Property online: a real estate nightmare

The traditional role of real estate agencies is being challenged by the rise of online valuations and even portals that assist in private sales.

Ben Hurley

The real estate agent and the property valuer are waging a common battle to survive the internet's dangerous incursions into their realm.

Fear runs deep in the industry that they will be the next victim of the great shift online, which has forced sweeping changes upon industries like the print media, retail sector and the selling of books and music.

Trade knowledge has been the real estate agent's key to your door. It's the appraisal offered in the hope that you will choose him or her to sell your property. The valuer goes further still, putting a dollar value on your home that banks trust enough to sometimes lend millions of dollars against.

But now both are seeing their expertise undermined by the desktop valuation – a complex algorithm used by data provider RP Data to value every home in the country, every week, without actually visiting it.

RP Data is now offering it for free to home owners via its Facebook page, while advertising portals like domain.com.au and realestate.com.au also offer services like home valuations or market information such as comparable sales, as a way of building candour with home owners in the hope they will be chosen for the advertising campaign.

While there is some contention about the accuracy of these valuations, banks are embracing them for many property lending transactions, substantially reducing the valuers' market share.

And, by providing the consumer with an unprecedented depth of market information, they further challenge the real estate agent's daily job – which is as much about convincing buyers to raise their offer as it is about convincing the client to lower expectations.

"I've had members tell me they have people who openly disagree with agents on sold prices because they have got it from so-called valuations online," says Enzo Raimondo, chief executive of the Real Estate Institute of Victoria. "They're not valuations. They are just information put up there by data companies and advertising portals. It's causing a lot of confusion out there."

RP Data's use of the word "valuation" to describe its offering has so riled the Australian Property Institute, which is the industry body representing valuers, it is calling for regulators including the Fair Trade Offices in each state to investigate.

RP Data chief executive Graeme Mirabito says his tools are not meant to replace industry professionals. Rather they are designed to "empower professionals, educate the media, and inform individuals".

"We're in no way trying to circumvent the professionals," Mirabito says. "You may have recently renovated and it's not in the data, or you may have a view of the ocean and it's not indexed in the data. This is just a tool to help people to get more across what is going on. You do need an advisor like you do anything else."

But the effect on the valuation profession has been devastating. The industry is already reeling in the post-financial crisis fallout, with major banks launching dozens of lawsuits accusing large valuation firms of negligent valuations, in an attempt to recover multi-million dollar losses on bad loans.

Smaller valuers are folding as the cost of public indemnity insurance soars and work dries up as online valuations gain momentum. The remaining firms are engaging in a cutthroat price war, shortening turnaround times to 48 hours and, according to some, jeopardising the quality of their work.

Philip Western, senior national vice president of the Australian Property Institute, said in 1992 a valuer was typically paid $975 to value a residential property worth $500,000 in order to do a thorough job. He said some valuers were now paid less than $200 for a job.

> [Online valuations] are based on comparable sales, and use statistics to derive the property estimate instead of using the judgment of a valuer.
> Susie Peacock, Westpac

"That's the extent it's being forced down," Western says. "You're getting valuers having to effectively make a living, and to come out on top they are having to do multiple valuations a day, probably way over and above what they should be doing if they are doing a proper job."

He said online assessments had "really gained momentum in the last 12 months" and maintains they are "much more risky" if banks are to lend against them.

The API argues the figures are inaccurate and should not be trusted by consumers. It says they do not take account of qualitative information like the view or aspect or the condition of the property.

But Susie Peacock, Westpac Group head of secured risk, defended the growth of desktop valuations, saying they were not because of cost cutting. Traditional valuations – where somebody visits the property – were now only necessary on particularly risky assets.

"If you have a security in an established area, the risk of the deal is low, you know the customer, it's a security that has been bought and sold 10 times over the last five years and you have a lot of data on it, you would be happy not sending a valuer to that security and going with RP Data," she said.

"Who knows whether that's better or worse than a formal valuation from a valuer. It is based on comparable sales, a property estimate and uses statistics to derive the estimate instead of using the judgment of a valuer."

It remains to be seen whether technology will soon start making inroads on the real estate agents' turf – particularly after a quiet victory last month which involved the Australian Competition and Consumer Commission, the nation's biggest real estate website realestate.com.au, and a handful of companies that help home owners sell without the usual services offered by a real estate agent.

"Agent-assisted" companies like BuyMyplace and PropertyNow offer home owners a range of services designed to help them sell their house at a fraction of the cost of going with a real estate agent. While the offerings differ between companies, owners are typically given a sign board, an advertising campaign, advice on the value of their property, conveyancing services and sometimes help negotiating a sale price. The company's input takes place by phone from an office that could cover the whole country, rather than the real estate agent who only works a few suburbs, and is heavily reliant on electronic market information. The owner does the labour-intensive bits like showing customers through the house.

They occupy a very small market share but the mere mentioning of agent-assisted companies makes many real estate agents bristle. Indeed it was pressure from realestate.com.au's biggest real estate clients that played a major part in keeping these companies off the nation's most widely read real estate advertising platform. Until last month.

It all happened quietly but a group lead by PropertyNow owner Andrew Blachut had for years been complaining to the ACCC, and this year he claims his voice was heard. Last month, a group of agent-assisted companies received a letter from Greg Ellis, CEO of REA Group which owns realestate.com.au, saying rules that had locked them out of the site for five years would no longer apply, as they were "out of step with the market and industry regulatory practices."

It remains to be seen whether access to realestate.com.au will increase their appeal given they have had access to market number-two domain.com.au all along. But there is little doubt they will benefit more than real estate agents from the availability of electronic house valuations direct to consumers, together with a growing range of free property advisory services that equip home owners with more market knowledge than ever before.

A more likely inroad into real estate agents' profits could be a company like US-based Redfin, an online marketing portal which employs a team of salespeople who make direct contact with consumers to sell ads – a move recently made by realestate.com.au. The difference with Redfin is that its reps show potential buyers through properties and, if they can close the deal, take home part of the real estate agent's commission.

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> Enzo Raimondo, REIV (above)

It's an intensely controversial idea now being passed around among Australian real estate agents – an industry also in turmoil as a weak housing market forces thousands of real estate agents out of work. They already hand over money to realestate.com.au to obtain "leads" the company has gathered offering free home valuations to consumers.

Ellis was keen to hose down these suggestions when questioned about it by *The Australian Financial Review* last month.

"REA knows its business and our business is an advertising business," Ellis said. "REA will never take a dollar from the commission of selling and listing property,that is

Perspective


Photo Paul Jones

the exclusive domain of the real estate agents."

That is probably true, but these fears are driving nothing short of a national protest movement to wrestle market information back under agent control.

Real estate agents have been entering the prices homes were sold for, including confidential sales, into online management systems that feed the information to companies including Fairfax (owners of domain.com.au), REA, RP Data and others. This information is valuable for its immediacy, compared with government sales data which arrives after about three months, and is a crucial ingredient to electronic valuations. Now they are turning off the tap.

Major franchises including Professionals, RE/MAX and First National are entering a zero sales price into the system, and the four biggest franchise groups LJ Hooker, Ray White, Raine & Horne and Century21 have been holding talks about doing the same.

The movement has more momentum in Victoria, where a group of the state's biggest real estate networks are holding weekly meetings at the offices of the Real Estate Institute of Victoria, where they are discussing feeding all of their listings and sales information exclusively onto industry-owned portal realestateview.com.au.

In documents obtained from one of those meetings, an "objectives" section states "we are the central player (the 'go to' people) in the transaction because we control content". It states, "Ownership structure needs an industry wide 'buy in'" and lists arguments that can be made to get the industry on side as "fear factor" and "benefits of ownership".

REIV CEO Enzo Raimondo says he doesn't attend the meetings or know what they talk about, real estate agents can book rooms in the building. If he were there, as CEO of realestateview.com.au, there could be a commercial conflict of interest. But he said there is a national push for real estate agents to take back control over their market information – especially when it is being used by third parties to make inroads on their turf.

"There's definitely a groundswell from agents right around Australia," Raimondo says. "They have had enough of what is happening and are concerned about the gradual disintermediation of their role with this information going to other people. The strategy is to make websites the experts whereas agents are the local experts."

Fairfax Media, publisher of the *Australian Financial Review*, also collects agents' sold price information which it collates through Domain and subsidiary Australian Property Monitors and provides back to its real estate agent customers. Nic Cola, CEO of marketplaces for Fairfax Media, said he had no plans to actively seek direct contact with house sellers.

"We're here to help our agents sell products more effectively to vendors," Mr Cola said. "In our advertising we do target vendors and consumers but at the end of the day we believe it's important for the agents to have that relationship – everything from right up front setting price expectations, to managing the sales process."

He said he had not seen any cut-back to the data fed by agents into its systems.

However, for years APM has struggled to match the REIV's auction clearance rate statistics in Victoria because many Victorian agents send their data exclusively to the REIV.

Others like Tom White, CEO of pricefinder.com.au and part of the extended Ray White real estate family, keep their information exclusively for industry use. He believes there will always be a place for the agent.

"In terms of a real estate transaction it is one of the biggest decisions a person would make financially in their life, and to not have an expert involved is a highly risky activity. Technology will not replace the agent, but will always be there to serve as a tool."

And the price dropped immediately ... Myer boss Bernie Brooks, left, Jennifer Hawkins and chairman Howard McDonald at the ASX launch of the company's shares in 2009. Photo John Woudstra

So much for that good old inside run into an IPO

Stockbrokers say if you ban commissions on initial public offerings it will be the end of capital raisings as we know them.

Matthew Drummond

It was a glamorous affair – which cost a lot of people a lot of money.

The 2009 float of department store chain Myer was billed as the corporate event of the year. Model Jennifer Hawkins dazzled on the cover of the prospectus. The revenue figures inside looked rosy.

Retail investors, "mums and dads", signed up for about half the company's shares in the $2.2 billion initial public offering, and they have every reason to be unhappy. As soon as Myer Holdings hit the boards of the ASX, the shares plunged from the $4.10 offer price. Today Myer trades at about $2.60.

Better off are the stockbrokers who encouraged these investors to sign up. Six brokers that agreed to underwrite part of the float, a process called "going firm", earned commissions from Myer worth 1.35 per cent of every dollar of their clients' money they could lay their hands on. Others earned commissions of 1 per cent.

How, it is now being asked, is such a practice any different from financial planners earning commissions for shovelling their hapless clients into risky managed investment schemes to grow almond plantations? Such commissions are about to banned – why should stockbrokers be treated any differently?

The question has got a lot of stockbrokers very concerned. At issue is the viability of many business models. Also at risk is the outlook for corporate floats.

As one top investment banker notes, corporate floats don't occur if there are too many risks and one way of reducing risks is to get commitment from retail brokers to go firm and pick up some of the stock. That system relies entirely on paying commissions.

"If [a commissions ban] affects the ability to pay broker firm fees, that's going to be a material change to the way we go about accessing retail demand and that could materially hurt our ability to do IPOs. That would be a massive change to the way the industry works," the banker says.

It is widely accepted that the system under which financial planners earned commissions from manufacturers of investment products had to change. Conflicts of interest were rife; investors were shoehorned into investments that gave handsome upfront and trailing commissions to their adviser, but proved to be duds for them. Under the Future of Financial Advice reforms (FOFA), financial planning commissions will be banned from 2013.

As consultation on the FOFA

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>
> Aaron Constantine, Patersons Securities

changes comes to an end, a penny has just dropped among stockbrokers. The fees they earn when signing up their retail clients to capital raisings by listed companies look very similar to financial planners' commissions. Some brokers earn as much as a quarter of their revenue from such fees.

The question of whether brokers and financial planners ought to be treated the same way under FOFA turns on the answer to a simple question: when brokers have access to a float, are they likely to be tempted by commissions to convince as many of their clients as possible to sign up for stock? Or will they be directed by a desire to keep their client's long-term interests at heart, forgoing short-term personal gain, and have clients who are likely to return for more trades? In effect, can brokers be trusted to always put their clients' interests first?

Aaron Constantine is the head of corporate finance at Patersons Securities, a Perth-headquartered broker which specialises in mining floats. Constantine tells his corporate clients he's done more capital raisings than anyone else in Australia. In his view brokers are a filter against bad investments.

"Dealers [brokers] don't make short-term decisions for a bit of commission lightly. If they don't make clients money, the client doesn't hang around," he says.

When it's put to him that financial planners feel they treat their clients the same way, Constantine lets out a snort.

"Yeah, when they're getting 10 per cent [commission] for selling some illiquid tree product."

It's a point that underlines what brokers think is their trump card for exclusion from the commissions ban in FOFA: they are better trained than financial planners and the investments they sell, equities in public companies, are less risky.

The point doesn't wash with Mark Rantall, who runs the Financial Planning Association. He argues it is erroneous to think that brokers sell stocks and financial planners sell something else.

"There are financial planners who have a securities licence and who buy and sell securities, generally through stockbroking houses. There are stockbroking houses who provide financial planning advice as well, who advise on managed funds, who provide more holistic advice," he says.

Rantall opposes any sort of carve-out for stockbrokers, partly because there ought to be a level playing field. "If we're going to have legislation it's going to be extraordinarily difficult to carve out any particular subgroup who provide general or specific personal advice to retail clients." In effect, a commission is a commission is a commission, he says. All need to be banned together.

The legislation to enact FOFA is due to be released in the next few weeks; some last-minute and frantic lobbying is about to get under way.

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