



Are there ethical real estate alternatives?

Posted on: 09/05/2019

Winter still coming for real estate agents despite Purplebricks departure

GUEST OBSERVATION Evan Thornley

EVAN THORNLEY is the co-founder, investor and executive chair of new style agency LongView.

The real estate agents of the land will be toasting the departure of upstart disruptor Purplebricks who are packing up and going home to Britain. Crisis over. No more nasty TV commercials playing to a nations' already healthy distrust of traditional agents.

But it's not that simple. Real estate agents still rank 27 out of 30 professions in terms of respect and reputation - below politicians and just above car sellers.

Purplebricks lost because they were even worse. They correctly targeted the problem - agents who will do anything to get you to sell your house so they can clip the ticket with fat commissions. A system which inherently misaligns incentives between provider and customer. Have you noticed now is always a "great time to sell" regardless of whether the market is going up, down or sideways? Yes, because it's always a great time for an agent to trouser a healthy commission. Hence why the profession is held in such low esteem by its customers.

Purplebricks was a "disruptor" to use the favourite word from my second home, Silicon Valley. And they correctly belled the cat on the problem with the status quo. But their problem is they replaced it with something worse. You paid them whether or not they successfully sold your house. Now a problem that plagues the industry at the best of times - agents "buying your business" by giving you an inflated idea of what your house will sell for - had no constraints to hold it back. At least a traditional agent has to do what the industry euphemistically calls "vendor management" - talking you back down to the price it will actually sell at or they won't get paid on commission. Purplebricks didn't even need to do that - if your property didn't sell at the (inflated) price they told you it would, they were paid anyway. All care but no responsibility. Indeed, a total lack of responsibility.

Too little too late they changed and near doubled their fee to include a second half that only got paid if you sold. And then they too got in the business of "vendor management" - indeed they had competitions internally to see who could talk their clients down by the largest discount to the original asking price. It wasn't a good look when that became public!

So, I expect we'll see a series of triumphant "I told you so" pieces in the real estate industry press celebrating the departure of the young bull and triumph of the old ones.

My counsel, having seen this movie in countless other industries over the last 30 years? Don't celebrate too hard folks, the voting public still has a huge problem with the real estate industry - its incentives and its ethics. Winter is still coming. Just not quite yet. Not that the current market slowdown hasn't been hard enough for a commission driven industry.

Amazon was not the first online retailer. Google was not the first search engine. Tesla was not the first electric car. The change will come, but not, as always, without some false starts. No less an authority than Macquarie Bank - who banks more than half the industry - have told them so at a major conference late last year. Data and digital disruption will come, margins will compress, customers will demand transparency. It's only a question of when and how those realities come to pass.

And if it's true in real estate sales, all the more so in the poor cousin of the industry - rental property management. The quiet achiever of the real estate industry has been treated as a cash cow by the sales agents who own the agencies for decades now. It's the only thing that is keeping many agencies alive in the current downswing.

But the incentives here are also misaligned. If the agent tells an owner they will get an (inflated) rental price for their property in order to secure the business, who pays for the error? The owner - with an empty unlet property until they are also "managed" back to a realistic price. If the agent doesn't stay on top of their brief and collect the rent from a recalcitrant tenant, who hurts from the error? Not the agent again - the owner.

The message from Purplebricks is clear - the status quo is not OK - the customers are not happy - and just because one "disruptor" with an even more mis-aligned business model than the old guard failed, do not assume winter isn't coming. It will. The good agents know this and are working on how they can build a sustainable model that is aligned with the interests of their clients. Those who don't adapt will die. I just can't tell you when yet.

That's why some more innovative new participants in the industry are starting to do things differently by genuinely putting owners first, offering guarantees that if agents don't quickly find a new tenant or collect the rent on time, then the agent, not the owner bears the cost.

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