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(see page 69)



Kevin Lisota launched real estate brokerage Findwell, offering clients savings on the usual commission rates

CHANGE AGENTS

When some real estate start-ups entered the business, they set out to transform the industry via technology. Though agent compensation still divides them, the line between old school and new school is blurring. **BY DAN CATCHPOLE**

WITH A GENTLE FACE and self-deprecating sense of humor, Kevin Lisota doesn't look or act like a hard-driving entrepreneur. He fuels his days with Day-Glo green Mountain Dew rather than coffee, and often drives a similarly colored Mini Cooper emblazoned with his company's logo. But in 2007, Lisota left a lucrative career at Microsoft to pursue a new business venture with partner Shannon Ressler: He sank his savings into Seattle-based start-

up Findwell, a full-service real estate brokerage that aggressively uses information and communication technologies to help customers buy and sell homes, but charges half the standard market rate. Another Seattle real estate company, Redfin, had come into the market in 2004 with a similar idea. The company initially offered technology-based information, such as satellite photos of neighborhoods, to potential home buyers and

real estate agents, yet provided very little customer support. But over the past three years, it has become a full-service online brokerage and now focuses more on customer service. In February 2009, Redfin even joined up with traditional agents to expand into smaller markets where it previously had no presence.

CEO Glenn Kelman, who worked for other Web-based companies before joining Redfin, says he initially saw Redfin as a software company. But clients convinced him that it had to be a customer service company. "We still need people to open doors," he says. Findwell has had that customer service approach from the outset. "Buying or selling real estate is a very human, intensive relationship," Lisota says.

Both Findwell and Redfin entered the business believing they would revolutionize the real estate industry via technology—in the same way that the Internet has transformed the travel and stock-buying industries. But as these upstarts struggle to get a strong toehold in the market (depending on whom you ask, they have between a 1 percent and 3 percent market share—with more home buyers than sellers—and are still struggling with profitability), they bear more than a passing resemblance to the old-school models, and vice versa.

While the start-ups have become more customer-focused, traditional real estate companies have embraced technology to stay competitive, though not to the extent of the start-ups that have developed search engines for home listings. "The job of the agent has shifted because of technology," says Pat Giles, a vice president at John L.

Scott who oversees marketing and information systems. “Twenty years ago, they [agents] had to provide the data,” she notes. Customers can—and do—access this information online; nine out of 10 customers do research online, according to the National Association of Realtors. Today, the agent’s job is about helping buyers and sellers decipher this information.

But one big issue that continues to divide the start-ups from the traditional companies is the agent compensation model.

In starting his business, Lisota, who worked for several years as an independent real estate broker, wondered why the standard 6 percent commissions charged by traditional real estate companies (evenly split between the buyer’s and seller’s agents) hadn’t changed—despite the fact that Internet technologies (including online listings and real estate blogs) allow

me that we could do it for far less than everyone else out there,” he says.

In Redfin’s model, buyers receive a rebate based on a home’s sale price and a portion of the commission Redfin earns; sellers who work with Redfin are charged a flat fee.

Regardless of technology and compensation models, however, Findwell and Redfin may not be the game changers their proponents originally envisioned, for one simple reason: Technology can’t take the emotion out of buying or selling a home. Home buying is both more subjective and more emotional—it’s not a commodity in the way airline tickets and stock shares are, says Glenn Crellin, director of the Center for Real Estate Research at Washington State University. “As I tell my new students every year, no two pieces of real estate are 100 percent identical.”

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clients to do much of the home-search legwork themselves. Customers come to the market better informed, saving real estate agents time. Technology also makes it easier for agents to manage transactions and use their time more efficiently. That, coupled with the rising price of homes (which equates to a proportional rise in commission), made the existing compensation model seem out of line, Lisota says. Traditional agencies counter this charge: “Technology has made the process more efficient, but the process has also become more complex,” says Matt Deasy, a Bellevue-based general manager for Windermere. He notes that current market conditions often involve short sales, bank sales and complicated financing.

After Lisota crunched the numbers, he concluded that he could pass half the commission Findwell would normally receive back to his clients and still have a viable business model. “It didn’t feel like a huge risk, particularly since the math told

It’s one point that everyone in real estate agrees on: The industry is about relationships. “At the end of the day, [buying and selling a house] is an emotional process,” says Deasy of Windermere. A lot of a real estate agent’s job can come down to walking clients through an increasingly complicated and sometimes downright scary procedure. And many buyers are more willing to take that walk with someone from a company that’s been around longer, even at a higher price.

Challenging the longheld commission model has definitely caused tension between traditional real estate companies and the start-ups. (Lisota notes that early on, some agents chided Findwell for “undermining our profession and making it difficult for the rest of us to make a living,” while Redfin’s blog at one time featured a “Hall of Shame,” which highlighted agents the company felt were hostile to its business model.)

And it’s brought more attention to an

ongoing debate among real estate professionals involving the ethics of the real estate commission. A home buyer’s agent is supposed to negotiate a favorable price for his client—ideally as low as possible—but a lower price isn’t necessarily in the best interest of an agent who makes a bigger commission on a higher price. It’s what economists call a “moral hazard”—a person is supposed to do one thing in a transaction, but benefits more by doing the opposite. It’s an issue that will need to be addressed by individual firms, says Crellin, while adding that the vast majority of agents represent their clients’ best interests.

Lisota has a darker view: “Agents are looking for their payday,” he says, while also noting that he believes the debate is more focused on what amount of compensation is appropriate.

Traditional agents discard that argument saying they wouldn’t jeopardize credibility for a few hundred dollars in additional commission. An agent might lose \$300 by negotiating a home’s price down by \$10,000, but his customer would be happy—and would be more likely to recommend him. “Who in their right mind is going to take the extra \$300?” Deasy asks rhetorically. “Three hundred extra dollars now isn’t going to keep me in business 10 years from now.”

However the commission debate ends, Redfin and Findwell have brought more choices to the real estate market. And in the long run, that’s likely to mean more change in the industry—though some observers believe it will come slowly. The traditional model isn’t likely to go away, says John Cook, cofounder and executive editor of Techflash.com, which covers technology in the marketplace. Lisota agrees: “People who charge more, people who charge less, there’s room for them all to be successful, so long as they all engage with people in this new online way,” he says.

The start-ups have used that “new online way” to give home buyers access to a wealth of information that was previously veiled, notes Cook. As a result, the job of traditional real estate agents—and possibly their business model—has shifted. “The amount of business disruption over the past two years has truly been amazing to watch,” he says. 5