In Net Real Estate, the Middleman Is Going Strong

By DAVID J. WALLACE

After years of predictions that the Internet would remove middlemen from transactions and miraculously link buyers and sellers, an exception to the rule has emerged. For now.

In real estate, intermediary Internet businesses are proliferating, burying home buyers and mortgage shoppers with online services, options and advice. While there are direct sellers, demonstrating that the Internet has taken out some of the usual go-betweens, there are also advisers, research sites and dozens of other ventures vying for attention from buyers and sellers.

To be sure, the new medium has streamlined some activities for potential homebuyers. Rather than relying on real estate agents, for instance, Internet surfers can search through online photos and videos, then visit only a select few homes, instead of schlepping through dozens of open houses each weekend. Databases provide research on sale prices of comparable homes and a real estate market's condition, even a neighborhood's school district, Census records or crime statistics.

Low interest rates and a strong economy have people hurrying to buy homes or refinance mortgages. So, it is not surprising that companies are looking to capitalize. And decades of local and regional variations in mortgage pricing are giving way to commoditization, as consumers open up a national market and seek out lower rates via the Internet.

"Consumers take cost savings as a given," said Charles Coustan, director of product management at HomeShark, a San Francisco-based online mortgage broker and advisory service. "They may not understand there are three or four different approaches on the Web. There are a handful of distinct models and only time will tell which ones succeed."

Realtors, banks and mortgage lenders are expanding Web sites from simple advertising to transactional sites. And Web-only newcomers like E-Loan promise loans at lower rates than conventional lenders.

Advisory services like HomeShark and LendingTree offer information, suggestions and consumer tips and provide a standard form for mortgage applications, serving as a counselor and service provider. Lending Tree offers to return as many as four real loan offers after data are sent to financial companies. Other sites compile information from companies and match them with consumer data or applications.

With all this crossover and coordination among companies in the online real estate business, customers may not know which institutions are reviewing their data. Knowing which sites represent which companies -- and which interests -- can be problematic for buyers.

As an example, customers seeking out the First Mortgage Network using a search engine, may instead find a link to First Mortgage Corp. in Tempe, Ariz. First Mortgage Network is a Florida-based company that provides Internet services to such lenders as Prudential, while the Arizona company is a direct lender. So, customers of some national lenders may in fact be using FMN's system or going to the company's own direct-sales site, loanshop.com, as well.

In addition to knowing what company is actually processing the application, industry watchers say, it may be useful for buyers to research the actual loan provider, not just the Web site host. Some lenders may not be licensed to make loans in specific states, depending on local regulations.

Smelling opportunity in the $1.3 billion-per-year U.S. mortgage business, large financial software players are going after this market. Intuit Corp.'s Quicken Mortgage and Microsoft's Home Advisor offer real-time loan rate comparisons and refer customers to particular lenders, like divisions of First Mortgage Network or HomeSide Lending Inc. Consumers using Quicken or Money software can integrate financial records with banks, lenders and other service providers to find the optimum loan.

Other big names in electronic commerce, including Priceline.com, as well as traditional lenders are likely to test the market, said Sarah Harrison, a HomeShark spokeswoman. And the popularity of online real estate and mortgage services was apparent in a recent report by Transamerica Intellitech, a real estate information and software company in Sacramento, Calif., which found 14 percent of Californians who refinanced their mortgages through September 1998 used the Internet for some part of the process.

One reason for the explosion of such intermediary companies is the sheer complexity of buying property -- which involves buyer, seller, title insurance, mortgage provider, often a lawyer and other expertise, said Stuart Wolff, chief executive at RealSelect Inc., which operates www.realtor.com. And with real estate and construction making up 15 percent of the United States gross domestic product, there is lots of room for new companies, he said.

As more complex transactions, like buying insurance, selecting health care providers or buying property migrate to the Web, they will require consultation and multiple visits, Wolff said. Service levels, security and referrals will be of greater concern as more personal information is provided. That is a different experience from much of current e-commerce, in which buyers shop for books or cars -- the same item nationwide -- when comparisons are primarily for the lowest price and very little sensitive, personal data is required from the consumer.

Some sites will offer transactions, others will provide advice, Wolff said, and different audiences will choose the lowest-priced direct sale instead of advisory or intermediary services.

So the ancient mantra of "location, location, location" is changing.

"Travel agents and stock brokers may go away, but brokers, lenders and title companies will continue to be drivers of the real estate industry," Wolff said.

To date, more than a half-billion dollars has been invested in the technology future of real estate, most of which has been to serve the buyer. That is the simplest part to attack, said Bradley **Inman**, whose Emeryville, Calif., company publishes an online news service about the industry and is host to an annual technology conference.

"What happens when technology moves to the seller side?" he wondered. "Microsoft made a decision not to. Everyone has looked at this as 'easier, simpler, cheaper,' yet there hasn't been a real estate-Internet IPO [initial public offering]. Real estate is an arcane process that's steeped in unique regulation and cemented by the culture of home ownership and conservatism of lenders and bankers. It can be a maze that's difficult to penetrate with just a Web site."

Given the industry's size and its political clout, can it stand to lose the middleman?

Inman predicts that innovative real estate companies will break away from the industry norm and create "Real Estate Lite," with lower commissions for clients who use electronic tools to do some of the work independently, just as airlines offer discount prices to Web customers, slightly higher prices for toll-free calls and a third tier of prices for a travel agent's reservation.

He argues the real estate industry is already more efficient than other retail businesses.

"One million real estate agents handle between 4 and 5 million home sales per year," he said. "The Multiple Listing Service [realtor database] already has roughly 85 percent of homes available for sale. Real estate agents already will match you up quickly and effectively. That's unique in this country."

On the mortgage front, even the largest national player has less than a double-digit percentage market share. Andrew Bielanski, managing director for marketing at the market leader, Countrywide Home Loans, said the fast-moving Internet real estate boom will consolidate just like every other nascent electronic business, and companies that advertise a recognized brand and offer valuable service will survive.

"I've heard that E-loan has a dropout rate of 70-75 percent because people can't close their loans via the site. The closing process for mortgages will become more important," he said. "And there is already some shakeout. But branding is much more important than it was five years ago. There are too many choices and people need a guide."