



## The Democratization of Real Estate

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## Introduction

We are entering a time period I will call the "Democratization of Real Estate."

This era is a time of transition from control models to transparency within the real estate industry and its manner of conducting business. Democratization represents a power shift from localized bastions to macro access to information about real estate buying and selling.

The core principle of any democratization is the empowerment of individuals over the collective will of hierarchies. It is the ability to know all things and to be fully informed.

When I speak of the democratization of real estate I am speaking of the necessary component of what I have referred to heretofore as "The Third Economic Wave of the Real Estate Industry," or, if you prefer, the *Consumer-Centric Era*. It is the time period where control of property information, to name but one mechanism of control, is being over thrown by the masses.

This *democratization* is the logical consequence of the overpowering influence of technology and the Internet over traditional real estate business models that seek to control the consumer's access to information and thus extract a desired behavioral response.

I am one of the few people who have spent meaningful time critically analyzing the evolution of the real estate industry over the span of its lifetime. My analysis of the industry's business model development is revealing, to say the least. Consider the analysis contained in the following illustration:

1776	1976	1993-94	2008+
First Economic Wave Broker-Centric	Second Economic Wave Agent-Centric	Third Economic Wave Consumer-Centric	
Establishment of NAR in 1908	The Advent of Franchising	Real Estate Websites	
Brokers, Boards, Books, Buildings	Use of Computerized MLS	Internet Property Listings	
Broker-Centric Control Models	Agents Empowered by PCs	Consumers Discover WWW	
Primary Tool - MLS information	Primary Tool: PC Technology	Primary Tool - Internet	
Outcome - Territorial Models	Outcome - National Models	Outcome - Freedom Models	
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When you study the table above you can easily see the transitional components of the real estate industry and how these factors influence our business models as owners. What is important to notice is that in each era, profitability of owners diminishes and the income of agents increases, due mostly to the stubborn refusal of owners to re-invent and re-margin their business. You can get copies of my articles about the first, second and third economic waves by logging on to [www.DonaldTeel.com](http://www.DonaldTeel.com).

## Democratization Means Remodeling

Will those who sit in the seats of political power be able to adopt and adapt to a populous, street-level demand fueled by a consumer with a voracious appetite for free information?

Democratization means the remodeling of our enterprise into an open, free-flowing, information intensive model that empowers the consumer with the streamlined tools, macro opportunities and lastly, the requisite access to universal property knowledge. This street-level democratization of real estate is challenging the real estate industry's historical vertical approach to real estate.

A question bears asking and answering: What is the contrast between traditionalism and the potential model produced by the consumer's demand for democratization? On the traditional side it is simply the building of a company on the traditional premises of bricks and mortar operating within limited geographic perimeters accompanied by information control processes favoring insiders.

On the democratization side of the coin, there is what I call "model-perfect" which is an open system, consumer-centric, street level, horizontal business model where buyers and sellers possess the reigns of power and the industry serves that power with new models.

## Creation of the Democratization

What is creating the democratization? There are many factors that have converged upon the industry at a precise moment in time, each of which makes contribution to the shift of control from the industry to the consumer. Here are three primary contributors:

1. Increased government challenges to the real estate industry's property blockade that will eventually erode centralized control;
2. Emergence of Non-Broker entities who will feed consumer appetite for alternatives, since apparently, for the moment, the industry cannot;
3. A forced re-Invention of real estate brokerage operating models in order to sustain ROI; this is the white heat that will produce the change.

Let's address each of these in their respective order.

**The Property Blockade.** During a former era all property information was under the exclusive control of Brokers and their local boards (now called "Associations of Realtors®"). I call this the "property blockade."

Because of the property blockade, consumers can only interact with the real estate industry within the four walls that form the industry topography; Brokers, Boards, Books and Buildings.

This "4B" quadrangle forms the blockade and empowers broker/owners and real estate agents who are members of the National Association of Realtors® to maintain their vise-like grip on property information. This is now being challenged on almost every front.

**The Non-Brokers.** I have written elsewhere about the *Non-Brokers*, entities who have no vital historical connection to the underpinnings of the real estate industry but who seek a slice of the vast financial pie available via consumer loyalty. Non-Brokers understand the consumer disconnect from the industry, that we are tolerated but not well liked, if liked at all.

Since there has never been true brand dominance in real estate, one in which the consumer openly pledged total allegiance to a particular franchise or independent firm, mass control was necessary.

The *Non-Brokers* see the issue, are not bound by the rules being followed by the industry's members and are therefore free to devise and implement new, highly creative approaches that will empower them to create loyalty and predisposition among vast numbers of consumers.

This wresting of loyalty from the industry to the *Non-Brokers* is fueled primarily by the release of property information to them that is subsequently retooled for Internet broadcasting.

**The Re-Invention.** Now that the industry has finally acknowledge the collapse of the real estate housing market, we are hearing the call for new models within the industry itself; this of course, forced upon it by hard economic times.

Despite the housing depression (my interpretation) and the lack of profitability of the majority of real estate brokerage firms, many broker/owners simply refuse or cannot make the leap from fixed-base, bricks-and-mortar operating models to the more streamlined, cost effective, multi-revenue models available to them.

Many broker/owners are confronting a reality that is not familiar to them and therefore, they lack the reference point, fortitude and resources to reinvent.

In short, the industry has been slow to acknowledge or direct its resources toward R&D that will produce models capable of delivering new revenue sources that will sustain owner profitability. This is a new confrontation with reality. A sluggish, antiquated industry is gazing into the eyes of a democracy movement it cannot adapt to. The

remaining question is a simple one; "Can the industry change and can it change fast enough?"

These factors, among others, are creating a climate suitable for the *Democratization of Real Estate*, a kind of populous uprising fueled by competing factions and refereed by no one. It's a knuckle busting fist fight without rules.

This climate will become the potting soil for the rooting of the consumer and the growth and development of a new culture where everyone has a vote, so to speak.

### **New Rules, New Rule Makers**

The battle will not be over whether there will be an uprising, it will be over who controls the rules governing the *Democratization of Real Estate*. Controlling the rules may be more important than the game itself.

What will this new climate or culture look like? For starters it will include some of the following:

1. Open access to horizontal property information with little industry control;
2. Dramatic reductions in marketing costs per transaction;
3. The development and implementation of "NEW" models for revenue extraction, including information models, partnerships, coops and similar affinity arrangements;
4. Fewer real estate agents, since the market cannot carry the labor pool and still produce profit for everyone;
5. A preference for the direct connection of sellers with buyers through social networking (blogs);
6. The effective and perhaps complete erosion of local control over property information;
7. A decline in the popularity of traditional franchises in favor of new, less costly consumer-centric networks.

The *Democratization of Real Estate* creates the empowerment of the consumer at its core and the rapid development and deployment of new strategic technology and Internet tools which will redesign the real estate industry's operating model, like it or not.

The great thing about the *Democratization of Real Estate* is the opportunity broker/owners have to participate and actually control the rules that will be brought to bear on their markets. It will quickly become a game of market presence and market management, rather than buildings and yard signs.

Democratization fuels the acceleration of adoption of horizontal business models, such as e-Partner ([www.ePartnerUSA.com](http://www.ePartnerUSA.com)) that can position broker/owners for the re-invention of their profitability blueprint.

Owners, NAR, franchisors and other industry insiders must become the true innovators within local and cyber markets, creating and adopting a "*New Real Estate Model Math*" ([www.REALonomics.net](http://www.REALonomics.net)) that will create revenue models that are not entirely dependent upon closed transactions.

In short, we are going to be selling knowledge, expertise, information and investment wisdom, more than simply houses.

Within the democratization process, industry practitioners will discover heretofore hidden revenue models whose primary nucleus is the management and delivery of information models to the benefit of the consumer. When this occurs, the transition toward the democratization of all things real estate will be complete.

----- Postlude Items -----

If you would like to read more of my articles and learn more about the transitions taking place within the real estate industry, please visit these sites. At the current time all of my articles are available by download at no cost.

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