

Residential Real Estate Brokerage Competition Workshop – Comments of Realogy Holdings Corp.

Realogy welcomes the opportunity to participate in the Department of Justice/Federal Trade Commission workshop on competition in residential real estate. We are pleased to assist the agencies in better understanding these issues. We believe the workshop will highlight the robust competition that exists in the residential real estate industry, as well as the many benefits that competition creates for consumers, who have more choice than ever. Due to these considerable and increasing market forces, consumers also have more access to information than they ever had, leading to the prospect of greater consumer satisfaction. Many of today's buyers are accustomed to using technology and expect immediate access to information, whether that be information about properties, agents who might assist them, or lenders and other professionals who might help them with the transaction. Successful market participants have been investing heavily to accommodate that desire for immediacy and greater information. Successful participants have also been offering new paradigms for fees and services that address consumers' varying priorities. We look forward to joining the agencies in exploring these important issues.

Realogy is a diverse multifaceted organization that participates in several parts of the industry:

- Through NRT, Realogy operates residential real estate brokerages with operations in more than 50 of the 100 largest metropolitan areas in the country;
- Realogy franchises our leading brands domestically and outside the U.S., under the Century 21[®], Coldwell Banker[®], Sotheby's International Realty[®], ERA[®] and Better Homes and Gardens Real Estate[®] brands;
- Cartus, our relocation services division, assists companies and their employees across the globe; and
- Realogy's Title Resource Group provides title and settlement services to customers and real estate companies.

Residential real estate brokerage today is a robustly competitive multi-dimensional industry with numerous interdependent stakeholders. While transaction growth has been moderate due to a variety of factors including inventory constraints and other factors, the leading sources for industry forecasts anticipate stronger growth in the future because of growing household formation and greater millennial participation. This potential for growth, coupled with the potential for alternative models for the home-sale process, have attracted significant new entrants, some of whom are better capitalized than some incumbents.

The market is characterized by vigorous price and non-price competition at all levels, with franchisors, brokers, agents, and listing platforms all competing to serve the same home buyers and sellers. Industry participants must focus on offering high quality service at the most competitive terms. To compete successfully, they must constantly innovate to offer better services, lower prices or both. Indeed, the industry has in recent years seen the emergence and growth of numerous innovations, including new ways of offering services to home buyers and sellers. Specifically, there has been widespread growth of new fee and service models, as well as a wide variety of technological innovation that has created new tools. This competition has served to enhance choices available to home buyers and sellers, resulted in lower costs in some instances, and higher quality service for consumers.

Successful real estate industry participants recognize that not every buyer and seller – nor every agent and broker – is best served by the traditional brokerage model, and changes over the last ten years abound. On the agent level, there are a variety of brokerage models that give today’s real estate agent more choice than ever. These include traditional, capped fee, desk fee, transaction fee, employee and virtual brokerage, and each allows the agent to determine which economics and how much support will work best for that agent’s business. Realogy places no limits on how its franchisees can structure the fees they charge agents. As a result, there are various fee models within the Realogy system, often with entrepreneurial agents creating unique service and commission offerings to consumers.

On the consumer level, there are also a variety of models that offer consumers alternative pricing models directly from the broker. If a seller is willing to shoulder more of the work needed to sell the home in exchange for a lower fee, the seller might choose a discounted commission with a consumer rebate model or a la carte services from brokers like Redfin, REX, and some Realogy franchisees. There are flat fee models like Purple Bricks and Reali, where the seller pays a set fee regardless of whether the property sells. In addition, there are completely new models such as iBuying where much of the cost and risks of the normal process are eliminated for the homeowner; the iBuying firm simply purchases the home at a discount, and then makes the necessary repairs and upgrades, then remarkets the property for sale. Firms like Opendoor and Zillow assume those burdens for the consumer, provide quick liquidity and dramatically streamline the process for home sellers who prioritize convenience and speed. Of course, the seller can also sell without an agent in any capacity, and websites like FSBO.com and Zillow.com facilitate those types of transactions (offering the opportunity to retain an agent through the site for around a 2% commission if needed). These alternative models (some of which depend heavily on technology-generated efficiencies) expanded rapidly over the last several years (often enabled by unprecedented venture capital funding), and enable sellers to shop unlimited agents and brokers. Buyers too have choices in that they can use multiple agents – or can utilize no agent at all.

For most of these business models, the agent continues to play an important role and provides many benefits to consumers who choose to engage an agent. For many consumers, buying or selling a home is the most financially significant and complex transaction they will engage in during their lifetimes. Because of that reality, agents act as a trusted advisor to consumers, providing extensive experience and insights for this once or twice in a lifetime transaction. In addition, homes are hardly commodities – each is unique and has tradeoffs that a buyer must weigh in the process. Agents are helpful to buyers in assessing the relative benefits of differing properties. And perhaps most importantly, agents help buyers to negotiate the best price. For sellers, agents are critical in navigating the complexities of positioning a home for sale and achieving the best outcome, which usually is a seller’s desire to get the highest price for their home in the shortest timeframe. Aside from helping buyers and sellers achieve optimal pricing, some of the other benefits of engaging an agent include:

- Educating consumers about neighborhoods and regions and how attributes of neighborhoods and regions can affect valuations
- Educating consumers on the impact of buyer financing and appraisals on certainty of sale
- Educating consumers on home warranty benefits, features, functions, and costs
- Providing buyers guidance and insights regarding the information sourced online

- Advising on repairs to be made prior to listing
- Advising on the issues identified in the home inspection
- Social media promotion and marketing
- Professional photography (often paid for by the broker/agent)
- Developing drawn or recorded floor plans (sometimes with 3-D imaging and tours)
- Staging (inside and out)
- Developing strategies for marketing to targeted out-of-market buyers
- Meeting at the home with landscapers, cleaners, photographers, repair professionals, etc.
- Being present for showings (in some cases) and hosting open houses

The role technology plays for the residential real estate consumer has evolved significantly over the last ten years as well. First, technology has allowed for listing information to be distributed widely and to be freely accessible to consumers. The typical listing a decade ago had a few basic photos, while today's listing requires a far greater number of photos, usually of much higher quality, among other improvements. Realogy and its competitors place their property listings on hundreds of real estate websites and operate a variety of their own websites. In 2017, we estimated that the Realogy brand sites had more than 200 million total views, indicating a broad consumer reach. Nearly all of Realogy's brand websites include IDX listings which represent all listings in markets that the brands serve, thereby empowering the consumer to see all inventory in those service markets.

Multiple Listing Services (MLSs) play various roles from the perspective of facilitating both listing distribution, compilation of listing information and establishing brokerage rights. The MLS is responsible for the cooperative broker arrangements, which create the basic working understanding of what happens when agents show each other's properties including commission sharing arrangements, and provide a forum for brokers and agents to resolve commission disputes. Similarly, MLSs have created a forum for consumers to assert and redress complaints they might have. Moreover, the MLSs have developed the architecture that creates the common database that provides consistent, quality listings, and they establish the essential rules of fair play like requiring brokers and agents to share listings on the MLS within 24 hours. MLSs today distribute information widely via aggregating platforms and other information sources, and in certain markets, such as Houston, consumers will go directly to the MLS site to search. Consumers can now access information such as tax assessments, permits for prior additions and improvements, property history, prior sale price, square footage, schools, price per square foot and more, which receive this information because it is provided by the listing agent on the MLS. Aside from the technology embedded in improved website experiences, consumers are beginning to take advantage of 3D and virtual reality technology to facilitate their real estate search. Some additional technological developments include:

- Access to full motion videos and virtual reality tours that allow house hunters to explore listings in remote locations;
- Mobile applications that allow consumers to look up properties real time;

- Mobile applications like those developed on Realogy’s Zap platform or Zillow’s Smarter Agent, which improve the consumer experience by empowering agents to access contact information and consumer preferences;
- Applications that provide analytics to agents and consumers to educate them on trends in home prices and comparable sales; and
- Predictive customer relationship management (CRM) tools that help enable agents and brokers to distinguish between consumers in the early stages of the search and those well into their property search.

The sheer number of technology offerings designed to help brokers and agents identify, market to and communicate with consumers is indicative of the steep competition for their business and the power consumers have in relation to the industry.

State licensing and regulation play an important role as well. They define the supervisory obligations of brokers, and require brokers and agents to understand and meet disclosure obligations and other requirements. The intent is to protect consumers by making them better informed. Specifically, licensing rules create direct duties to home buyers and sellers, in some cases creating fiduciary duties. These duties are critical given a home sale is the largest transaction and asset for many consumers. Today there are opportunities to improve the use of technology and bring consistency among the states, such as: modernizing the real estate learning and renewal process by allowing more processes to occur online and removing state impediments to the use of electronic signatures or e-notaries. Such changes could reduce unnecessary costs caused by regulation. States, however, should avoid price regulation, such as barring agents from offering consumers rebates on their transaction costs including commission.

There can be no dispute that technology has greatly improved the consumer’s options, access to data and user experience, but one factor that raises relatively new issues is how to protect consumer information and privacy as more and more information is aggregated. The consumer’s transaction information alone (or in combination with other information) can be used for a purpose never intended by the buyer or seller, and exposes them to fraud and other cyber risks. For example, wire fraud and identity theft are very serious issues today for consumers and participants in the industry. Additionally, privacy and security questions exist relating to the persistence of information about consumers’ homes when those homes are not on the market for sale. Furthermore, artificial intelligence and machine learning create potential risks to consumer privacy for any industry that utilizes such technology in its offerings, including real estate.

Technology has enabled more efficient marketing of listings, but it has not necessarily driven down the costs that go into the process, which may have shifted or increased. From the seller’s perspective, it costs more to prepare a listing because how a listing appears online is increasingly important to the real estate sale. A listing today requires more and better photography, as well as the work leading up to the photography, such as staging. Whether a buyer will even look at a seller’s property is dependent on the many technologies available to enhance listings such as high quality pictures, drones, 3D imaging, mashups (e.g., listing photos superimposed on a neighborhood map) and more. Although buyers benefit

greatly from these enhanced services and competition to get their business, these are all costly, frequently paid for by brokers and agents, and require new specialized expertise.

Beyond the cost of generating the listings, advertising costs on platforms have grown considerably for agents over the last decade. Technological advances and consolidation have also enabled aggregating platforms like Zillow, Realtor.com and Homes.com to achieve enormous scale and viewership, and to become primary sources for consumer information. Prices have not only risen significantly, but there are new costs as well. Listing agents now pay the aggregating platforms to appear next to a listing (and the platforms often auction exposure to the highest bidder) in contrast to the past practice of showing the listing agent. For example, average aggregate spend on Zillow's Premier Agent advertising program has tripled over the last five years from \$3,000 to nearly \$9,000 per agent annually. While agents must incur these new costs up front, most only get paid when a transaction closes.

Listings are widely distributed today – on innumerable websites (agents, brokers, franchisors, MLSs, aggregating platforms), through social media, through yard signs, through URLs dedicated to particular listings, and through local media and agent advertising. Unless a consumer has expressly requested that a property be marketed informally (usually for personal privacy or security reasons), brokers and agents have every incentive to distribute listing information widely—it is the best way to market properties. Brokers and agents devote substantial time and resources to develop listings. The market will compel wide dissemination of that information.

Competition in the current market is reflected in many ways. Competition can be seen in the many new significant entrants such as Compass, Redfin, Opendoor (iBuying), Offerpad (iBuying), Home Story (linking consumers to agents via banking/mortgage relationship); Purple Bricks, and more, as well as the sheer number of brokers and agents competing to serve consumers. Competition is clearly affected and enhanced by the sizeable venture capital investments being made in companies across many aspects of real estate like Compass (\$808M), Opendoor (\$320M), Redfin (\$210M), PurpleBricks (\$278M), Offerpad (\$410M), BlendLab (mortgage technology to streamline workflows from application to closing)(\$160M), Matterport (3D virtual tours)(\$66M), HouseCanary (software and data analysis and AI for appraisals) (\$64M), SmartZip (CRM/predictive analytics)(\$31M), and Perch (iBuying) (\$30M), among others. Competition can also be seen in agent entry and movement, the many agent fee models available today, and intense agent recruiting by brokers such as Realogy and its franchisees. Competition is also indicated by the large number of acquisitions made by brokers like Berkshire Hathaway Home Services, Compass, Howard Hanna and Pacific Union. This is not a stagnant, rigid environment that is limited to the incumbent players.

The residential real estate market has made enormous advances and there is every reason to believe that change is accelerating through increasingly rapid innovation of existing firms as well as through the new entrants and the capital they bring. Consumers have more access to information and more choice than they ever have. Technology has created, facilitated or enhanced consumer access and choice. Industry participants, both the many new entrants as well as the incumbents, are investing substantial time and costs in trying to match buyers and sellers who then successfully close a transaction. Robust

competitive forces are at work and the market should be allowed to develop and evolve through normal forces.

Realty looks forward to working with the agencies to increase their knowledge of the real estate markets as they exist today and exploring how they might evolve in the future.