

BUSINESS

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Brokers Fiddle as Real Estate Burns
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Alan Greenspan thinks homeowners are powering consumer spending. I have an additional culprit: Realtors.

Think about it. If you or I sell a house, we have to turn around and buy another one -- minus moving expenses, closing costs, origination fees, etc. No cause for a spending spree there.

But the real-estate brokers walk away with, on average, a neat 5% of the sale. When I sold my inflated house in Washington, D.C., last month (in order to purchase an inflated house in Fairfield County, Conn.), the brokers earned enough to build their own house in most parts of the world.

Of course, they do some work for that money. Most people don't sell houses that often in life. Having a trusted professional who can help them price it, prepare it, show it and negotiate multiple offers is certainly of value. For that, real-estate brokers deserve something.

But 5%? With a report this week showing existing home prices up nearly 16% in the past year, and the median price now at \$220,000, that large commission amounts to a rapidly increasing windfall -- even as technology, arguably, should be making Realtors' work easier.

It's remarkable that in today's economy, this classic middleman business model survives -- and not just survives, but flourishes, like a hardy breed of insect. There are more Realtors out there today -- 1.2 million -- than there were a decade ago.

Compare that with what happened to stockbrokers, a similar breed who saw their commissions fall from dollars to pennies over the course of three decades. Or look at the even more dramatic fate of travel agents, whose commissions on airline travel plummeted from 12% to nothing between 1995 and 2002.

In an age when information was scarce, Realtors could claim big commissions, because they controlled the gold -- the information on houses for sale. But in an age when information is ubiquitous, it's hard to understand how they continue to rake in such fees.

For those willing to use it, the Internet has revolutionized the process of buying a house. In Connecticut, we signed up for a service called MLS-Pulse, provided through a local

RE/Max agent. Every time a house came on the market that matched our specifications, I automatically received an email with the details. More than once, I was the first person to see a house after it went on the market.

This was a great service, and a breeze for my agent, who waited for me to call and tell him which houses I wanted to see. Then he called the listing agent, and both showed up and formed a phalanx as I toured the home -- protecting their respective commissions.

In theory, this dramatic change in technology should not only result in a different way of doing business, but also dramatically lower commissions. So far, however, it hasn't.

The relative absence of discounting has prompted the Justice Department to charge that the National Association of Realtors is using illegal tactics to fend off Internet competition by allowing brokers to keep their house listings off such services.

"Consumers benefit when real-estate brokers are free to compete vigorously by offering innovative services," says J. Bruce McDonald, the deputy assistant attorney general for antitrust.

Steve Cook, vice president for public affairs for the National Association of Realtors, says the Justice Department's case is based on a rule that no longer exists, and that the department has informed the group it's revising its complaint. "It's kind of difficult to respond until we know what we're responding to," he says.

Mr. Cook also disputes the notion that the Realtors' business model is obsolete. "There is a major difference between real estate and the other products you mentioned," he says. "Airplane seats are all basically the same. Shares of stock are all basically the same. But houses are all different." That, he says, is why skilled professionals are needed.

I'm more inclined to agree with Eric Danziger, chief executive of Internet home seller ZipRealty Inc. "We have an industry that truly has not changed since Dwight Eisenhower was President," he says. "That's principally because people in the industry don't want it to."

My guess is that change will come eventually, regardless of the fate of the Justice Department's suit. Realtors won't disappear. But like travel agents, they'll shrink in number and find new ways to create value for their clients.

Once that happens, attention can turn to another remaining member of the Overpaid Middleman's Club: Investment bankers.