

## **Ten Trends That Are Shaping the Real Estate Business: Part I**

By John Tuccillo, PhD

February, 2005

I've written for years about the future of real estate and continually look for new ideas that will determine how the business is done as we go forward. The pace is fast for a variety of reasons, but most of all because real estate is an information business and the way we convey and receive information is continually being remolded by technology and new business practices. In this column and in the next, I describe what I see to be the ten trends that will shape real estate in the next five years.

### **Trend #1: There are fewer firms**

Since 1990, the number of firms in the real estate industry has fallen by a third. This has occurred as large firms absorb smaller companies and as new companies open their doors. The reasons for absorption are clear: shrinking margins require broker owners to achieve large scale, and the demographics of the broker community suggest that many are seeking exit strategies. In addition, a large number of small, specialized firms have sprung up and are prospering. A successful company today must be high tech and high touch and this means either size or specialization. The industry is shrinking and polarizing and will continue to do so. My suspicion is that in five years there will only be half the number of companies there were in 1990. Most Realtors will then be working in very large or very small firms.

### **Trend #2: Commissions are falling**

The average commission in 2003 was 5 percent, down from 5.2 percent in 2001. This will continue for three reasons. First, the public knows more about the real estate market and about the transaction. They know how precious listings are, how quickly homes sell and how much work they can do on their own. They want lower prices. Second, discounters are having an impact on prices in the market. They will never become mainstream but they offer an alternative that real estate professionals must counter with lower prices. Finally, there are increasing numbers of agents looking for business. Some will lower their prices and that will impact the whole market. This trend will continue even if the housing market becomes more balanced because all of these factors will still remain.

### **Trend #3: Falling standards**

My last two columns have dealt with this trend so I won't belabor it again. Suffice it to say that the reaction to those columns was strong enough to convince me that this is real and deeply felt in the industry. I believe that there will be a reaction to the state of real estate practice and that this trend will be short-lived. But, one can never tell!

#### **Trend #4: Online or out to lunch**

As noted above consumers have become much more aware of the market and the transaction. They also have access to increasingly sophisticated communications tools. If the real estate professional is not as sophisticated as her customers, then she cannot survive in this market. Similarly, if a broker cannot offer his agents the top level tools they need, those agents will go elsewhere. Surveys have shown that Internet real estate shoppers are more efficient, knowledgeable and loyal than traditional shoppers. Since their numbers are also increasing, it's safe to say that this represents the market of the future. You need to know the availability and capabilities of agent tools inside and out and use those that fit the goals of your business. Otherwise, you will be toast.

#### **Trend #5: New Business Models**

For brokers, the future means offsetting declining brokerage margins by participating in more of the transaction. The new business model for real estate is increasingly the corporate model in which the company offers services in all aspects of the real estate market and the transaction, and then works to cross-sell these services to consumers. This coincides with the consumers need for convenience. The trend in the industry is the availability of the entire real estate transaction in a single location.

Those are the first five trends. With the possible exception of falling standards, all will be around for a long while. As a real estate professional, you need to be aware of them and factor them into your business planning for the next five years. Next month, we'll look at the last five trends.