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As Home Sales Cool, Ranks Of Realtors Grow Crowded



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Staff Reporter of THE WALL STREET JOURNAL

WESTFIELD, N.J. -- After she was laid off from her technical-support job at a hospital, Eulondia Reese-Turner spent months searching for computer work. Then her husband suggested she try a much hotter segment of the economy: residential real estate.

There was a big downside: A lot of other people had the same idea. As a newly licensed real-estate agent at the Burgdorff ERA real-estate brokerage here, Ms. Reese-Turner is now competing with a swelling pool of agents. She is working as many as 12 hours a day to find clients and sometimes takes on people snubbed by other agents for being too picky.

Thousands of refugees from corporate downsizings and outsourced technology departments have begun jumping into real-estate sales -- and are finding it a much tougher field than they expected. The housing market is starting to cool off, meaning all those new agents are competing for a dwindling number of clients. At the same time, the Internet is making consumers less reliant on their friendly neighborhood agent for information. The result is likely to be a drop in income for many agents -- but better service and lower commissions for consumers.

On the surface, real estate seems the perfect refuge for frustrated job seekers. Fueled by the lowest short-term interest rates in 45 years, housing sales and prices have surged. As immigrants buy starter houses, more established American families trade up to fancier homes. Some agents make six-figure incomes.

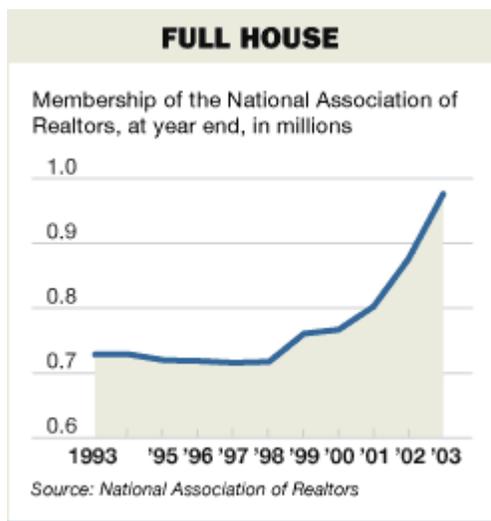
In recent months, though, home sales have begun to slow, partly because mortgage interest rates rose modestly in the second half of 2003. The National Association of Realtors projects a 5% fall in sales of existing homes in 2004 to 5.8 million from last year's record 6.1 million. Existing-home sales are the largest part of the market.

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Of course, even with that decline, home sales would be at the second-highest level ever, and some economists are predicting housing will stay hot, particularly in the market for new homes. The risk to such forecasts is that home sales probably will slump further if interest rates rise more steeply than expected or if the U.S. continues to export jobs.



Even if the rosier forecasts come true, more agents will be chasing fewer transactions in 2004. Membership in the NAR, which includes most of the nation's more active agents and brokers, has surged 27% in the past three years to 977,000. More are on the way: Schools that train people for real-estate licensing exams report booming enrollment.

Indeed, the residential real-estate industry has a boom-time mentality reminiscent of the one that pervaded Silicon Valley and Wall Street in the late 1990s. "The great thing about real estate is that we upsize, we don't downsize," says Bill Spadea, head of career development at Weichert Realtors, a brokerage that operates on the East Coast. Weichert recruits corporate-layoff victims as well as fresh university graduates who no longer see

corporate jobs as secure. Mr. Spadea says the best recruits already have business skills and know how to smile at customers -- "even when they're talking on the phone."

Helping to fuel the boom: Unlike most businesses, real-estate brokerage firms don't need to worry much about hiring too many people. That's because nearly all agents work as independent contractors for brokerage firms, not as employees. The brokerage firms don't pay salaries or benefits. Agents make money only when they earn commissions by completing transactions. Whether they are doing deals or not, the agents have to pay such hefty expenses as car and cellphone costs out of their own pockets.

At the same time, it's easy to become an agent. In New Jersey, for instance, students must complete 75 hours of course work at a licensed school, then pass a state examination. By contrast, obtaining a hairstyling license requires 1,200 hours of instruction.

The glut of agents will add downward pressure on commissions, says Steve Murray, editor of Real Trends, an industry newsletter. He estimates that the average commission already has declined to 5.1% from 6% in the early 1990s, partly because most people now search on the Internet before riding around in a car with an agent. While trawling the Web, prospective buyers find pitches from discount brokers offering commissions as low as 2% of the sale price. Foxtons, a four-year-old discount brokerage firm that operates in the New York region, touts 2% commissions with such slogans as "Pay off your mortgage, not your Realtor" and "Beware of sharks charging 6%."

Some upstart agents are willing to work for peanuts to build up business. Frank Borges LLosa, a 29-year-old computer whiz who became an agent last year, recently agreed to serve as the agent for the sellers of a Tudor house in McLean, Va., listed at \$2.7 million. His fee: \$1. Mr. LLosa figures he's getting great publicity by having his sign on the lawn of such a swanky house. And he hopes the owners will use him when they buy their next home.

Even at 5% or 6%, commissions aren't as lucrative as they seem. In a



typical sale, the agents representing the buyer and the seller each get around 2.5% to 3%. On a \$300,000 sale, that would be \$7,500 to \$9,000 each. The agents then share as much as half of their take with the brokerage firms where they work. The most successful agents, who bring in lots of business, can persuade the brokerage firm to take a smaller cut of each deal.

In 2002, the latest year for which data are available, median income for agents was \$39,300, according to the NAR. Given the slowing market and the huge influx of competition, the typical agent's income is almost certain to fall this year.

Elyse Eskanos of Denver says she used to make as much as \$150,000 in annual commissions. That fell to \$40,000 or less in recent years as more and more people became agents. "Everybody has a friend or a relative who's a realtor," Ms. Eskanos says. She found that some people planning to sell houses were interviewing five or six agents, then choosing the one who offered to work for the smallest commission.

After deciding "I'm just sick of it," Ms. Eskanos last year gave up real estate. She now runs a Denver bar called the Dirty Duck, featuring the "best burgers east of I-25."

Brokerage firms have no trouble finding recruits, though. At Weichert headquarters in Morris Plains, N.J., call-center operators ring a bell every time they get someone to commit to attend a seminar for prospective agents. Last year, 30,000 people agreed to attend those seminars, and over 2,000 became Weichert agents. On a recent morning, the recruitment bell was dinging every minute or two.

Today's crop of newcomers is different from the stereotypical real-estate agent: a suburban mom or a retiree seeking part-time work for extra income. "It used to be people who came because of the flexible schedule. Translation: 'I don't have to work that hard,'" says Greg Rand, managing partner of Prudential Rand Realty in White Plains, N.Y.

Now, he says, many new agents are hard-chargers with lots of business experience and computer skills who are primary breadwinners for their families. Many have lost good jobs and need to replace the income. Mr. Rand thinks some of these newcomers will outperform old-timers who aren't willing to work as hard or haven't developed computer skills needed to do research and communicate efficiently with customers.

The median age of NAR members is 51. But operators of some training schools report a big influx of younger people. A recent survey at Anthony Real Estate Schools, part of Washington Post Co.'s Kaplan subsidiary, found that 43% of students preparing for real-estate license exams were under 35. People in the industry say low interest rates have allowed more young people to buy houses and, in the process, given many of them the temptation to try their luck as agents. As computer skills become more important in selling real estate, some young people also think they will have an edge over veteran technophobes.

Computers and the Internet are a mixed blessing for agents. Agents can save time by using e-mail to communicate with their customers. They can avoid some fruitless house-viewing trips by encouraging customers to look at offerings on the Web first. But the Internet also changes the way some people choose an agent. One common way to find an agent is to ask a friend for a recommendation, giving agents with the biggest social circles an advantage. Now a growing number of people are open to finding an agent online.

Online brokerage firms such as eRealty Inc. and zipRealty Inc. several years ago began attracting customers by putting large amounts of information about houses on their Web sites. "Customers are able to choose the homes they want to see instead of having agents suggest what they should see," says Sonia Taylor, a spokeswoman for zipRealty.

Now traditional bricks-and-mortar brokerage firms are working harder on their Internet marketing. Weichert last year opened a call center to respond to people who click for more information on Internet ads. Weichert's aim is to call those potential customers within 60 seconds of receiving the e-mail. People surf from one site to another so fast that "it's really a race for the customer," says Bret A. Violette, who runs the Internet operation. When the call-center employees connect with a good prospect, they immediately patch that person through to a Weichert agent's cellphone.

There's a catch for the agents, though: If those Web-harvested customers complete a transaction, the agent has to turn over a much bigger-than-usual slice of the commission to Weichert. Mr. Violette says that bigger slice is needed to pay for the costs of the call center.

Ms. Reese-Turner, the former hospital employee, needs to help her husband, a school-bus inspector, meet mortgage payments, raise three children and care for aged relatives. Even if it means working long hours six or seven days a week, the 45-year-old Ms. Reese-Turner plans to stick with her new job in real estate.

Ms. Reese-Turner hoped to sell houses to former colleagues from her hospital job. But some of them have recently lost their jobs and others are so fearful of layoffs that they don't want to make big financial commitments. To cast a wider net, she wears her Burgdorff name tag everywhere, even while shopping or visiting the doctor, and volunteers to work at open houses organized by colleagues.

At one recent event, she met Ruth Skerritt-Abraham. Over the past year, two other agents had given up on Ms. Skerritt-Abraham, who works as a middle manager at an insurance company. She says those agents decided it would be too difficult to find something in her price range that she would want. With few other customers, however, Ms. Reese-Turner was willing to try her luck.

The first house they visited was on a short street just off a major highway. At one corner was an adult video shop. A rusting shopping cart lay on its side in a vacant lot across from the house. Ms. Reese-Turner searched for something positive to say, then offered: "You have few neighbors." Ms. Skerritt-Abraham didn't even get out of the car.

The next house looked more promising, but the tiny backyard was in the shadow of a highway overpass. Ms. Skerritt-Abraham again decided not to go inside. The two women fled the next house after finding a young man, surrounded by fast-food wrappers, in a deep sleep on the third floor. Ms. Skerritt-Abraham then rejected the next several houses because the yards were too small. "I'm picky," she said softly. "I'm sorry."

"No, no," Ms. Reese-Turner replied. "This is a life decision."

At 7 p.m., the tour was complete. As she got out of the car, Ms. Skerritt-Abraham said she might want to go back to one house with her husband. Ms. Reese-Turner, having already put about 70 miles on her car during the day, headed back to the office to check her e-mail.

The next day Ms. Skerritt-Abraham called to say her husband thought they should be looking at bigger houses. Ms. Reese-Turner seemed to have wasted a day, but she sounded upbeat. She noted that while driving she received two calls on her cellphone from potential clients among her circle of family and friends. "Things are starting to move!" she said.

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