert to the point where the consumer is so much more informed, they don't need the expert as much as they used to," says Art Raby, an agent for McColly Real Estate in Valparaiso, Ind.

The Internet is also revolutionizing the job of real estate agent -- from the way agents attract clients to how they advertise and show properties. When a buyer walks into his office, "They've seen the inventory of homes for sale over the Internet, so I don't have to show as many homes, so I can sell faster and sell more," Raby says.

He acknowledges a downside: "The consumer sees us not working as many hours for getting the commissions we used to get. So commissions are under pressure."

In 1995, just 2% of home buyers used the Internet to look for a home. Last year, 77% of home shoppers went house-hunting online, and nearly one-fourth of buyers first found the property they bought on the Internet, according to the National Association of Realtors (NAR). Traffic on real estate websites jumped 8% in the past year -- double the growth rate of Internet traffic overall, according to ComScore Media Metrix.

### A pivotal point in the market

The rising dominance of the Internet comes at a pivotal point in the real estate market. After a five-year feeding frenzy, home sales are expected to drop at least 6% this year. Some sellers are already chopping their prices from last year's record levels. Home buyers and sellers, meantime, are seeking new ways to save money, and they're finding them on the Internet.

Armed with more information, sellers are bargaining down agents' commissions, and buyers are asking for rebates. They are turning to a growing number of brokers who offer discounted or a la carte services. And some are even cutting out the agent altogether and forging deals directly on the Internet. These factors have pushed commissions to an average of 5.1%, down from the long-standing 6%, according to Real Trends, a real estate newsletter.

"I haven't found that the Realtor does much more than I end up doing myself in terms of checking out a house first,"

says Todd Tierney, a 41-year-old architect who bought a home in Boston using ZipRealty.

ZipRealty is a full-service real estate firm that gives buyers a 20% rebate on their commission and offers sellers a discount of 1 percentage point. While Tierney did most of his house-hunting from San Francisco, the ZipRealty agent in Boston sent him video virtual tours and set up appointments or confirmed times of open houses for Tierney's trip to Boston.

Make no mistake: There's no shortage of buyers and sellers grateful that they used a traditional real estate agent even though they paid full price for the privilege. For most Americans, after all, a home is the most expensive purchase they'll ever make. It's exponentially more complex than booking the family vacation on Expedia.com.

Just ask Oliver Schmalholz. Last month, while he was in the midst of selling his home in Denver, an inspection turned up structural problems that had to be fixed while he was in Las Vegas buying a new home. His Re/Max agent oversaw all the repairs and kept the buyers from backing out.

"I don't think a discount broker would spend all this time, working until midnight to save the deal," says Schmalholz, 33, who owns a software development company. "This is one of the biggest investments for people out there; going with a discount broker is like buying cheap tires for your car."

### **Home buyers use an agent -- and the Internet**

In fact, 81% of home buyers who used the Internet to look for a home also used a real estate agent. Last year, only 13% of homes were sold directly by the owner, without an agent, down from 19% in 1991, in part because the documentation is more onerous now, according to the NAR.

Nevertheless, the Internet is shaking up the real estate industry, and many agents, such as Bud Kleppe, say it has forced changes in his business model.

Kleppe, an agent for Coldwell Banker in St. Paul, says 70% of his business now comes from his website. The downside, though, is that 2.6 million licensed real estate agents nationwide can compete more easily with one another. That is dragging down commissions.

Many agents now resort to paying for leads (contact information for potential buyers or sellers) gathered by websites such as HouseValues.com, RealEstate.com and e-Agent. Sites such as HomeGain.com even take a piece of the broker's commission once the deal closes.

The gravest threat of all to Realtors is probably the rise of discount brokers, who dangle rebates or charge low flat fees or reduced commissions. Realtors have helped persuade about a dozen states to pass laws limiting the ability of real estate agents to give rebates to home buyers or to offer a la carte services at low prices to home sellers. The Justice Department, in trying to protect competition, has pressured some states, such as Idaho, to reverse plans to pass such laws.

State regulators say their laws are designed to protect home sellers who don't understand the potential hazards of hiring a limited-service agent. Some brokers, for example, will charge a flat \$295 to put a seller's house on the Multiple Listing Service (MLS), but they won't provide other support in closing the deal, such as complying with lead-based paint disclosures or ensuring that advertising meets fair housing laws.

"Apparently, there have been a lot of situations where the seller was trying to save as much money as possible but somewhere in the process got in over their heads," says Craig Cheatham, chief executive for the Association of Real Estate License Law Officials, which represents state real estate regulators.

Betty Mahmood says she has sold four houses with just a yard sign and a real estate lawyer to handle the closing. She recently listed her home on Lake Huron in Michigan in January on ForSaleByOwner.com for \$1,225,000. "I've heard too many horror stories about Realtors," says Mahmood, 60, an author who was called at random by a journalist looking at listings. "If someone's calling on the house and wants to see the house, I know if those calls are being answered or not. If they are to a Realtor, I don't know that."

There are now about 50,000 homes listed on ForSaleByOwner.com. The success rate for sellers on the site (which has a marketing relationship with USATODAY.com) is about 65%, according to the company.

### **'What does a real estate agent do?'**

There are plenty of experts, such as Steven Levitt, economics professor at the University of Chicago, who say the Internet is fast eroding the value of traditional real estate agents.

"What does a real estate agent do for a homeowner?" Levitt says. "One is the actual labor of showing the house, but you wouldn't actually pay that much money to show a home. What you're actually paying for is knowledge of how the real estate industry works -- what your property is worth and the state of the market -- and finding you buyers, because you have to have an agent to list on the MLS."

The Internet lets home buyers and sellers do almost all of that themselves. And that means there will be less need for traditional real estate agents, says Levitt, co-author of the best-seller *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*.

"I predict there will be a shakeout in real estate," he says. "I would not be surprised if there are one-third less of the traditional real estate agents a decade from now than there are today."

Back in Durham, N.C., Teer-Sims' sister, Pam Whilden, also has decided to put her home for sale on the Internet after having listed it with a Realtor for the past two years with barely a nibble. She said she feels comfortable going it alone because she can get help from her brother, who's in real estate development.

"We didn't want to drop the price too much, because we think we're asking a fair price," says Whilden, a 57-year-old homemaker. "But if you can cut out the commission, you can drop it \$30,000 and still get what you were going to get in the first place, after the commission."

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