What’s New in Residential Real Estate Brokerage Competition – An FTC-DOJ Workshop
June 5, 2018
Segment 2
Transcript

ERICA MINTZER: Well, I hope everybody got the necessary caffeine for the next session, not that it will be needed. And thank you to the first panelists. That was very interesting. I'm excited to introduce our next guests.

We're going to discuss some developments in different fee and service models. And going through, I think we're going to start off by just having everybody introduce themselves, give a little bit of background on who they are and tell us what it is about their business model that distinguishes their company from others that we may be seeing. So as not to scare anyone, I do want to report that one of our guests will be leaving a little bit early. It is not a signal of any emergency or anything. He just has to get down to a graduation for two of his children. Priorities in life.

And with that, if we could just go down the line and everybody introduce themselves and tell us a little bit about why you're here. That would be great. Starting with you, Simon.

SIMON CHEN: I'm Simon Chen. I'm the President and CEO of ERA Real Estate. Little known fact, ERA is actually an acronym for Electronic Realty Associates. So we have a rich 47-year history of a really dynamic culture based on innovation in collaboration within our network of about 40,000 agents globally, about 2,300 offices or so.

We're part of—as you can see from the slide—the Realogy Holdings Company, which also includes some established brands in addition to ERA as Caldwell Banker and Century 21, but also some of the more innovative, newer models like Zip Realty, which was mentioned earlier today, as well as Climb Real Estate in San Francisco. So we definitely look at all different types of model across the span, both in terms of agent compensation as well as consumer pricing.

Prior to joining ERA, I was in corporate development at—actually, Luke Glass that was here earlier, we worked together at Realtor.com. So I was in corporate development and strategy over at Realtor.com. Prior to that, I ran a brokerage myself for 15 years in Los Angeles and San Francisco. I started out my career in technology, actually, doing investment banking and consulting. That's me.

ERIC ECKARDT: Thank you. So my name is Eric Eckardt. I'm the US CEO of Purplebricks. Professionally, my experience spans over 20 years in investment banking, real estate, finance, and technology. I joined Purplebricks a little—almost two years ago. And really, what our model is built around is great value and great service, which seems to be a theme I heard this morning from the earlier session, on really our focus on the consumer.

Purplebricks was founded in 2014 in the UK. Within three years, we became the number one real estate firm. We'll sell over 70,000 homes this year and have fundamentally changed the competitive landscape in that market, given our explosive growth and demand for our product and services with great value. We expanded into Australia in 2016.

And last year, we made an announcement to launch here in the US markets. So we're eight months into operations. We currently have operations in California across the LA designated market area, San Diego, Sacramento, Fresno. And about a month or so ago, we launched in the New York tri-state area.

So we have a very aggressive growth strategy. And again, it's really driven by the consumer, offering great value at a flat fee, allowing them to save thousands in real estate commission expense and providing great customer service. And really, a validater to that statement is that we have over 45,000 favorable Trustpilot reviews from consumers. We have a Net Promoter Score comparable to eBay, Amazon, and Disney, over 90.

And the way our model is set up for the agents is they get to focus exclusively on the consumer. So they're not soliciting for new business. They're spending 100% of their time working with buyers and sellers. Thank you.

KHALIL EL-GHOUL: Hello. My name is Khalil El-Ghoul. I'm the Principal Broker and owner of Glass House Real Estate. I don't have quite the bio these gentlemen have, but I run a real estate brokerage right here in the DC region.

We offer buyer rebates. We charge 1% and rebate any remaining commission back to our clients. On the sell side, we charge 1.5% and they pay a listing commission. I'm sort of a hybrid between the flat fee model and the full service model where I still have a commission model—but I'm a broker. I don't have commission splits. I don't have a big, fancy office. I don't have a big marketing budget. I simply lower my costs and pass those savings on to the consumer.

JOSHUA HUNT: My name is Joshua Hunt. I'm the Founder and CEO of a company called TRELORA. It is the word realtor jumbled up. I have been in real estate—

[LAUGHTER]

Same seven letters. I've been in real estate for 22 years. I've been in sales, franchise ownership, training, coaching, consulting, and recruiting. TRELORA is a full service brokerage. We employ our agents versus the independent contractor model. We've empowered them and our consumer with technology that creates transparency and full control of the transaction throughout the process. Our agents all close around 250 deals a year each and we do this for a flat fee at $2,500.

What sets us apart and why we've caused quite a bit of disruption in the markets we serve is we're one of the only brokerages—arguably, the only brokerage—that empowers our sellers to only offer $2,500 to a buyer agent as well for a full commission total of $5,000, versus a single-sided flat fee. On the other side of that, if we represent you as a buyer, we also only receive a $2,500 flat fee. So we are fully flat service on both sides of the transaction, empowering you to control that fee to the other agent as well.

KAREN MILLS: My name is Karen Mills. I'm an attorney at the Federal Trade Commission. In the previous session, we discussed the tools and technologies that have been changing the availability of data and information relevant to residential real estate transactions both to consumers and to participants in the business.

In this session, we want to explore what some of the changes are in the industry, how different business models may be responding to changing consumer demand, and also explore what some of the challenges and obstacles may be to those innovating business models. So first, I'd like to go back to each of you and ask you to explain a little bit more about your business. Mr. Chen, ERA is part of Realogy, along with other companies and brands. How has the industry structure changed over the years?

SIMON CHEN: Sure. Well, as you can see from this panel, we have a good cross sampling of different agent and consumer pricing models obviously represented up here. And I think that as the most established participant in terms of our brands on the panel with 47 years of history with ERA alone, obviously, we've been looking at some of this new competition that has emerged and contemplated how that affects our pricing.

One distinction that you all should understand is that ERA, all of my brokerages, are all affiliates. So they're all independently-owned and -operated. And, therefore, we do not actually stipulate to our brokers and owners how they compensate their agents nor how they necessarily charge the consumers.

So a little known fact then is that a company like the Realogy brands that people have historically considered to be quote, unquote “traditional” actually do some of what these gentlemen do at their own brokerages in terms of offering discounted or hybrid agent compensation models. We haven't done an in-depth study on that. But just anecdotally, we're looking at probably about 25% of our independently-owned and -operated brokerages, as well as some of the ones that we own under our NRT brand and company-operate, actually do deploy some form of discounted and/or hybrid agent compensation and consumer pricing model.

So like the panel before us, we view competition as a very healthy dynamic. We're all trying to look out for the needs of the consumer and create as much value in the services and differentiation in the services as possible. So while all of us profess to be full service and I can certainly appreciate that, as we all know in life, there are degrees of full service.

So this week alone, for example, on my Facebook feed where I'm connected with a lot of our brokers and agents, I've seen great stories about how people are posting, hey, does your agent mow your lawn for you for a showing? Or I had one gal—she uses a dinner fork and combs the tassels on the dining room rug prior to showings just to have that extra little bit of presentation value of an open house or something like that that should, would, could move the needle even if just slightly from an emotional perspective for prospective buyers to come in.

So those are a lot of the things that we think about. But, we definitely agree that the competition is forcing us to up our game and generate and demonstrate value if we're going to charge a differential in our fees.

KAREN MILLS: Mr. Hunt, how has information available to consumers via the internet changed what consumers are looking for in terms of services?

JOSHUA HUNT: Sure. 22 years ago, I used to stand in the lobby of our office on Thursdays waiting for a book to be rolled in on dollies for all the agents to share listings. And we had a contract that said we wouldn't let our customers ever have the book. As you know, today, MLS has plenty of data that now is dispersed through Zillow and Redfin and all the other search websites. And so the transparency into available homes has exponentially improved some of the areas that we've not yet seen changes.

When a consumer buys a home, they're also buying a commission, because the myth in the marketplace as it stands for the last 100 plus years is a buyers agent's value proposition is, I'm free. The seller pays me. We believe and argue strongly that nobody gets paid until you, the buyer, bring all this money to the table. And yet, when I go on Zillow and Redfin and Realtor.com, I can't find those commissions anywhere as a buyer. And so I think much of the data that's being dispersed through county records through all these different portals, while it's exponential in its growth, we're still withholding some of the pertinent information from consumers.

KAREN MILLS: Mr. El-Ghoul, you mentioned that you use a rebate model. And the Chairman mentioned in his opening remarks that the Commission had previously—and Department of Justice—in our last report looked at the value to consumers of rebates where they're permitted and our advocacy efforts to let state agencies know about the limitations that anti-rebate laws may pose. So could you talk a little bit about the value you see in the rebate model?

KHALIL EL-GHOUL: Sure. So the way my business model works is we're buying into the existing ecosystem we're in in terms of commissions being offered, which in this area is between 2.5% and 3%. What we tell our clients are—if you are willing to take on some of the responsibility that was formally meant for your real estate agent, like identifying homes that you want to see instead of asking me to identify them, being pre-approved before we ever have a real conversation or look at homes, you're in essence earning some of that commission. And we are giving it back to them in the form of a rebate.

We're very clear in this is what we'll charge and this is what we'll do. And if you're willing to do these other things, you can earn some of the fees that are being paid by—in this instance, the seller or, arguably, the fees that you're going to be paying anyway. So it's a big incentive for buyers to take on some of the responsibility of identifying the homes they want to buy.

KAREN MILLS: Mr. Eckardt, Purplebricks is the newest entrant into the US market represented on this panel. The company started in the UK and then went to Australia. How are real estate markets and the role of agents different in those countries? And what makes entry into the US market attractive to Purplebricks?

ERIC ECKARDT: Sure. So to address your first part of the question, how is the industry different in the UK versus—in Australia versus the US is first and foremost, there's no MLS system. So there's really no buy-side economics where you can monetize that relationship. So for us coming to the US that was one of the fundamental differences. There was also an opportunity for us, obviously, to drive our business forward and capitalize on that business working with buyers given the ecosystem and the way the model is structured here in the US.

With regard to our entry in the US, it's ahead of plan. It's well received. And really, what's driving that, again, is our proposition to the market to both the consumer and the agent. From a consumer perspective, they can still save thousands or tens of thousands of real estate commission, and they still get that full service offering. And it's the same for every single listing that we have.

We standardize the offering across all properties, all consumers to really optimize our digital curb appeal. So when they list a home with Purplebricks, yes, they are paying a flat fee. They're paying a traditional buy side, but they're getting that full breadth of services throughout the process with a local real estate professional, 3D virtual tours, professional photography, 24/7 customer service, and our support system to allow them to operate with more efficiency and transparency through the process.

We also do offer a buyer rebate. But for our buyer rebate there's nothing more they need to do. They still again get that full service buyer agent working with them.

And given the industry dynamics today where nearly 100% of consumers are searching online, they typically are coming to us already knowing the three or four or five homes that they want to view in advance and know the information, the demographic profile, the school rankings. They have that information readily available. And if they don't, we can still work with them and offer that full level of service.

So today, as I noted earlier, we are in California. We're across a tri-state region in New Jersey, New York, and Fairfield County, Connecticut. We have a very ambitious plan to scale further based on meeting certain KPIs and based on the market feedback we're getting from the consumer.

KAREN MILLS: Mr. Chen, from your perspective, how have business models and the role of brokers, agents, and the MLS changed in the past 10 years? Is there a change in the array of full and limited service offerings?

SIMON CHEN: So I'll answer that last part first because I think it's the most obvious. So I would definitely say yes, there are more tiers or different models that are available to consumers for them to be able to select. So like Mr. El-Ghoul said, a component of it is basically empowering the consumer to participate increasingly as a result of the data being available to them in picking out their own properties or touring them 24/7.

It's also why, by the way, on portals or any time you're advertising online—because you're allowing the consumer to browse to their own satisfaction 24/7, you absolutely need to do things like include good pictures. It seems like a no brainer to all of us sitting in this room right now because of the prevalence of online search. But back in the day, when Joshua and I were probably doing business, that was less of a requirement because access to those listings was by and large surfaced to you as a consumer by your agent through maybe one of those open house guides or what have you that you got on the weekend.

Nowadays, you really do need to—in order to market the property effectively as an agent—take some great pictures. And for an awful lot of agents who, like me, have horrible photography skills, that means hiring a photographer or doing some sort of 3D photography and rendering in order to make your property really stand out. That for me actually as a practitioner is what has changed a lot in the 20 years that I've been in real estate because you really need to stage and prepare your property in order to compete against a lot of the other offerings that are out there right now. Whereas in the past, to be honest, an awful lot of agents could, would, should be lazy in their presentation of the properties. So I think, as I mentioned earlier, it's really upped everybody's game in the industry in terms of presenting the inventory.

KAREN MILLS: Mr. El-Ghoul, your business is focused here in the DC metro area. Do you think there are any particular market characteristics or demographics that make your fee and service model attractive to consumers?

KHALIL EL-GHOUL: There is a component of—you have to do a certain amount of volume before a business model like this is profitable just given the association fees, the market fees. Selling a house and photography and all those things cost money. Having a higher price point here certainly helps, because 1% on average is $5,500, which is higher than both of the flat fees next to me.

But no, I think it could work anywhere, really. It just happens to be where I am now. It's just the market where the buyers maybe are a little more savvy. They're a little bit more in tune with the market. They're more capable of going online and figuring out what should this home sell for and things along those lines. That may or may not be the case across some other markets, but I suspect that it probably is.

KAREN MILLS: Mr. Hunt, what's your view on that? Do you think there are particular consumer demographics, business cycles, geographies that favor innovative fee and service models?

JOSHUA HUNT: Well, if you look across the country there are definitely more innovative areas that seem to advance. You could argue that that's due in part a lot to the venture capital that is there to throw money at new ideas and be OK with a lot of losses. But, if you look, why is it an agent in a smaller market can function on a $3,000, 3% commission on $100,000, but one can't in another? There's not that big of a spread.

And I think when you look too—22 years ago, I had to do carbon copy contracts. I had to take pictures myself. I had to upload them. I had to deliver things. You had to go down to the courthouse and the county records office to get public records.

In the last 10 years, if you look at online search portals, electronic signatures have come to marketplace. The advancements in technology—while simultaneously property values on average in the last decade across the country have gone up about 45%—in many markets anywhere from 80% to 100%—agents are now making 80% higher wages than they were 10 years ago and doing half the amount of work due to technology advancements.

So we're quickly approaching a time where, as the last panel said, a tipping point is coming. And this will work in any single market you enter. And it's not so much about volume. Because under our model, we can build profitable offices based on how many employees we hire, because we're not relying on independent contractors. So we can build profitability around each unit economic model that we open in every market.

KAREN MILLS: I'd like to follow through on that last point, agent compensation. Could you also discuss your approach to agent compensation?

JOSHUA HUNT: So when I started the company, we did a flat fee on the front side, and we began to take the buyer agent commission fully when we would represent buyers. And after about three months of doing that, I realized it was very hypocritical to say that it was worth a flat fee on the sell side, but not the buy side. And through the myth of “the buyer agent's free because the seller pays me,” we shifted and pivoted to a $2,500 flat fee on the buy side as well.

What we've done that has caused us as a company a lot of frustration and anguish is we offer—we allow our sellers to offer a flat fee to a buyer's agent with any other brokerage. So any of these gentlemen, if they were in our market bringing buyer agents in and representing, they would only receive a $2,500 commission as it's offered in the MLS.

We've had bricks thrown through car windows. We've had our cars egged. We've had hate mail sent to our sellers.

And so the anti-competitive nature we've dealt with is—I've got here a list of over 719 brokerages in Denver alone that have flat out said, we will not show TRELORA listings. We tell every seller, 40% of agents will go out of their way, above and beyond, and push hard not to show or sell your home if you don't offer a 2.8% to 3% commission.

And to the pocket listing conversation that took place in the last group, there's only one reason an agent pockets a listing and that's because they want both commissions. And so until we make commissions transparent to consumers and/or stop sellers and their agents offering commissions to buyers, the competitiveness of this around commissions is going to continue.

KAREN MILLS: Mr. El-Ghoul, how do you handle agent compensation?

KHALIL EL-GHOUL: Last year, I sold over $100 million and I couldn't do it by myself. So I have agents that are salaried and they specialize in different parts of the transaction. I have field agents who specialize in only showing homes and they're really good at it. I have agents who are salaried and they only do open houses and home inspections and they're really good at it. And then we have transaction coordinators and things along those lines. And we also leverage technology as much as possible.

And they're all licensed agents. They all have the ability to join any brokerage and sell real estate or help buyers and sellers. But this is an appealing career for them. They get to do a lot of fun things that people think are attractive in the real estate industry like show homes and go to open houses. But they get a salary and they have maybe some more flexibility.

They know they won't have to answer the phone at night because they're not doing deals. Or they know that they're going to have their weekdays free because there's no open houses during the week. It's just a different approach to recruiting agents. You say, hey, you'll be an agent technically, but here is your responsibility. You'll be treated like an agent. You'll be called an agent, but you're not really an agent.

That makes sense?

KAREN MILLS: Mr. Eckardt, how does your company handle agent compensation?

ERIC ECKARDT: So our agents are independent contractors. And what we did is we reverse engineered the model. So if you look at a—I use the term traditional or traditional agent—in our view, they spend most of their time soliciting for new business. And you can validate that with the folks that were here on the previous panel. The revenue driven to these third party portals is charging agents access to consumers.

So what we learned in the US market and all the markets—we're in the UK and Australia—is that there's a lot of really good licensed real estate professionals out there in the market. They want to work with consumers. They love consumers. They have a relentless, genuine compassion to deliver great customer service.

So we allow agents to work at Purplebricks to have, number one, exclusivity. Meaning, when they work with Purplebricks, they own a geographical territory, typically defined by various zip codes and transaction volume, that no one in the office can compete with. That's number one.

And number two is they don't have to do any lead generation or spend on marketing, spend on third party platforms. Let us do that. And we have a team and infrastructure and support system and technology that we use to allow them to be more productive under the model at Purplebricks.

So in the UK, for example, we have some agents averaging 20 sales per month. In Australia, we have some agents averaging 10 sales per month. And Australia is like the US. It's about eight to 10 transactions on average. At scale in the US, we expect the same with our agents because they have that support, the training, the infrastructure, the marketing, access to consumers. And through the independent contractor model they can not only earn more, they can provide better consumer service to the marketplace.

KAREN MILLS: Mr. Chen, you mentioned that ERA allows its brokers to experiment with various kinds of compensation and fee structures and service models. What kinds of experiments have you seen offered within the ERA family?

SIMON CHEN: Sure. I don't know if it's necessarily unique to ERA. We see it across all of the brokerages. One thing that specifically speaks to what these gentlemen talk about is because of the increasing commission pressures that are being imposed on the industry from some of this competition, which is healthy and fine, we all are as a business trying to think of ways to become more efficient like these guys are talking about.

It's like going to the dentist's office. The dentist actually only comes in at the end and does the last little bit or what have you and then signs off on it. But it's the hygienists or whatever that does the bulk of the work prior to that. And you see that a lot organically happening in our brokerages.

For example, the growth of a team structure, which is essentially what these guys have talked about, where you have specific roles to gain efficiency, whether you have buyer's agents or transaction coordinators or document facilitators in there. And then you have the agent or the agent that's running the team working that. That's really, by and large, the way that you're able to do in the hundreds of transactions as an agent—is if you have help. And they're always very grateful for that. So we're seeing definitely a lot of that emerging.

We are, as the largest residential real estate company in the world, investing mightily in our technology infrastructure to be able to empower and enable a lot of this. So one of the things that we rolled out recently, for example, was the ability to be able to administer teams within our technology infrastructure. It was something that we hadn't necessarily had before. It was done kind of colleague-ially, if that's a word. So a lot of those dynamics are definitely impacting us. And we, like everybody else, are innovating with that.

Other ways that we're piloting in the marketplace—we have, for example, a iBuyer offering. We actually have a program within ERA called Seller Security Plan—which is exclusive to ERA within Realogy—which guaranteed the sale of your home if it didn't sell within six months. We have a new, more aggressive offering called Express Sell, which says, if we don't sell your house within a month we will buy it back from you. A little bit of a different economic model than the Opendoors of the world in that we're not looking for as much of a discount up front.

Our focus, because we are agents and brokers, is to try to sell the property for as much and as quickly as possible for the consumer. But we do understand, per the panel that came earlier, that for different people there are different motivations. So for example, my wife and I just bought a house because we relocated from California to New Jersey. That is indeed as painful as it sounds. And we needed to get into a house in short order and therefore we needed to sell our old house in short order.

So for us, the convenience fee, the speed, the timing, and all that—it could have been convenient, basically, to have a guaranteed sale. Now, we were fortunate enough in the market that we were selling in was very aggressive and therefore it sold before we even left the first open house. If there's a better example of open market competition, there probably isn't than that. We were in escrow halfway through the first open house given that so many agents and so many of their clients saw the property obviously listed in all of their various ways of identifying the inventory and, thankfully, showed up to our house, made an offer, made an offer over asking, and we were happy to take it.

KAREN MILLS: This morning, we talked about the ecosystem. I'd like to ask each of you to speak to the question of how you operate within the MLS ecosystem and what your experience has been with cooperation.

JOSHUA HUNT: So there's over 650 MLSs currently and there's about a third of them that require you to be a member of the National Association of Realtors to have access. For example, in Colorado, Denver is the REcolorado and the Denver metro area does not require that. There is a higher fee if you're not a member of the National Association of Realtors. However, Colorado Springs right next door, we cannot gain access to because we're not members of the National Association of Realtors. And arguably, if you read most of the MLS rules and regulations, they're cloned to the NAR's rules and regulations as well.

So MLSs are evolving. They're consolidating quickly, but there's definitely a lot of control around data. There are many fields that most MLSs have that are broker-only data that are withheld from the consumer. You can share broker remarks. There's areas to share bonuses privately amongst agent-to-agent that the buyer and seller don't see.

All the compensations across the MLS are not exposed. So I think the ecosystem of MLSs we have in Colorado—and Washington just finished one—but Colorado's MLSs, we have two of our MLSs that have been battling it out now for four or five years. Who acquires who, how do we merge?

And there's been a lot of heat. One of them turned data off to the other. So I think that the MLSs have their own battle going on internally that has affected—definitely in Colorado—many brokerages, ours specifically, in many ways.

KAREN MILLS: So just for clarification, you mentioned that you are not Realtors?

JOSHUA HUNT: We are not Realtors.

KAREN MILLS: Members of NAR. Why is that?

JOSHUA HUNT: The original name of our company was Joshua Tree Realty, humbly named. We had a dispute. We had several disputes around procuring cause. In this industry, procuring cause—a National Association of Realtor believes the procuring cause is the agent who opened the door first.

Based on our business model, we had an agent who opened the door, showed a buyer. The buyer wanted to buy the home. The agent would not write the offer. Four different requests via email to write an offer. The agent would not write it.

The agent came directly to us to purchase the home. We sold the home. After the closing, that agent sued us or held us—turned us into National Association of Realtors where you go through a mini trial experience. And we were obligated to pay back to that agent $13,500 because he opened the door first, even though he would not open—would not write the contract. And so I directly walked out of there, canceled our memberships with the National Association of Realtors, and changed our name to TRELORA.

KAREN MILLS: Mr. El-Ghoul, this morning, Mr. Inman mentioned that the DC area MLS—he quoted a statistic—has licensed data to 1,500 companies. And he wondered whether scrappy companies can get their hands on that data and do business with it. Could you tell us about your experience in that regard?

KHALIL EL-GHOUL: Yes. I actually had my hands on that data at one point. But it's really tough to compete with the Zillows and Redfins and the Realtor.coms who have the exact same set of data and are manipulating it the same way I might, displaying listings on my website, contact forms, lead generation. So I gave up on that a long time ago. It just was not going to be able to compete with these big firms with millions of dollars in providing what basically a consumer wants is the easy to use search.

So yes, they might give that data to us but it's not in a real organized, easy-to-use manner that we can leverage it in any meaningful way. We are beholden to—most agents in this area, when their clients are emailing them listings they're emailing them listings from Redfin or Zillow. And they're very rarely on my website or that agent company's website and say, hey, I found a listing on your website. It just doesn't happen because we don't have tools that are as accessible and useful as those other tools that are available.

KAREN MILLS: Mr. Eckardt, how about your company? How do you see yourself fitting in with the MLS ecosystem?

ERIC ECKARDT: From our view of the world, the MLS is a necessary utility, we believe, to be competitive in a local marketplace, providing a cooperative marketplace to provide liquidity and sell each other's listings. So the MLS is still in our view very territorial. It's highly fragmented. We are seeing consolidation taking place now, which was noted a few times today.

Our view is it could do a lot better job in the standardization, so it was encouraging to hear that they're working together to try to standardize access to the data. It does take a lot of resources and expense. We're fortunate to be well-capitalized, to have a team in place, to work across every MLS board to integrate, to normalize that data, then surface it on our site towards a user-friendly user experience for the consumer. So the MLS is, again, an important utility for us as we scale and grow from state to state.

KAREN MILLS: Mr. Chen, could you discuss the advantages or possible disadvantages of MLS consolidation?

SIMON CHEN: Sure. So I'm a proponent of MLSs in general, just because I believe that they serve a certain function. And I'll tell you a story that is, unfortunately, at my expense. But when I was a member of an MLS in Los Angeles, I would get the dreaded red envelope in the mail. And if you're not familiar with it—if you become a member of the MLS, it requires that when you take a listing or when you have a material change in the status of a listing that you have to update the data in the MLS within 24 or 48 hours, depending on what it is.

And they evidently have a team of ninjas that tracks this stuff all day, every day, because literally two days after I neglected to update the status of—I think it was a for sale home or something like that—I got the dreaded red envelope in the mail that said you owe us $250 so don't do that again. And as much as I hated paying that $250, it's kind of like when you get a speeding ticket. You pull over and you just tell the officer, yes, sir, I was speeding, I apologize. It's meant for the greater good of the entire network and I appreciated that even if I was paying the $250.

So I think that the MLSs play a key role. And as a technologist, there's this saying, garbage in, garbage out. If that data is inconsistent, comes from multiple sources, and you have a hard time aggregating it and all that sort of stuff, ultimately, it's the consumer that is disadvantaged or inconvenienced by it because the listing is incorrect. Or they scheduled time to go look at a house and it wasn't available. So for all those reasons, I think that there needs to have that role and function being performed and standardized for the betterment of all of us but then also of consumers.

KAREN MILLS: The next topic I'd like to move to is what consumers understand about "the who is paying for what" in real estate services. Mr. Hunt, could you maybe start us off because you mentioned this before. What do consumers understand and not understand about who's paying for the services in a real estate transaction? And why is that?

JOSHUA HUNT: If you talk to any buyer who's never bought a home, they have no clue where the money is coming from. They think they're just buying a house. And again, the myth, the statement, the value proposition of buyer's agent is, I'm free. The seller pays me. And it's just a shove off.

And so sellers, if you look, are more aggressive. Sellers will interview more agents. Buyers don't care about agents. They care about houses. They don't go online looking for an agent. They go online looking for a house. Sellers go on looking—who's selling more homes, what's their reputation?

And so buyers don't understand that the representation, the full service—to the point full service has a wide spectrum—they don't understand that they're paying whoever they're using the same no matter what. And there's an agent who's been in this for 30 years, maybe sold thousands of homes, is the best of the best, is receiving the same amount of commission that a brand new buyer agent who just got his license yesterday. And so buyers have no clue, one, that it's being paid and two, that it's negotiable. And so this is finally something we got changed in Colorado with the Real Estate Commission is disclosure to the buyers around negotiable and it is allowed in your contract.

Sellers, on the other hand, are told it's illegal to offer less than 3% in the MLS. We're required to. My brokerage mandates it. And I've got dozens and dozens and dozens of logged emails from sellers telling their—agents telling their sellers this is required. And so there's this lack of understanding and it's due to the fragmentation.

Early on, when I was a little more fired up about this, I would call a managing broker of an office of 400 agents and say, hey, your agent did XYZ and won't show my home and said this thing. And the managing broker said, well, they're independent contractors, there's not much we can do. You call up a level and you talk to the regional franchise ownership and they'd say, well, they're franchise owners, it's torturous interference if we get involved in that. And you call the corporate offices.

So it's the fragmentation is the very strength that's holding this industry together. And truth be told, if we just made all this truly transparent and there was a single MLS where you could see commissions and you could see all the data and it was regulated in a way that consumers could see it and access and control it, this industry would shift overnight.

KAREN MILLS: Do you see that happening?

JOSHUA HUNT: I pray for it. I don't know if it's going to happen, but I definitely pray for it.

KAREN MILLS: Mr. El-Ghoul, in your business, how educated do you find consumers to be about commission rates? And how do you seek to educate them about what you can offer?

KHALIL EL-GHOUL: I think inherently the folks who are attracted to our business models do have above-average intelligence for a home buyer and seller because they're out seeking maybe a lower-fee agent or a discount. Folks just don't understand how commission works. They assume if the buyer agent gets paid one thing and the selling agent—the seller agent gets paid the same. And they also think that the buyer agent fee is free. The way commission really works is that the listing agent is the only one that gets paid and the listing agent offers a share of his commission with the selling agent.

And just saying that out loud is a little confusing and I think ultimately that's the problem. People just don't understand. If you're my agent, how much are you going to get paid? And the answer is, I don't know. It depends on what house you buy and it depends on what they're offering me. And I think inherently that's just not a good place for the industry to be. Everyone should know at this house, you're getting paid x amount of dollars.

Glenn said something up here that was interesting. He said, well, our clients know how much we get paid. And I don't think that's true because if you go on a Redfin website you'll see they offer a Redfin refund, but there's no back side that says, well, what's the rest of the commission? Is there a bonus here? Is there an incentive for a cruise or something?

I think that, Josh, was probably the biggest grievance—is that we just don't know. And the consumer does not know—it’s this really guarded protection. MRIS, our local MLS, does give us data feeds and distribution, but that's one of the categories or fields that we are not allowed to present to the public. We're allowed to present just about everything else.

I think there's maybe six or seven categories you can't—you can't display this to the public, the owner's phone number or the contact information and the commission. And why is the big question. I think ultimately that's a big part of this whole conference and this whole workshop is to figure out, how do we make that a little bit more transparent? Why don't we share this information with everyone?

JOSHUA HUNT: And to that point, if you look, we've had now three battles with REcolorado, which is the big MLS, for exposing information they felt we should not expose. So we've gone round and round with them saying, we should be able to expose it. And we ultimately have won and they've let loose, realizing they're not playing fair. But there's definitely a control around—there are special, special fields in MLSs that we do not want consumers to have.

KAREN MILLS: What information were you trying to make available to consumers and what was the objection?

JOSHUA HUNT: Commissions. Here's how much house you're buying and here's how much of that is commission. We want consumers to know that when your agent receives 3% on average, they'll make 37 mortgage payments before their principal reduction meets the fee of their agent. We just wanted to expose it. And so we had to go 25 different ways to get it exposed, but it's exposed.

KAREN MILLS: Mr. Eckardt, in preparing to enter the US market, does Purplebricks also see this phenomenon of confusion among consumers or a lack of transparency of commission rates? And do you see that as an obstacle or an opportunity? How do you prepare to market your product?

ERIC ECKARDT: So at Purplebricks, we see it as an opportunity. And, again, one of the founding principles of our organization when it was founded by Kenny and Michael Bruce is about convenience, transparency, and a cost-effective solution. So in relation to transparency, consumers know immediately when an agent shows up at their home what they're paying for. They know it's a flat fee of $3,600. They know they're paying a buy-side commission, which the agent will walk them through based on the average—based on the sales price and the market dynamics in that area.

So they have that level of transparency. I think you mentioned earlier some of the independent franchisees—and you can, obviously, follow up with a statement here—you don't necessarily have control on what they're charging. They're different models so that discussion is taken off the table. So when our agent speaks with a consumer, they're talking about a proposition, how we're helping them maximize their exposure, providing great professional service, and how we're working with them from listing to closing, why, again, they can save thousands if not tens of thousands of real estate commission expense.

It's hard to believe it's 2018 and we're in the US and the average commission fee is still between 5% and 6% when we have one of the largest, most developed markets in the country. But we still maintain that elevated level of commission expense. And we're simply just providing the marketplace a viable alternative to listing with a traditional commission model.

KAREN MILLS: Mr. Chen, how has technology facilitated change in the types of services that your company can offer, the costs of doing business, and the modes of transactions?

SIMON CHEN: So as we talked about at the opening of the panel, how fundamentally consumers view properties has obviously changed substantially. There's no longer the open house guy. There's no longer a lot of those sorts of things. If you want to talk about businesses that have been disrupted by the availability of inventory online, obviously, whomever the publisher was that printed out those books and distributed them every weekend is probably no longer doing that. So that has certainly changed things a lot.

We had a conversation the other day around the office when we were thinking to ourselves, does that mean that we as, for example, buyers agents are showing fewer or more houses because consumers now can go and find what works for them online? And again, from my personal experience, what I've found is that some people are really good at taking pictures that may or may not highlight the features that I'm looking for in a property. So there were homes that looked fantastic online. And then when I actually went out and had a look at the properties, it was absolutely heck no. It's just the camera angles, the decorating or whatever just made it look really pretty, but it wasn't going to work for me and the family. So there are a lot of complexities to how everything is presented. And I think technology makes a lot of that data available for consumers, but they still do in a lot of markets require guidance.

One consideration in listening to the conversation here is that it very much depends market by market. So for example, Palmdale, California—if you've never been there, it's up the I-5 from Los Angeles—the homes were all built right around the same time period. So from house to house to house they look almost identical, so it's much more commodity-based.

Buying one versus the other one, you may not need more local expertise or what have you because they're pretty similar. It's why models like Uber—everybody says, the uberfication of this or the uberfication of that. It's predicated on the concept of, did you know or care what your taxi cab driver's name was when you took a taxi? Not really. Your motivation was just to get from point A to point B and they were a service provider to do that. It's a commodity.

Depending on the market—and I'll definitely warrant that in some markets there are more complicated inventory constraints than others. So for example, where we now live in New Jersey, the homes have a lot of history. And history means that there's a lot of variability from home to home to home. It is the exact opposite of Palmdale, California. There are homes that were built when George Washington was roaming the Earth and there's stuff that was built last week.

And so being able to transact that inventory in a cookie cutter fashion becomes less attractive for the average consumer than Palmdale, California. And hopefully, nobody's from Palmdale, California. But anyway, it's a very different market. So technology is an enabler to be able to expose a lot of data and attributes to the consumer. But, ultimately, they need to make the decision whether they need more data or more hand-holding or more steps of the process performed by an agent or less. And again, we think that's a healthy conversation for everybody to have.

KAREN MILLS: The real estate industry is known for a characteristic of having repeat business for agents and brokers. What's been your experience in offering your business model, Mr. Hunt, with repeat business and how your business builds?

JOSHUA HUNT: Over 80% of our business comes from repeat and referral business. To have a great experience, to have transparency and save $30,000, that's exciting and so you tell people. I think the challenge we face is there's an abundance of fear from sellers to use us because we're very, very honest. We tried to finagle our way around it. We finally figured, let's just tell them the truth so we don't have to face it later.

Forty percent of agents will go out of their way, above and beyond, and push hard not to show or sell your home if you reduce the commission you offer them. So that's the nature of it. If you're out with your friend—most people use a friend who's an agent—and there's three houses in a community, and let's say it's all the James model by Richmond Home and they're all on corner lots. And two of them are paying $20,000 commissions and one of them is paying a $2,500 commission. It's amazing how powerful that agent is and how skilled they are at disclosing issues with the home and how quickly they can find foundation issues or maybe this street corner's noisier. And they steer aggressively clients away from that commission because they don't have the skill set or the value proposition to say, here's why you would want to pay me above that $2,500.

KAREN MILLS: Mr. El-Ghoul, what's your experience with repeat business?

KHALIL EL-GHOUL: About 70% of our clients are repeat business. We have the luxury of lower expectations. If someone pays less, they sometimes expect to get less, and when they actually go through the transaction, the process, and they realize that's not the case, plus they save a lot of money and you exceed their expectations, they're generally pretty happy.

And we have systems in place where we follow up and we do quality control and satisfaction surveys to make sure that we know some of the gripes in the transaction where if you miss this email during this part of the transaction on a consistent basis, people get pissed. Or if you don't call them within 24 hours or 48 hours of showings, they start to get annoyed. They might not tell you that, but through surveys and through research realize, hey, if we do just these few things really well, it'll be a better experience than most other agents might provide them. And they'll be satisfied.

And we're able to do that, because we do a large volume. We have a large database to get information from. And by just doing that consistently and them coming again thinking, I'm going to save money, so I might be leaving something on the table. And when that turns out not to be true, it's pretty easy. It's hard for them to go out on their next transaction and spend two or three times more money for something they just did—or that they did recently for a whole lot less.

KAREN MILLS: Mr. Eckardt, what does Purplebricks experience with repeat business and the growth of your business?

ERIC ECKARDT: So in the US, we're in month eight of operations, and I have a lot of data to support that. Other than that, we do have a Net Promoter Score, which measures the likelihood your brand or service would be recommended by a consumer to one of their friends or family. So that's considered very high, that Net Promoter Score that we have, so we expect to have a high percentage of business as referral business. And we're seeing that in the UK too and in Australia.

So as I mentioned earlier, we have over 45,000 favorable Trustpilot, independent, verified consumer reviews advocating on behalf of the service they've received and the satisfaction. To the point you made earlier, sometimes they initially come to our remodel because they want to save money. But then they learn they're getting that full service offering and the breadth of services, everything they were to get, if not more, from a traditional real estate agent and they're saving tens of thousands in real estate commission expense.

And we can do that because we really optimize our processes. We're passing on cost savings. We don't have that traditional brick and mortar expense. We have zero debt on the balance sheet. We're well-capitalized so we can pass these cost savings on to the consumer.

It's why they get a great experience. And I can't emphasize enough that they save on the traditional commission expense, which is material.

KAREN MILLS: Mr. Chen, does your company have any insights into the repeat business?

SIMON CHEN: Sure. An interesting thing to me having been in the industry for a while and been on the portal side as well as on the brokerage side and now in my current role is that all the conversations are, by and large, around just the transaction phase of the homeownership experience. And by that I mean—I don't know what the latest numbers are, but let's say your average search process takes you somewhere between three to six months or something like that to find the home that you like and then ultimately close on it.

From a career real estate agent's perspective, that's maybe 10% or less of the overall life cycle of this relationship. And by that I mean, the average data that a consumer stays in a home is somewhere between seven and 10 years, depending on whose data you look at. And during that seven to 10 years—especially if you're developing long-term relationships with a lot of your clientele and therefore benefiting from repeat or referral business—you're answering calls about an idea of a dog walker, a nanny, a contractor, a landscaper, all that sort of stuff that being a local expert provides you and the ability to provide that to your customer base. And that's largely neglected right now.

On any of the portals, by and large, you can do your search, but then once you get into escrow you drop off the radar. And then everybody will spend mightily to try to reacquire you as a prospect 10 years down the line or what have you. So I think something that our entire industry needs to start to think more about then is, what about that seven to 10 years in between that these consumers are homeowners? And what do we provide for them and what sorts of value?

And like I said, as an agent when I was practicing or as a broker, we would get calls all the time during those seven to 10 years for any number of referrals or opportunities. And I think that we could all do better at providing some value there. It's kind of like Amazon. Anything that I need from Amazon—this is not an endorsement and I'm not compensated by them in any way—but they're one of those businesses where I've transacted so much and they're interacting with me in such a useful way that I'm happy to go on and buy even more stuff. They have a new report that can tell you how much you've bought from them since the beginning of time and it's rather appalling.

[LAUGHTER]

KAREN MILLS: This morning, Mr. Inman posed a provocative question in his introductory remarks. Why have nontraditional models gotten nominal traction? I'd like to ask each of you to speak to the question of whether you think that's true—you've gotten only nominal traction with alternative business models or fee structures—and how you anticipate that may change in the future.

JOSHUA HUNT: Well, people have been cracking at disrupting this industry for as long as I've been in it. I remember sitting in my first sales meeting and the broker owner saying the internet was going to destroy the industry, and it's not happening. And it's, again, that fragmentation, the power of the individual agents standing alone under a large brand, fighting for their own and refusing to do things and no one having control over it is what has held brokerages like TRELORA.

Purplebricks will experience very different results in the US then they have in the UK, just due in part because we have this seller agent/buyer agent model. And the fragmentation is really what's holding this so tight. If everybody saw what we experience in that fight from not just an individual agent but some of the independent brokerages. They are dead set on not letting 6% commissions go away. And our argument is, hey, full service, that's a silly conversation.

What you and I think is full service is irrelevant. Let that be the competition. Where the argument lies for all the new entrants into the market is, let's make it fair and transparent so we can actually let full service be seen. But the fee structure around this and the way the money is moving and controlled, it makes it very difficult for any new entrant to succeed quickly. Because truth be told, if it was all just transparent a Purplebricks, with the amount of money they have, could come in and just dominate the US overnight.

KAREN MILLS: Mr. El-Ghoul, what's your observation? Has your competition in this local DC area market had an impact on prevailing commission rates?

KHALIL EL-GHOUL: I think so. Ten years ago, the buyer agent commission in DC was—in the metropolitan area was 3%. I don't want to say it was standard, but it was definitely what you would see more often than not. Now, it's 2.5%. That's a real change.

I'm surprised now when I see a 3% offering in DC and in the hot areas close by. And I think companies like Redfin and myself coming into the market and doing essentially the same thing for less, I like to think it had something to do with it. I think the myth around real estate or the myth that if you're going to pay less, you're going to get less—and for many people obviously it's the most important asset they have, and they only do it once a lifetime or just a couple of times in their life. And why take a chance to save $6,000, $7,000, $8,000, $9,000, $10,000? I think that's a valid argument.

And there are lots of really good agents who happen to charge full commission and I don't want to disparage them at all. If that's what they want to charge and they can get it, I'm not—I might not be in the same mindset as the gentleman on my left and right with the anti-agent or destroying the whole model. I think there is a place for it and I think they're needed. And I think if I were to sell a home, I'm probably more inclined to pay someone a little bit more. And that's just my personality, so I get it.

But I just think that the really good agents sometimes happen to work for the big firms that charge more. And buyers, whether it's true or not, that's the perception that's out there. And that's what buyers seem to think—buyers and sellers.

JOSHUA HUNT: Don't be misled. We're not out to destroy agents. In fact, Eric and I have talked about this. Quite the contrary. We aim to elevate our agents in a superior way, in a more predictable way, so that our agents can perform at a higher level because the agent's not going away. There's no left, right, swipe mobile app coming to just remove the agents. It's not coming.

This is an emotional process. It takes anywhere from 90 to 120 days. You're being kicked out of your home. You're making your bed. You're moving your dogs. You're exposing your money. It's emotional.

There's a human being factor to this. It's imperative for successful transactions. So by no means—and I know I'm speaking for Eric here—

ERIC ECKARDT: I'm going to speak next, don't worry.

JOSHUA HUNT: We're not out to destroy agents.

ERIC ECKARDT: Likewise. So our model again—I heard what you said, just to address that. So, yes, an agent will always be the center of the transaction. We just provide them more tools and resources and our model allows them to be more successful.

To go back to your initial question before to Joshua is why hasn't it happened yet? I think there's two fundamental reasons why a quote, unquote “innovative, disruptive model” has not really changed the US landscape. I think one is the models that have happened for a decade—flat fee, MLS, limited service, a la carte menu—still created friction in the home selling process. So as a result, consumers were usually steered away from that model.

And two is these initial regional-type quote, unquote “innovative, new disruptive models” really didn't have the capitalization to build that brand awareness and consideration. So the four of us could walk off stage today, launch a start-up, a low fee structure, but the market does not know you're aware. You don't have that brand consideration, that credibility. It's really hard to scale and penetrate the establishment, the current model and infrastructure that's out there today.

So what's really important for us at Purplebricks is when we launch into a new market, we really spend up in building that brand consideration awareness and that trust with the consumer. So our advertising is very engaging and informative to let them know that there is a viable alternative to the traditional real estate model where yes, you can pay a lower fee, but you still get that full service offering and save thousands in real estate commission expense.

KAREN MILLS: Mr. Chen, what's your perspective? Do you see the alternative, or experimental or low fee models having an impact on commission levels generally?

SIMON CHEN: We do, absolutely. And I think that they are definitely claiming their market share and obviously taken up mindshare on this panel as well. There was a number that's being bandied around in the industry right now that are saying that “nontraditional” quote, unquote brokerage models now are the majority in the marketplace and that's what we feel as well.

So whether you look at the Real Trends data or you look at Swanepoel's research, and you just add up the quote, unquote “traditional” companies versus the new, hybrid or nontraditional companies or what have you, it seems like that tipping point has actually been reached in the marketplace and that consumers have spoken. And we are looking for in some markets some sort of discounting or something along those lines.

I know that anecdotally, if you have a Redfin that comes into the market and the consumer knows it, they'll get X amount of dollars because they looked on the website for this or that property. That consumer is, in the majority of cases now, coming to our agents or what have you in the industry and saying, hey, if I'm going to get X, then are you going to give me X? Or if you're not going to give me X, then why?

I've got a fantastic agent down in Anniston, Alabama that charges 7%, which obviously from today's conversation so far sounds like a very high commission rate. I don't off the top of my head know what the average commission rate is in Anniston, but the point is that 7% is high even for there. And people will come to her and say, hey, well, this or that person will charge me 5% or 6% or whatever. And she says, very cutely, they should. So she justifies 7% with a higher level of service and a higher level engagement and all that sort of stuff. And I'm here to tell you that she's one of our most productive agents.

So for some population of consumers—and Khalil mentioned it quite well—perhaps like me, I want them to do the hand-holding because I don't have the expertise—I mean, in real estate obviously I would, but in anything else—to be able to do that. Like I go to a doctor. I'm not looking for the cheapest doctor out there. I'm looking for somebody that cures my ills and that's the point. So it depends on each person's personal priorities. And again, these options and these competitors create opportunities and products and services for other types of consumers that may or may not gravitate toward us.

My final comment would be that, increasingly, it will be more and more difficult to say that, hey, there was a tipping point, because the line is becoming very, very blurred between the models. And increasingly, we're just calling them all hybrid because they're some combination thereof of various things. And that's not to say that a particular broker could not deploy multiple different models as we have within my network, so I can speak from personal experience.

So I've got brokers that say, if you want this pricing model then you get these services. If you want this pricing model, you get these services and so forth. So I don't begrudge any of these models. I think that there's a place for all of these. And we, obviously, within our network at Realogy are already starting to deploy a lot of them at a lot of our affiliates.

KHALIL EL-GHOUL: Also all of our business models operate on volume to some degree. We have to sell a certain—no, actually, yours might not. And technology is obviously a big factor.

Ten years ago, electronic signature was not a thing. I couldn't sell as many homes as I do today if I did not have DocuSign or if I couldn't respond to an email in an effective manner from my cell phone, things along those lines. So I think that's also a big part of maybe why the disruption in the real estate industry hasn't been as profound as of today, but I think we're making up for lost time now.

KAREN MILLS: We have left some time for questions. So if any of you have questions—we have a few up here—you can write them down on a card and it'll be passed up. We are also going to offer each of our panelists, as in the last panel, an opportunity to sum up or react to anything that was said anytime earlier today, or make any final remarks. But we're going to do that a little bit out of order. Mr. Hunt has to leave us early so we're going to invite him to make his closing remarks first.

JOSHUA HUNT: When I started this company, I believed—I said six years ago to a small group of investors that we'd be in 500 markets in five years. And I was close. I was only 498 off.

[LAUGHTER]

This has been the most challenging thing I've ever faced because I just know that every buyer and seller you talk to believes that the fees should be lower, and it should be easier and there should be more transparency. But it's not. I think service is irrelevant. I think the fee structure is irrelevant. I think the challenge this industry faces is its lack of transparency and ability to collaborate in a way with the consumer, not each other, and expose what's happening.

Listen, if 7% is it, I say go for it. I was a 6.5% agent when I was an agent and people would say, are you negotiable? And I'd say, yes, if we get to the closing and you want to pay me 7%, I'll take it. That was my negotiating tactic.

But I think at the end of the day, what the fees and services are, that's where we should be safely competing. It's—do the consumers know that there's a competition taking place? And is what's going on behind the scenes in the break rooms really what the consumer deserves?

And so this is kind of a dual-parted—for us, due to the way that the industry is structured, not only are guys like me suffering trying to get a business up off the ground, but this is ultimately negatively impacting the consumer.

And so we will persist without exception in our fight to get transparency control and a better system to the consumer at whatever fee base everybody ends up at. But rest assured, over the next five to six years you're going to see commissions cut in half, guaranteed.

ERICA MINTZER: And what I've found effective in conveying that information to the consumer—you're saying, there is this lack of transparency. Are you seeing some traction?

JOSHUA HUNT: It's interesting. In Denver, yes, we've absolutely seen—we have six licensed, lead agents in Denver and we control 1.4% of the Denver market. We're the number one listing office in Denver. We're the number nine brand in Denver. So we're definitely gaining traction. The eight brands that are ahead of us in Denver all have over seven offices and most of them are in the thousands of agents account.

Is 1.5 or 1.4% a big market share? No. It's brutal to think that we've chugged away and only gotten to 1.4%. When you hone in on that though, we have zip codes in neighborhoods where we're doing far better than 1.4%. So there's an adoption factor that takes place in a community, that when you see a certain amount of signs after a while, you can go capture it and you can start to dominate areas.

And as the market ebbs and flows, we believe the greatest gift to the flat fee, full service models would be a slowdown in the market because the competition right now—the money is plush, it's everywhere. Sellers say, who cares? I don't want to deal with it. Buyers aren't worried. Everybody's just racing in.

When the market slows a bit—and to Eric's point, back in the day, the flat fee came with discounted service. So “assist-to-sell” meant, you're going to pay me less but I'm going to assist you, which really meant, I'm at my other job so I can't help you right now. What Purplebricks and TRELORA are doing is, we've raised the bar and said, no, this is full service and so there is no assistance here. We're still doing everything that any other agent is doing, at a flat fee.

When this market slows, you're going to see these models, in my prediction, uptick. And again, I would say that if either sellers and their agents could no longer offer buyer agent commissions, and/or those were made insanely transparent, this market will have a rapid shift towards a better situation for competition and for the consumer's benefit. And I have to go. Thank you.

[APPLAUSE]

KAREN MILLS: So we'll come back and give each of the other panelists a chance for closing remarks at the end, and look in their crystal ball and predict the future for us. But first, we'll take a few questions.

ERICA MINTZER: I guess following up on that, for others who think that there is that lack of transparency, are there sources of information that you might point consumers to where they could learn more about the home buying process, what their options are, what these alternative models might be, and what the trade-offs may be?

KHALIL EL-GHOUL: Recently, it hasn't been so bad. But in the past, I would constantly point—and actually used to have a link on my website—to the 2007 DOJ decision on encouraging rebates. And that was actually a huge resource for me very early on. Because when I first started in 2008, it was an alien concept. It was illegal in many states. And agents didn't understand it, loan officers didn't understand it, and consumers definitely didn't understand it. So pointing them to a government website where it said, hey, this is a good thing and it's encouraged was super helpful, for me at least. And I'm sure other brokerages offered the same thing.

ERIC ECKARDT: On our end, we're continuing to inform the market through our advertising and media spend to drive engaging content to let them know that they are still getting a full service offering. So one thing that we did at Purplebricks—we launched something called a Home Trues campaign to demystify a lot of the myths that were out there in the marketplace or misconceptions of, what does it mean if I actually pay a lower fee and I save thousands in commission expense? Will I still have a full service agent? Will I still have support? Will I still have all the services I would expect through a traditional model?

So we went through all the common objections we received in the first few months of launch, and we displayed that or presented that out to the marketplace to drive that awareness, to let them know that there is a viable alternative to the traditional real estate model through a company like Purplebricks and others that are providing full service and great value.

SIMON CHEN: I would say for us, communicating to the marketplace, obviously, we have the ability to advertise—like Eric had mentioned—talk about some of the dynamics that are happening. But because it is such a personal relationship that happens between the brokers and agents and their clients, we've found, actually, that social media is a very effective way to communicate.

We had an agent come to us and say, hey, I didn't have a lot of dollars starting out. So I started advertising on social media because it was cost effective. And I said, well, even if you have a bunch of money and you're a successful agent, guess where your money goes in order to advertise? Back to social media. So you're doing something that just happens to be cost effective and impactful without having to spend, necessarily, a huge amount of money, putting your face on the side of a bus or something like that.

So I think the word's getting out there. Per my earlier comments, I think that the industry is already starting to hear about it. I think that technology is an enabler.

Perhaps, I guess, my hypothesis is that in prior generations, if there were disruptive models but the consumer did not have the tools that they have currently at their disposal, then they would be like, well, if you want me to do this myself but I don't have any way for me to do it or educate myself, then how the heck am I supposed to do that? Or has this day and age that we're in right now really empowers the consumer to be able to do a lot of those things themselves and therefore a lot of these models might be a little bit more possible then historically they might have been able to be.

ERICA MINTZER: You'd mentioned the rebate laws. I'm wondering if there's anything similar to that that exists, any other laws that you see that are currently on the books that are maybe preventing full competition?

KHALIL EL-GHOUL: There are some nuance, state legislative laws. Virginia recently passed a law—not recently, in the last five years or so—that says, the moment you engage with a real estate agent, you have to have a contractual agreement with that agent. So by law as an agent, if I were to meet one of you outside and say, hey, you want to look at this house for sale? You would have to physically sign a contract with me that day to go take a look at that house.

And having someone sign a contract with an agent they may or may not know, or someone they may or may not want to be committed to is not something that's terribly easy. And I think that was simply put in place by the NAR lobby in their intent to protect their industry and give the industry a reason to say, this is why—this is us providing value. This is us protecting you somehow. But I just saw it as just another hurdle for new connections to be made.

KAREN MILLS: With that, I'd like to give each of our panelists a chance to make some closing remarks, react to anything that you've heard today, and give us your predictions about the future.

ERIC ECKARDT: Any particular order or just—I'll go first. On behalf of Purplebricks, I want to thank the Department of Justice and the Federal Trade Commission. It gives an opportunity to talk about innovation, the industry, the competitive landscape, and Purplebricks providing a viable alternative to the marketplace.

So just some quick, brief comments on my end. We believe we're truly at an inflection point today in the industry, being driven by the change in consumer behavior. And that's being fueled by access to data, allowing them to make informed buying and selling decisions. A lot of the information that historically you needed an intermediary to gain access to is obviously surfaced today, and I'm stating the obvious. But that's empowering consumers to take on a lot of the traditional work that an agent did historically, and, in return, be able to provide a more cost effective solution.

So our view is an agent is still vital in a real estate transaction. They still provide great value, but it's more as a trusted advisor. Again, a lot of the work that historically through the home discovery process where we've seen a lot investment innovation over the last decade has provided a great user experience online for consumers to access that information.

The second point is with regard to commission fees. We have seen pressure in the markets that we're in and we think a lot of it has to do with informing the consumer that there are viable alternatives out in the marketplace. And I know I've said that several times today. But it think it's so important because I think, historically, there were some myths in the marketplace saying that if you did use a discounted fee, you got a discounted service.

But like myself and the other gentlemen at the table here today, a few of us—still with models like ours, alternative models, you still get that full service offering. So I think as we go forward over the next three to five years you'll continue to see pressure on pricing. You'll continue to see more efficiency, more convenience, and more value, all to benefit the consumer, which should really be everyone's North Star in this room—whether you're with an MLS board, a franchise, an independent. That should really be our primary mandate to provide great value and service to the consumer. Thank you.

KAREN MILLS: Khalil, you want to go?

KHALIL EL-GHOUL: I got my real estate license in college, in 2005. And I initially started offering rebates because I just did not know what I was doing.

[LAUGHTER]

ERIC ECKARDT: It's all transparency. We're all about transparency here.

KHALIL EL-GHOUL: You could hire me and pay me the same amount as the gentleman next to me that might have 20 years' experience and do a really good job. So that whole concept just never sat with me. And I initially offered rebates because I lacked something. I lacked experience, maybe neighborhood knowledge, whatever it might be.

Today, I offer rebates because I work a little differently. I don't show homes, I don't meet with people very often as far as my clients are concerned. As a matter of fact, if someone says, can I come to your office? Can we sit down and talk? I usually just say, no.

[LAUGHTER]

And they say, well, you're full service. And I say, I am full service and you won't do anything that you're not comfortable with. And you'll understand this process. But if I sat down with every person that I sold a house to, then the level of service would go down for everyone. And that's just not what I'm interested in doing.

And I think just giving clients clear choices in the market that says, hey, if you go with this option, this is what you can expect. Or if you go with Purplebricks, this is that what you can expect. And we all throw the full service phrase around. And I think Simon mentioned it, that's a really broad term and one I really don't like using too much. But we just have to in our industry.

And one way to do that is just be transparent and just tell people, hey, this is how much commission is being paid, and here's where it comes from and here's what you can expect. I don't think it's a terribly difficult concept and I think we're making some progress to get there.

SIMON CHEN: So like everybody else in saying, thank you for the opportunity to represent Realogy in speaking on this panel. So thank you to the FTC and DOJ. As I think the panel surfaced, as well as this morning's panel, that the level of competition in the marketplace is obviously increasing.

We at Realogy, as the historically traditional brokers or so, have definitely already started to look at and respond to some of these competitive dynamics. And they are starting to drive down, obviously, a lot of the margins that we experience at the broker level, which is healthy, because I think that consumers have options and therefore consumers win. Our secret sauce, if you were to ask us, is that, as the largest residential real estate company in the world, we have certain economies of scale that we can bring to bear and certain data rights, for example, that we can use to be able to provide a richer experience or greater productivity and efficiencies to our brokers and agents so that they don't have to do that.

So for example, they don't need to spend on buying their own websites or building out a lot of that technology themselves because they're provided for by Realogy. And that, I think, as the market becomes more competitive, will be a key value and differentiator for us. I say all the time now that I'm with Realogy that I wish I'd known about ERA in particular when I was running my own brokerage 15 years because I could have gotten much better tools and technology as a broker from what Realogy has built out than I was ever able to afford myself.

And at my own brokerage, it was my own smarts or lack thereof, my own intelligence or lack thereof of, my own dollars or lack thereof of, and bandwidth or lack thereof that were limiting my own growth. And being able to leverage what Realogy provides as a broker to be able to grow much more aggressively and quickly and provide better tools and technologies to my agents would have been actually a huge differentiator. So again, I think there's a role for all of us in this marketplace and I look forward to seeing where it all shakes out.

KAREN MILLS: We're reaching the end of our time and our lunch break. We will resume here with panel three at 2:00. Please join me in thanking our panelists for their transparency and their time.

[APPLAUSE]