

IMPACT OF DIGITAL MARKETING AND E-COMMERCE ON THE REAL ESTATE INDUSTRY

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ABSTRACT

In this paper, we would explore how e-commerce, the World Wide Web in particular, is distressing the real estate industry. Real estate is a promising set upto study e-commerce because it is an information-intensive and information-driven industry. The transactions are based on high value and asset-specificity with many market-intermediaries like agents and brokers who connect buyers and sellers rather than buying or selling themselves and experiencing an on-going IT related changes. We analyze the real estate transaction to suggest where IT might change the process of selling or buying a house and discuss several current ventures in this area. This analysis suggests that the e-commerce is eroding the long-enjoyed information monopoly of real-estate agents and these applications have the potential to dramatically change the current practices in the real-estate industry, including the elimination of agents.

KEYWORDS: Property Hunt, Real Estate, Electronic Commerce, World Wide Web, Electronic Markets, E-Commerce

INTRODUCTION

In this project, we explore how e-commerce, is affecting the real estate industry. Real estate is a promising setup for studying e-commerce because it is an information-intensive and information driven industry; transaction-based, with high worth and asset-specificity; with many market-intermediaries (brokers and agents who connect sellers and buyers rather than buying or selling themselves); and experiencing an on-going information technology (IT) related changes. We analyse a real estate transaction to suggest where IT may change the process of buying and selling a house. This analysis suggests that e-commerce is eating-away the long-enjoyed information monopoly of real-estate agents and e-commerce applications have the potential to rigorously change current rehearses in the real-estate industry, including the disintegration of agents.

However, these agents and real-estate firms are market intermediaries connecting sellers and buyers but rarely buying or selling themselves. If the value added by the agents is only a source of information, their position is weak if sellers and buyers develop new ways to find one another. The way IT can be used to disintegrate the traditional broker and agent is of main interest here, as it possibly impend the traditional relationship between agents and home owner.

STEPS IN THE REAL ESTATE TRANSACTION PROCESS

Stage 1

Listing: First, potential sellers put houses on the market. The seller has to determine how to position the property (e.g., which features to emphasize or if some cares should be made), and how to value it. Some paperwork may be required (e.g., disclosing known defects in the property, major improvements). Houses are then advertised for sale (e.g., in the newspaper or with a sign on the lawn).

An important action in listing is entering the house in a database of houses for sale. Typically this database, called the Multiple Listing Service or MLS, is operated by the local real-estate agents' board, which includes all houses listed with all the real-estate agents in the area and can be searched by all the agents. MLS is still a principal of modern real estate, a storehouse of information giving real estate agents an advantage in locating desirable properties.

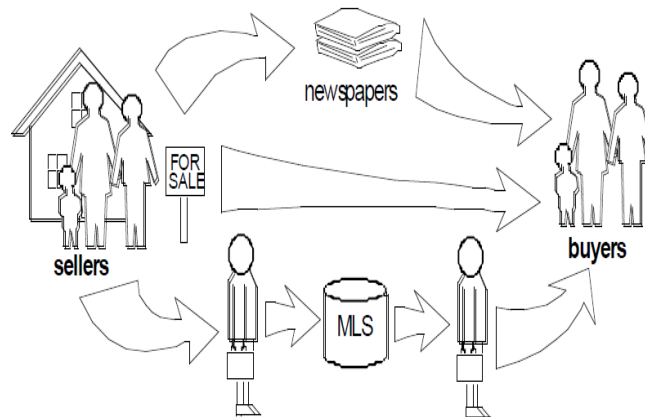


Figure 1

Stage 2

Searching: In the next stage, the potential buyers review the houses to find those that might be suitable (in location, size, price, features, etc.) for them. Information on available houses comes from many sources. Buyers look in newspaper ads or in the areas they are considering to locate the houses offered directly by the owner. Consecutively, a buyer may work with an agent who can help the buyers resolve what features are important or in which neighborhoods to look, and also provide information about houses listed in the MLS database.

Stage 3

Evaluation: In the third stage, the most favorable houses are evaluated further. Typically this evaluation is done in person during a walk-through or showing. The importance of this stage is a key difference between real estate and most of the goods previously studied in the electronic commerce literature. While buyers may feel comfortable buying a book or a music CD based on the title and review, not many would consider purchasing a house seeing only a short description, although some exceptions have been reported.

Stage 4

Negotiation: After a desired house is identified, the buyer makes an offer to purchase the house at some price, usually subject to a number of factors, such as getting financing, having the house inspected, etc. Often the agent advises the buyer on the price to offer or other points of negotiating strategy. The seller may receive some number of offers or make a counter-offer to the potential buyers (e.g., at a higher price); again, the agent will advise the seller on this process.

MODEL USE OF THE WEB TO SUPPORT THE REAL ESTATE

The growth of e-commerce has attracted unusual interest. Since Internet is a public network, and increasingly universal, it neatly addresses the problem of connectivity between the potential trading partners extending even to the

general consumer. Of actual interest for this research are the many Websites being developed to support various parts of the real estate sales process. In this section, we will discuss sites that support the different stages in a transaction.

Listing

These websites allow sellers to list their homes directly. Such services are directed to consumers trying to make an end-run around the MLS (Multiple Listing Service) cartel. Rather than paying a commission, sellers pay only for advertising or sometimes they are even free.

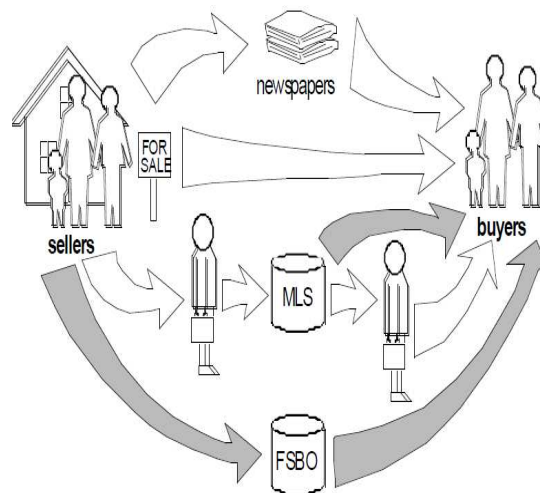


Figure 2: Using the Web to Bypass Real-Estate Agents

Searching

The Web can also be used to find possibly appropriate houses, the flip side of the listing services described above. Many sites allow prospective buyers to search MLS listings directly. Of course, to get listed in the MLS, the seller must duly sign a listing contract, so these sites offer little threat to the traditional roles of the agent. Indeed, the National Association of Realtors (NAR) sponsors the largest of these sites, Realtor.com (www.realtor.com). This site allows access to 1.2 million homes listed in various MLSs, with good searching and mapping tools.

Evaluation

As mentioned above, in-person evaluation of a house is usually necessary because houses are a unique and difficult-to-describe good. However, entrepreneurs have successfully devised ways to sell other unique goods over the net sight-unseen. Web sites such as Virtual Home Tours (www.hometours.com) offer additional information about houses, in form of a virtual walk-through. This feature provides a potential buyer a mini-tour of the house, featuring panoramic photographs of the neighborhood, the rooms, house, etc. The user can look a 360 degrees view, as well as zoom in or out on important features.

If such virtual walk-throughs replaced on-site showings, they would also break the monopoly agents have on access to MLS lock boxes containing house key. However, this monopoly may be eroding anyway due to the unbundling of services.

Negotiating

As mentioned above, many professionals are involved in the final details of a purchase. Agents increasingly coordinate a web of other service providers of value to their clients (e.g., building inspectors, lawyers, loan officers and appraisers) to assist transactions. Agents add value to their clients by assembling the necessary professionals and thus providing a one-stop shopping.

Closing Transaction

Currently, the legal system creates obstacles to electronic closings. A second obstacle to on-line transactions is the lack of norms, and of individuals with sufficient market power to create them. However, given the potential savings, it is merely a question of time before some non-bank lenders decide to close transactions themselves. Microsoft is interested in some aspects of the banking business given its marketing power and deep financial strengths, this firm might be able to offer closing services.

CONCLUSIONS

Real estate is information based business, and consequently, is deeply affected by information technology. The accelerating rate of change can be seen when studying firms in the area as well as the consumers it serves. The information technology revolution that is inescapably penetrating all sides of industry is propelling the real estate.

The technology enabling the accruing and conveying of information expands in efficiency, speed and boundary-spanning daily. This may throw entire industries into turmoil; some become redundant while completely new ones emerge. New approaches to work, information, knowledge, IT and organization structure are essential requisites to survive in this new environment. Current advances in computer technology, low-cost transmission of transactions easily crossing continents in seconds, as well as the growth of the World Wide Web have placed a lot of pressure on the real estate industry and challenge customary assumptions about real estate transactions. Due to the universality of the Internet, we anticipate an eroding power position of real estate professionals, as they adjust to the loss of exclusive access to the Multiple Listing Service. More steps within the value-chain of the real estate transaction process are being automated and, at least partially, disintegrated, suggesting the advent of an electronic market.

Future research may permit us to reveal how the influence, monopoly and role of the real estate professional in the transaction process changes.

These developments challenge the real estate establishment and may force real estate agents to look for ways to add value to the consumer. Information technology, in turn, may provide a means to make this possible. Would it be possible to develop information technology to serve as the one-stop shop and in a central role for all the real estate transactions? Will real-estate agents be able to seize the consumers first in the provision of a large number of central and related real estate services as a settlement services provider? With all these unknowns and more changes looming, unquestionably the real-estate agents and brokerage of the future must become responsive, flexible and information technology-savvy.

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