

Information Technology Accelerates Structural Changes in the Real Estate Agent Industry

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Introduction

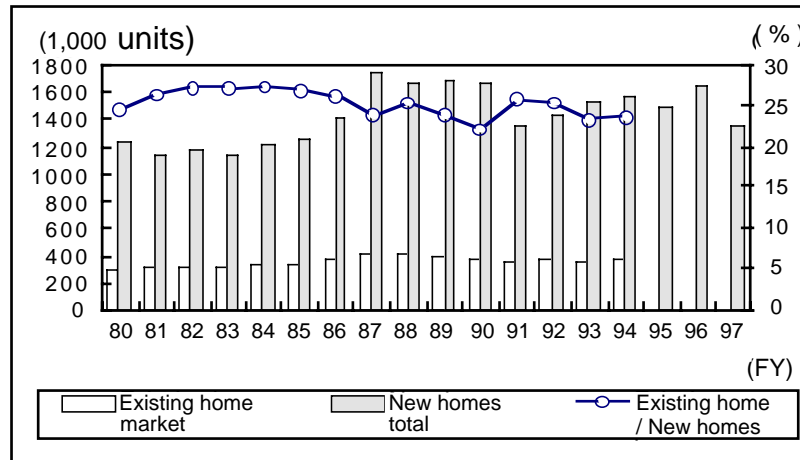
To improve the transparency of transactions and stimulate business, the real estate industry recently introduced the Real Estate Information Network System (REINS), a system for exchanging residential property listing information among real estate agents. Fiscal 1997 saw important developments in information technology applications – in addition to enhancements to REINS, residential listing services were introduced on the Internet for consumers. This paper focuses on the current status and prospects of information technology use in the existing home market.

1. Slow Market Growth and Poor Transparency

(1) The Secondary Market's Persistent Slump

In contrast to the abundant statistics for tracking the new home market, data on the existing home market is sketchy. In 1994, the last year statistics were compiled by the Ministry of Construction, sales in the existing home market amounted to approximately 370,000 units. Indications are that growth has remained elusive since then. As a result, Japan's existing home market remains underdeveloped compared to other countries.

Figure 1 Sales of Existing Homes



Source: MOC, *Renovation Vision for the Real Estate Industry*.

Table 1 International Comparison of Existing Home Markets

	(A) Existing home sales (units)	(B) Housing starts (units)	(A) / (B)
U.S. (1996)	4.09 mil.	1.48 mil.	277
U.K. (1996)	1.12 mil.	0.17 mil.	644
Japan (1994)	0.37 mil.	1.56 mil.	24

Notes: For Japan's existing home sales, the MOC statistic is shown. MACA reports existing home sales of 170,000 units (acquires by homeowners in 1993).
 Source: Housing Loan Promotion Association, Overseas Housing DATA-NOW.

Meanwhile, latent demand in the secondary market has steadily grown. First, the housing stock is growing as more freestanding homes and condominiums are built to last longer. Second, there is a growing mismatch between available housing and the lifestyle needs of residents. Against the backdrop of rapid aging, the declining number of children, and changing consumer awareness toward living conditions, more people are finding their present homes incompatible with their life stage or lifestyle.

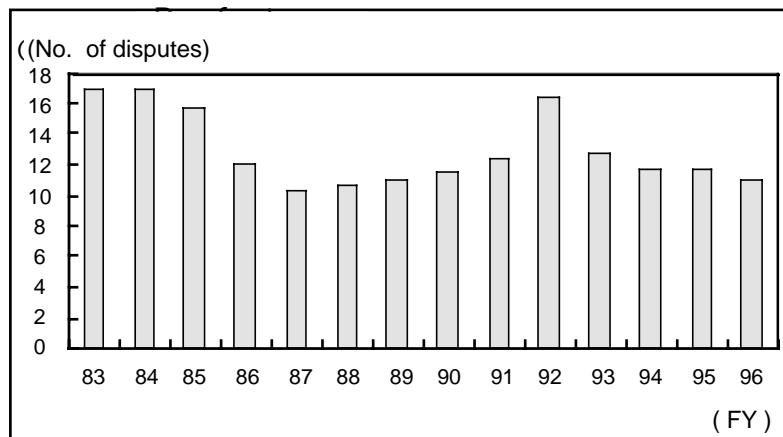
Nonetheless, the market has remained sluggish for many reasons, including the bias toward land value over building value perpetuated by both consumers and the real estate industry, the bias toward new construction in tax rules and among lenders, and the scarcity of sellers due to falling prices. This paper looks at how consumer demand has been impeded by the real estate market's non-transparent business practices, lack of openness, and slow pace of modernization.

(2) Persistent Lack of Transparency and Openness

The existing home market's lack of transparency and openness are difficult to correct precisely because these characteristics are deeply rooted in the industry, the market, and business practices.

First, the real estate industry has been slow to modernize. There are approximately 140,000 licenced real estate agencies, many of which are small. Many also operate other lines of business, and low barriers to entry encourage a steady turnover. As a result, the accumulation of expertise is low and management tends to shun progress. Moreover, while consumer disputes have declined from previous high levels, further progress in this area has not been achieved.

Figure 2 Number of Disputes Reported to MOC and Prefectures



Source: MOC

Second, the market is highly localized and geographically segmented. In particular, cost constraints limit advertising activities to the agent's office premises and, for example, newspaper inserts in the vicinity.

Third, business practices allow agents acting as intermediaries to collect commissions from both buyers and sellers (up to 3 percent of the transaction price plus 60,000 yen). The possibility of collecting commissions twice from a single transaction encourages agents to represent both sides of the transaction. Thus agents prefer to closely guard their listings rather than make them widely available. When they do share listings with other agents, the common business practice is to do so among a closed circle of fellow agents.

2. Improvements to REINS

REINS was developed to overcome this closed by system to exchange listings data among agents.

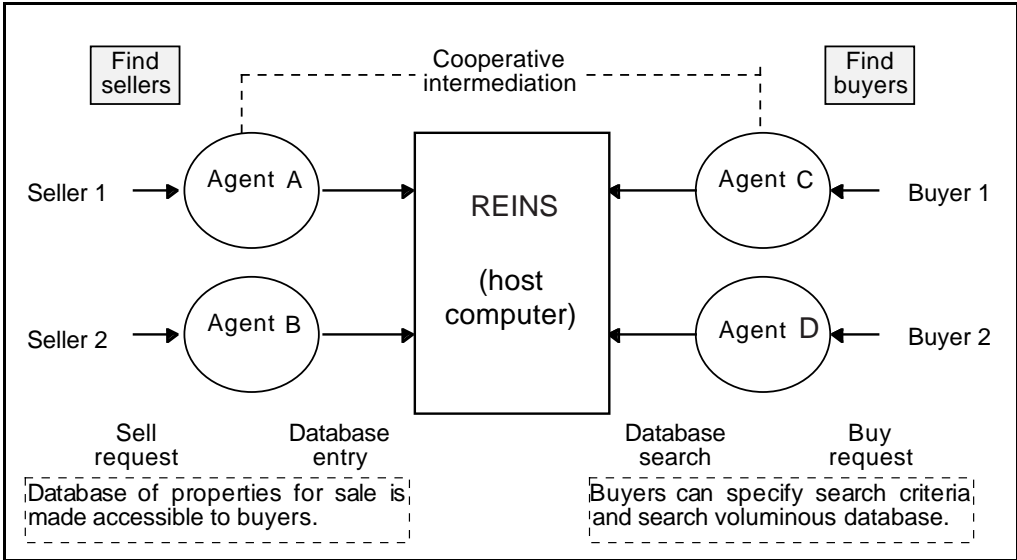
(1) Enhancement of REINS

REINS has played a central role in introducing information technology to make transactions more transparent and modernize the industry.

The system of Designated Real Estate Distribution Organizations was created in May 1990 under the guidance of the Ministry of Construction. Under this system, members are required to register (post) certain types of listings to make them widely available to other real estate agents. The computer network system established for this purpose is called REINS.

Enhancements were made to the system in April 1997. To increase the number of transactions conducted through the system, registration became required for exclusive listings in addition to semi-exclusive listings.¹ The system was also elevated to the status of a for-profit public corporation, and the 37 nationwide organizations were consolidated into four corporations to clarify their legal status and broaden the geographic boundaries of information exchange.

Figure 3 The Real Estate Information Network System (REINS)



Source: MOC, *Construction White Paper* (FY1998).

(2) Growing Acceptance of REINS

REINS is in the process of becoming integral to the business infrastructure of real estate agents for the exchange of listings. Approximately 600,000 new listings are registered each year, with 80,000 completed contracts reported.

Use of the system continues to grow. While only about 10 percent of members can access the database via personal computer, this proportion continues to grow each year, as does the number of computer searches.

Table 2 Usage of the Real Estate Information Network

	Membership (A) 1,000			Proportion of members w/ PC access B/A (%)	No. of registered properties for sale	Reported no. of completed transactions	Average no. of accesses per month (1,000)
		Members w/ fax access	Members w/ PC access (B)				
May 90	70	68	2	2.2	—	—	—
Mar 91	82	79	3	4.0	317	38	79
Mar 92	88	83	4	4.8	487	63	195
Mar 93	91	85	5	5.9	460	69	306
Mar 94	92	85	7	7.3	484	82	435
Mar 95	93	85	8	8.5	583	84	564
Mar 96	96	87	9	9.6	591	88	701
Mar 97	99	87	12	12.1	560	84	845
Mar 98	139	124	15	11.1	588	78	926

Source: Real Estate Transaction Modernization Center Foundation, *Usage Status of the Real Estate Information Network*.

(3) Friction from REINS

As REINS spreads and cooperative intermediation becomes increasingly common, friction is emerging between large and smaller operators.

Wary of inroads by large agencies, smaller agencies still strongly tend to shun the registration of listings. And while some large agencies voluntarily register ordinary listings, they at the same time shun smaller agencies when approached. There is thus a strong tendency to avoid cooperative intermediation.

In the backdrop is a problem that has existed since REINS was created – the contradiction between the guiding concept and actual practice. The guiding concept of REINS is that of coop-

erative intermediation, wherein agents cooperate in accomplishing transactions. Business transactions, on the other hand, have traditionally been conducted by a single intermediary, or in some cases in association with close allies. Given the fierce competition between large and small agencies, this contradiction inevitably emerges when listings are matched. Since cooperating with another agent reduces one's commission by half, resolving the friction stemming from this contradiction remains a difficult issue.

Table 3 Comparison of Intended and Actual Use of REINS

Category	Intended use	Actual use
Type of transaction	Cooperative intermediation (different agents deal with buyer and seller)	Non-cooperative intermediation (same agent deals with both buyer and seller)
Participants in information exchange	Unlimited	Limited to closed circle of business associates.
Area coverage	Wide area	Local area
Operating principles	For agents to deal separately with buyers and sellers; to increase transparency through cooperative transactions; and to maximize benefits to customers.	Agents seek to maximize profit by performing both roles alone.

Source: NLI Research Institute.

3. Internet Listing Services

(1) New Internet Listing Services

Meanwhile, progress has been rapid in advertising listings on the Internet. Much more than the electronic counterparts of paper advertising, these services offer search functions at which the Internet excels. In response to forays by Recruit and other information service providers, several competing services were launched in fiscal 1997 by real estate industry associations. One of the leading services is "Home Navi," started in April 1997 by the Fudosan Ryutsu Keiei Kyokai (FRK), an industry association. Listings were first limited to the Tokyo area, but soon extended to the Kinki region (western Japan) in August, and to other areas by March 1998.

Results have been promising. The FRK service, which started with 52 member companies and almost 9,000 listings, grew to 75 companies and 24,500 listings by June 1998. The number of accesses has grown to an average of 8,000 per day, while 3,000 listings have been introduced by email (April 1997 to June 1998), and over 150 contracts have been completed. While still few in

number, contracts completed through the Internet are characterized by their breadth of geographic area, speed to completion, and high cost-effectiveness compared to their conventional counterparts. For these reasons, the industry is awakening to the potential of the Internet.

Table 4 Status of FRK “Home Navi” System

		April 97 (start)	End of Jan 98	End of Jun 98
Existing homes	No. of companies	52	74	75
	No. of listings	8,696	23,401	24,500
New homes	No. of companies	–	8	10
	No. of listings	–	253	340
	Average daily accesses	–	5,500	8,000

Source: Fudosan Ryutsu Keiei Kyokai (FRK)

(2) Prospects for Internet Listings

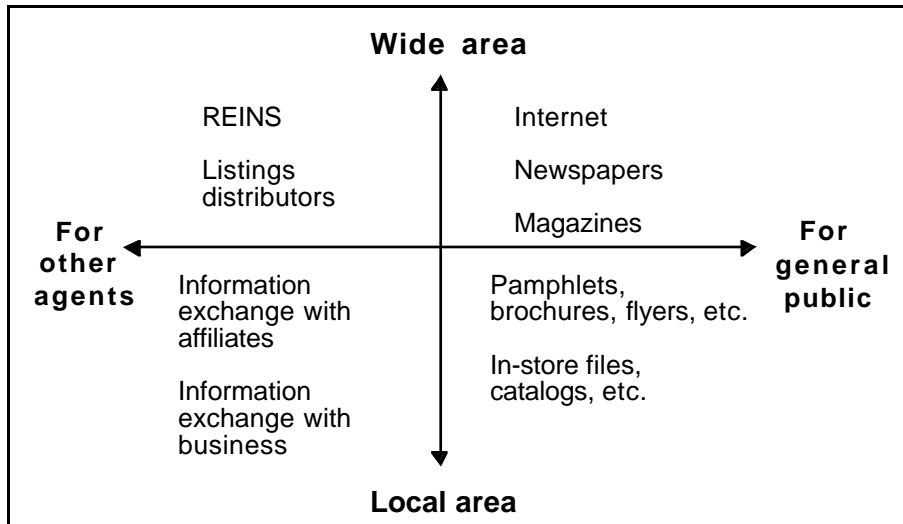
Interest is rapidly growing in Internet listing services as a new medium for advertising and business. Today, the Internet is perceived as merely another advertising medium, albeit one characterized by a wide area advertising and aimed at end users. However, it promises to become as important a medium as REINS, newspaper inserts, listing distributors, and magazines for listings.

First, the Internet provides a far more convenient way for end users to search for listings than paper media. Powerful search functions allow listings to be identified by location (train line and train station), price, and other conditions. The Internet allows for ease of access from anywhere and at anytime. Moreover, the information can be in text, image, video or audio format.

Second, agents can conduct business more efficiently because Internet advertising has wide area coverage and is interactive. Since cost constraints limit the area coverage of conventional media, these aspects of Internet advertising have important implications. Moreover, the interactive aspect of email makes the medium an efficient one for finding buyers. In the process of responding properly to end users, agents can boost their business results.

Third, considering that both end users and agents benefit from Internet searches, this use is expected to grow rapidly. A study by the Ministry of Posts and Telecommunications finds that approximately 6 percent of households have Internet access today, and predicts that by 2000 the diffusion rate will almost reach 50 percent.

Figure 5 The Internet and Real Estate Advertising



Source: NLI Research Institute

4. Information Technology and the Changing Competitive Structure

REINS and Home Navi (and other Internet listing services) have essential differences in purpose and characteristics. REINS was formed by government initiative, entails requirements stipulated under the Building Lots and Buildings Transaction Business Law, and aims to promote information technology within the industry. On the other hand, Home Navi is a private sector initiative wherein members post listings voluntarily, and is designed to be accessed by end users. However, both types of systems share the use of information technology to widen access to listings and thereby stimulate the secondary market.

(1) Change in Role of Operators and Industry Structure

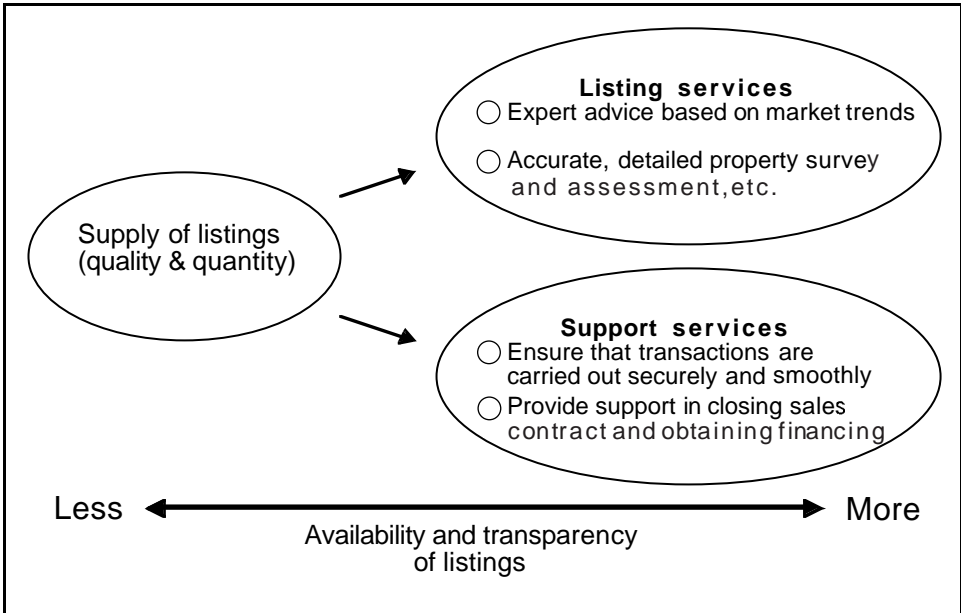
By expanding access to real estate listings, both REINS and Internet services are predicted to accelerate change in the role of real estate agents as well as the industry structure.

First, the role of agents is predicted to shift from simply providing listings information to providing broader information services and facilitating services. Since increased access by users to listings data will reduce the value of this information, agents will need to offer consulting and other information services to remain competitive. Their primary source of income will shift from providing listings data to offering a range of specialized services including consulting on

all residential matters, property assessment, and so forth. In addition, they will also need to provide support services to facilitate smooth and secure transactions. This support includes the ability to complete sales contracts, make financing arrangements, and deliver the deposit money.

Second, as the role of agents changes, competition is expected to accelerate consolidation within the industry. In an era when listings data was valuable in giving agents an edge, agents could find comfortable niches by closely guarding this information. But as all agents come to have access to the same widely accessible information, making the market more open and transparent, the key factors for survival will be specialization, the ability to provide support services, and brand image (reputation).

Figure 6 Changing Roles in the Real Estate Agent Industry



Source: NLI Research Institute

(2) REINS, the Internet, and Customer Satisfaction

As Internet listing services continue to grow, competition with REINS is expected to become an issue in the industry.

First, whereas REINS is intended to promote cooperative intermediation, Internet services are not only basically oriented toward single-intermediary transactions, but enable agents to efficiently represent both sides of a transaction via email. Since Internet access to information encourages this type of transaction, it is essentially incompatible with the guiding concept of REINS.

Second, there are redundancies in the operation of REINS and Internet services. For example, FRK, the association that runs Home Navi, also belongs to the organization that operates REINS. Thus cost considerations also call for a reevaluation.

However, in the near term both systems are expected to coexist as they continue to expand. In addition to differences in their respective roles and characteristics, there are also disparities at the industry organization and company levels in the status of personal computer and Internet use. These disparities create diverse interests which encourage the coexistence of systems.

For a long time, the real estate industry has put its vested interests ahead of customers. This has now been recognized as impeding the market's growth. To rejuvenate the market, the new listing systems must be oriented not toward protecting vested interests, but toward improving customer satisfaction (CS) and considering the customer's interest first.

Table 4 Comparison of REINS and Home Navi

	REINS	F R K "Home Navi"
Main features	<ul style="list-style-type: none"> <input type="radio"/> System is stipulated by law. <input type="radio"/> Infrastructure for exchange of listings information among agents 	<ul style="list-style-type: none"> <input type="radio"/> An advertising / business method used by agents <input type="radio"/> Listings are accessible on Internet
Purpose	<ul style="list-style-type: none"> <input type="radio"/> Requires registration and publication of listings to make transactions speedier and transparent. 	<ul style="list-style-type: none"> <input type="radio"/> To make advertising and business activities more efficient through use of new media.
Listings	<ul style="list-style-type: none"> <input type="radio"/> Posting is required by law for exclusive and semi-exclusive listings, but is voluntary for ordinary listings. 	<ul style="list-style-type: none"> <input type="radio"/> All listings are voluntarily posted regardless of type of contract.
User	<ul style="list-style-type: none"> <input type="radio"/> Real estate agent (end users have access through agent) 	<ul style="list-style-type: none"> <input type="radio"/> General public (end user has direct access to listings)
Type of transaction	<ul style="list-style-type: none"> <input type="radio"/> Cooperative intermediation between agents of buyer and seller. <input type="radio"/> Two-sided transaction: two agents participate in the transaction. 	<ul style="list-style-type: none"> <input type="radio"/> Solitary intermediation (agent introduces listings and conducts correspondence to end user via email) One-sided transaction: one agent conducts both sides of transaction.

Source: NLI Research Institute

In Conclusion

Despite signs of change such as the creation of carry overs for exemptions for transfer losses related to housing, the overall bias toward new construction continues to impede the development of the existing home market. Economic policies also favor new residential construction as having a more direct and effective economic impact over measures to stimulate the existing home market. However, we need to recognize that the existing home market is inextricably linked to the new home market, and the ease with which people can buy or sell an existing home actually promotes new residential investment. Major reforms are urgently needed to stimulate the existing home market, including reform of property taxes and the housing loan system, enhancement of property assessment system, and more. These reforms are as urgently needed as the enhancement of listing and support services to increase transparency and openness.

Note

1. Three categories of listings are recognized under law. In exclusive listings (*senzoku sennin baikai keiyaku*), an agent is contracted by a seller to be the exclusive selling agent. Semi-exclusive listings (*sennin baikai keiyaku*) also stipulate an exclusive selling agent, but allow the seller to solicit buyers directly. The third category, ordinary listings, (*ippan baikai keiyaku*), are completely open listings.