

# Electronic Commerce & The Real Estate Industry

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## **SECTION 1: ELECTRONIC COMMERCE**

**Learning Objectives** - After completing this Section, students should be able to:

1. Define Electronic Commerce and identify examples of relationships using this type of transaction
2. Explain both B-C and B-B business relationships
3. Define and identify examples of various E-Commerce Systems and Technologies
4. Identify major benefits of E-Commerce use for a business
5. Describe examples of new transaction models that are changing the face of business

### **E-Commerce, A Definition**

#### **Electronic Commerce**

All economic relationships and commercial transactions that are supported, in whole or in part, by use of computer networks is known as electronic commerce, or e-commerce.

This definition includes both business-to-consumer relationships (“B-to-C” relationships) and business-to-business (“B-to-B” relationships). This definition of e-commerce is broader than that used by many industry observers. Many observers focus only on retail transactions and those using the Internet. This view is too limited and does not give a realistic sense of the true scope of e-commerce.

**Business-to-Consumer Relationships** - Includes retail sales, consumer advertising/promotions.

The B-to-C relationships involve those conducted by Internet-based companies (e.g. Amazon.com, CDNow), but remember that they also include the online relationships established by traditional “brick and mortar” businesses that are now moving many of their retail activities online to supplement (not replace) their traditional customer relationships (e.g. Barnes and Noble, Wal-Mart).

**Business-to-Business Relationships** - Includes relationships with vendors/suppliers and distributors.

These B-to-B relationships are the fastest growing part of e-commerce, and perhaps carry the greatest long-term economic potential. Many companies have moved the majority of their procurement or distribution functions online. Leaders in this progression include Internet-oriented companies (e.g. Dell, Cisco Systems) but they also include large traditional enterprises (e.g. GE, General Motors). Large retailers such as Wal-Mart were among the early adopters of B-to-B electronic commerce relationships (e.g. Wal-Mart’s networking with the suppliers of the products it sells).

#### **Full Range of Transactions and Relationships**

E-Commerce includes sales, advertising, marketing, promotions, transfer of funds.

Remember that e-commerce involves more than just sales transactions. It includes advertising, marketing, and promotions conducted electronically. It includes transfers of funds (e.g. trillions of dollars have been transferred, daily, among the world’s largest financial institutions using electronic systems, and those electronic transfers have been happening for decades) and securities transactions. E-commerce also includes online requests for proposals and the resulting bids and submissions.

### **Systems and Technologies**

#### **Computer Networks**

Computer networks – groups of computers that are “interconnected” and support e-commerce. Interconnected computers are those that are linked by telecommunications facilities and are thus able to share information with each other.

#### **Local Area Networks (LANs)**

Networks of interconnected computers that are physically located relatively close to each other are called LANs.

#### **Wide Area Networks (WANs)**

WANs are networks of interconnected computers that are physically located distant from each other.

The original thinking behind networking of computers was to facilitate the sharing of information through communication of content (e.g. exchange of electronic mail messages or file transfers) and through distant access of content stored on computers at other sites (e.g. remote access systems to make use of files stores on distant computers).

### **Internet**

The Internet is a global network of interconnected computer networks that is accessible to the public.

The Internet was originally a network of university and research laboratory computers funded by the U.S. government (Department of Defense). The network was created to improve efficiency of use of the then-expensive computing resources and to establish a communications network that would be more robust (i.e. less vulnerable to catastrophic failure due to natural or man-made disasters). The key to the Internet's efficiency and robustness is its use of "packet switching" technology instead of the "circuit switching" technology used by the traditional telephone (i.e. voice) communications system. Circuit switched systems make use of dedicated facilities to handle each call (with the content of each call processed through the system as an uninterrupted "stream"), while packet switched systems break the communications content into "packets" of data, each routed separately through the network without reliance on any dedicated facilities.

The networked environment also makes use of different types of computers. Users can access the network through their own equipment (often characterized as "client" computers) to make use of data stores on larger, more powerful computers ("servers"). Data packets move through the network from computer to computer (these intermediary computers are referred to as "routers" and "hubs")

### **Intranets**

Intranets are computer networks that connect users who are members of the same organization (e.g. a single company). Intranets are "closed" or "proprietary" networks, meaning that only individuals authorized by the owner of the network may use the network and access its information content.

### **Extranets**

Computer networks that link intranets of more than one organization are known as extranets. Businesses commonly interconnect their computer networks with those of their closest business partners (e.g. suppliers, distributors, customers). Extranets are closed, proprietary computer networks, but the authorized users generally include individuals affiliated with more than one organization.

The key element enabling all of these networks, public and private to work seamlessly with each other is the use of a common computer language ("protocol"). That common protocol is the "Internet protocol" ("IP"). Both public systems and most intranets and extranets now make use of the Internet protocol, and it is this common approach that enables the many diverse networks to share information and communicate with each other.

### **World Wide Web**

One of the most popular Internet applications is the World Wide Web. Data stored and shared uses the hypertext mark-up language (HTML) and the hypertext transmission protocol (HTTP). Perhaps the most "user-friendly" of the Internet applications, the systems make use of "links" between Web files ("pages") to facilitate easy movement from one page to another.

Tim Berners-Lee invented HTML and the concept of the Web in an effort to enable teams of scientists at his lab to share information more quickly and easily. It is the ease of use that made the Web the first Internet application to find widespread public and commercial acceptance.

### **Other Internet Applications**

The Internet supports various uses in addition to the World Wide Web. It supports exchange of e-mail communications, transfer of computer files (e.g. File Transfer Protocol (FTP), and bulletin boards (systems enabling the public to "post" messages for review and response by other users). The Internet now also supports other traditional forms of communications media. For example, traditional voice telephone calls can be transmitted through use of the Internet (voice over the Internet or VoIP) and broadcast radio transmissions can also be distributed using the Internet.

Note that the Internet can support many different applications. Some tend to think of the Internet as being equivalent to the Web. The Web is merely one use for the Internet. Many other useful applications currently exist

and many new ones will develop in the future. The Web is important and productive, but it is not the ultimate application for the global computer system.

### **Chat and Instant Messaging**

Online systems now support real-time communications between online users. When more than one user is online, chat and instant messaging systems enable those users to communicate quickly with each other using a process that more closely resembles actual conversation than does traditional e-mail or bulletin board-type postings. This real-time interactivity alters the user's perception of the Internet as a communications medium. Real time communications capability makes network users feel that the system comes closer to simulating in-person interaction. It is generally thought that this capability supports more informal (and more creative) exchange of information and ideas.

### **Search Engines**

Software systems that enable Internet users to find content they seek (e.g. Web pages). Based on "keyword searches" users access material available on the Internet. Search engines continuously copy and store Web content ("cache" the content) then search the archived material when a user conducts a keyword search. The material is searched based on use of "metatags", keywords embedded in the HTML code that creates the Web page. Search engines play an essential role in today's Internet, as there is now such a great volume of online content available that without an effective search capability, most people would not be able to find the material they seek.

### **Hosted Applications**

Web sites and other online content are commonly "hosted" (stored) on computers (servers) that are operated by parties other than the Web site owner. Commonly, these hosts now offer services in addition to the basic Web site maintenance functions. For example, these service providers now commonly provide security and e-commerce transaction processing functions. In addition, they often "lease" applications software to Web site operators. In this way, the site operators do not need to purchase and maintain a variety of software products, but can instead access (via the Internet) the specific software they need only when they need it, and pay for that use on a usage basis.

Hosted applications are among the areas of greatest current attention in e-commerce. The process of leasing software applications provides the potential for users to spend less on software and to make do with simpler computer equipment. Their "client" computers do not need to have as much storage or processing capability to the extent that they rely on "server" computers of the application host for those functions. It is still an open issue, however, as to what the majority of network users will choose to do. Some users may opt for this server focus, but others will prefer to have a greater capability resident in their on-site computers. Companies such as Sun Microsystems and Oracle advocate the server/client system (as they make much of their money providing equipment and software for the server function), while companies such as Microsoft advocate the traditional, highly capable user computer (as Microsoft's primary market is the users of those devices).

### **Virtual Private Networks**

Systems that make use of the public Internet but simulate private network functions (e.g., security, higher speed performance) by using more sophisticated technologies are known as virtual private networks.

Virtual private networks (VPNs) make it possible for network users to obtain access to certain valuable service features at a lower cost than that associated with private (dedicated) facilities and services. VPN capability has only become possible as advances in certain key networking technologies (e.g. data traffic routing management, data security systems) now make it possible for network operators to manage public network use at levels of quality higher than was previously achievable.

### **Bandwidth**

Bandwidth is the amount of data that a computer network can process. Bandwidth is essentially the content capacity of computer networks. The greater the bandwidth, the more users and uses the network can effectively support. Many of the newer network applications (e.g. full motion video) require far greater capacity to support than did the early applications (e.g. electronic mail). Larger organizations tend to obtain access to higher data capacity through use of leased (dedicated) telecommunications facilities. Individuals and smaller organizations are beginning to make use of higher capacity facilities such as Digital Subscriber Lines (DSL) and cable modems (data service provided through cable television network facilities).

## **Content Convergence**

Essentially all content (e.g. video, audio, text) can now be stored and distributed in “digital” format. Thus content in all media can now be created, stored, and distributed using computer networks. One information network is now capable of handling all media content.

This convergence enables Internet users to have widespread access to music, television, motion pictures, radio programming. For example, now it is possible to listen to radio broadcasts of your favorite team’s games even when you are out of town (or out of the country) using the Internet.

## **Security**

Electronic commerce requires security measures to ensure that content and transactions are protected. To protect online content from access by unauthorized parties, encryption systems are used. Online security also requires use of systems to authenticate/verify the identity of the parties and the quality of the content. Security also requires protection of databases and proprietary networks from intrusion. Software products such as “firewalls” and access controls based on passwords or “biometric” controls are aimed at preventing intrusion.

Recent computer network security breaches have made computer security a highly visible issue. “Mafiaboy” the Canadian teenager charged with the attacks in early 2000 on eBay and other popular sites is facing prosecution and the authorities are still looking for the more sophisticated hackers who they believe were responsible for the attacks at that time on several other major e-commerce sites. The search continues for final answers regarding the “Love Bug Virus” that caused global e-mail disruption recently. It is important to recognize that security means protecting your own data and networks from unauthorized use, and it also means taking precautions to make sure that your network is not used to attack other computers or systems.

The security threats to computer networks include: unauthorized access to the network, corruption of data in the network, and theft of data network content. Threats also include “vandalism” directed toward a computer network or its content. Such vandalism can take the form of introduction of a “virus” into computer content (a computer virus consisting of a program that replicates itself in an uncontrolled manner, thus overloading the computer network).

Many different technologies are now applied to manage computer network security. Encryption makes it difficult for an unauthorized recipient of electronic messages to read those messages. Firewalls are software systems that protect some data content from public access. Passwords are used to control access to computers and networks. Biometric devices also control access by reading key physical features (e.g. retina patterns, fingerprints) to ensure that only authorized users can make use of computers. Anti-intrusion systems monitor network use and take remedial measures when a threat to the network is identified.

## **Mobile Access**

A rapidly developing aspect of computer networks is the ability to access the network using wireless devices (e.g. laptop computers, handheld devices, enhanced cellular phones). Mobile access enables network users to upload or download material while away from their computers. Wireless access can be provided through use of cellular networks or through satellite systems.

## **Ubiquitous Computing and Universal Access**

Continuing advances in computer and telecommunications technology make the equipment necessary for networking smaller and less expensive. This is leading to an environment in which computers are nearly everywhere (e.g. in cars, consumer electronics, and appliances) and all of those computers can access the Internet (e.g. refrigerators, soft drink machines, gasoline pumps with Internet access). These trends are among the most powerful ones shaping our society and economy. As businesses develop and are implemented, those plans must recognize the power and scope of these trends.

Ubiquitous computing and universal Internet access carry profound commercial and social implications. Already in commercial distribution are refrigerators that have Internet access and can place food orders automatically when you run low on food. Soda machines that communicate with distributors automatically via the Internet enable real-time pricing changes and automatic ordering when re-supply is required. For example, when the temperature rises and the supply in the machine falls, the machine could be advised by the distributor to raise the price of the soda remaining in the machine to reflect more accurately the then-current market conditions. Appliances and systems in your home can be provided with Internet access, thus enabling you to monitor conditions there and to make system

changes (e.g. altering the temperature) wherever you may be located. Automobiles are increasingly interconnected to the Internet, thus enabling owners to monitor location and use and to change the car's operating parameters (e.g. use the Internet to locate the car if it is stolen and to shut it down to prevent the thief from completing the theft or use the system to set a speed or distance traveled limit on the car when your child is using it).

Continuing advances in ubiquitous computing and universal network access will substantially increase the volume of traffic handled by the network. It will also help to make the Internet less visible (but probably more important) in our personal and professional lives. Some have characterized this trend as the evolution toward "the Internet everywhere."

## **Scope and Impact**

### **Increased Revenues & Decreased Costs**

Electronic commerce enables businesses to reach more customers, thus increasing their revenue potential. E-commerce enables businesses to operate more efficiently, thus reducing their operating costs. Increased operating efficiency and associated reduction in operating expenses are commonly overlooked when people think about the value of e-commerce. In fact, these cost reductions seem to provide an even greater potential source of economic value than the potential revenue increases associated with electronic commerce.

### **Greater Profitability**

Greater revenues coupled with decreased operating expenses result in increased profitability from e-commerce. E-commerce systems have the potential to provide consistent, high-quality consumer services while facilitating proper allocation of resources. This combination enables e-commerce service providers to preserve profit margins while reducing cost to the consumer.

From a business perspective, it is this potential impact on profitability, which is the key to the Internet's success. Electronic commerce simultaneously facilitates reduction in operating expenses and increases in revenues – a potent business combination.

### **Mass Customization**

The Internet can simultaneously support global access to customers and customization of content presentation to meet the specific requirements of individual customers. It both expands the customer base and enables businesses to treat each customer as an individual. This apparent contradiction has enormous commercial impact.

Some have characterized this attribute of the Internet as an ability to provide a "one-to-many" medium in which each online customer receives the material he/she wants in the format most useful to him/her. Online, even small businesses can reach many customers yet they can continue to treat each customer in a personalized manner. In this way, e-commerce has the potential to provide a mass-market system while preserving the individualized service that is characteristic of small businesses.

### **Disintermediation**

Internet links buyers and sellers directly, to conduct transactions and to exchange information. Intermediaries (e.g. distributors, franchisees) must find new methods to add value.

Originally, observers thought that electronic commerce would eliminate the need for "middlepersons" (e.g. distributors, aggregators, etc.). In practice, e-commerce appears to maintain opportunities for these intermediaries, but it seems to require that they perform intermediary functions different than those they performed in the past. For example, e-commerce intermediaries should help customers to analyze the data the customers have found online on their own so that the data can be used as the basis for sound decisions. E-commerce intermediaries cannot be simple providers of information or processors of transactions, as the Internet enables customers to perform those functions on their own. Instead, e-commerce intermediaries must add value by applying their knowledge and expertise to counsel/advise clients on effective use of information.

### **New Transaction Models**

Online contact between buyers and sellers facilitates use of new transactions systems. "Reverse auctions" where buyers set prices and "online marketplaces" where buyers aggregate their demands are two examples of new transaction models made feasible by the Internet.

Note that these new transaction models are now in use for both individual consumers and major corporate buyers. Consumers make use of sites such as eBay and Priceline.com, but large businesses now also conduct much of their corporate procurement through online commercial marketplaces. The major automobile manufacturers, electronics firms, chemical companies and numerous other industry groups have now moved a significant amount of their product/service procurement activities online. These systems enable businesses to place their requests for proposals, receive proposals, communicate with bidders, and place orders and payments through use of entirely online systems. These systems substantially reduce the expense associated with procurement, they make the process quicker and easier to administer, and they enable the corporate buyers to access a wider range of potential suppliers.

### **Empowered Consumers**

In the networked environment, consumers have access to vast amounts of information and they have the ability to choose among a larger group of sellers. Consumer knowledge and consumer choice expand, thus giving consumers greater control over their commercial decisions.

In an environment with more knowledgeable customers, businesses must improve their own efficiency if they are to compete effectively. Businesses must continue to find ways to add value to their online customers, or they will soon lose those customers. As customers obtain more information and access to more choices among product and service providers, competition to attract and retain those customers becomes more fierce. Customer feedback becomes nearly immediate and continuous. Effective use of electronic commerce systems enables businesses to respond more effectively to that competition. Businesses that do not use electronic systems effectively are at a distinct competitive disadvantage.

### **Development of Pure Commercial Markets**

Computer networks enable sellers to expand their reach yet also support customized product/service offerings designed to meet the needs/demands of individual consumers. The network permits real-time feedback of information regarding preferences from consumers. The network also enables sellers to make real-time pricing decisions. The Internet helps to move the commercial marketplace closer to the economist's notion of a "perfect" market, where buyer and seller have access to complete market information and have the ability to alter their conduct immediately in response to that information.

Note that pure commercial markets can be more volatile than traditional markets, as more complete information is made more widely available very quickly, enabling buyers and sellers to react rapidly to changed circumstances. Businesses participating in those markets must, accordingly, be prepared to react to the rapidly changing conditions in the markets they serve.

### **Competition for Consumer Attention**

A key aspect of e-commerce is the need to compete for your customer's attention. If a business wastes a consumer's time, the business will lose that consumer. Electronic commerce requires prompt delivery of useful information in a readily accessible format. Business should make use of "permission-based" marketing to ensure development of effective online relations with customers.

In the e-commerce environment, there are more and more parties competing for the attention of customers. Customer attention becomes a vital commodity in electronic commerce. Online content and systems must effectively attract the attention of customers and they must provide value sufficient to retain that attention. In the early stages of electronic commerce development, much energy was focused on developing methods of attracting customer attention. As e-commerce is maturing, the more effective e-commerce participants are now paying extra attention to finding ways to retain the attention of customers. Online businesses retain customer attention by providing content that gives real value to the customers.

### **Need for Speed and Flexibility**

The Internet enables new businesses to develop rapidly, and it empowers consumers to access a wider range of choices. In that setting, businesses must quickly adapt to new technology, new competitors, and new consumer demands. The most successful e-commerce businesses will be those that can make decisions and implement new strategies the most quickly.

It has been noted that in the e-commerce environment, it is important to make some kind of decision and take some kind of action quickly instead of attempting a complete analysis in advance of action. Organizations should be prepared to respond quickly to changing circumstances, but they must also be prepared to make some mistakes and to move quickly to correct those mistakes. Effective participation in this kind of environment may require many

organizations to make dramatic changes in their management style and their business strategy. The old adage “Lead, follow or get out of the way” applies in e-commerce, and inaction is not an option for businesses in that environment.

### **Section 1 Review**

1. Business – Consumer Relationships include relationships with vendors/suppliers and distributors. T / F
2. Local Area Networks (LANs) are networks of interconnected computers that are physically located near each other. T / F
3. The US Department of Defense originally funded the Internet. T / F
4. Intranets are proprietary networks that connect users who are members of the same organization or group. T / F
5. The World Wide Web (WWW) is the only type of Internet application available. T / F
6. Web sites can only be hosted by the website owner. T / F
7. Firewalls are walls built around the server to protect from damage if a fire were to strike. T / F
8. Typically, E-Commerce decreases operating efficiency. T / F
9. Reverse Auctions and online marketplaces are examples of new transaction models available that are changing the way business is operated. T / F
10. E-Commerce decreases competition in the marketplace. T / F

## **SECTION 2: E-COMMERCE IN THE REAL ESTATE INDUSTRY TODAY**

**LEARNING OBJECTIVES** - After completing this Section, students should be able to:

1. Identify the phases of development for e-commerce
2. Give examples of Online Advertising/Marketing
3. Identify online property listing systems available to the Real Estate Industry
4. Explain online mortgage and financing options available
5. List at least 3 uses of the internet that enhance client relationships
6. List at least 3 examples of systems that increase Realty Office operational efficiency
7. Explain at least 3 types of online systems for Commercial Property Management
8. Identify at least 6 websites that provide various types of Real Estate Industry information

Development of electronic commerce in all industries, including real estate, generally follows an evolutionary progression. The first phase focuses on providing information to system users. Phase two makes use of the network for more timely, interactive, and effective communications among interested parties. The third phase of e-commerce development uses the network to support and conduct commercial transactions among interested parties.

### **Real Estate Online**

Advertising, marketing, and promotional initiatives are generally among the first online activities. Today, computer networks are widely used for those functions, in many industries, including real estate. These online functions are primarily information sharing initiatives, not transaction processing ones.

#### **Web Sites**

One of the most common online methods to support advertising and marketing or real estate services is a Web site. Web sites may contain advertising and they are commonly structured to serve as a means of marketing and promotions. Successful Web sites share key characteristics, including: ease of use, rapid access, useful and diverse content, and continuously refreshed content. Site developers try to structure the site to attract many different viewers (i.e. increase the “hits” received by the site) and to encourage users to spend more time viewing the site content (i.e. making the site “sticky”). To expand site hits and stickiness, developers attempt to make their sites into online “communities” or “portals” where users find enough information and transaction capability to encourage them to spend more time at the site.

#### **E-Mail**

Another Internet application that is widely used for promotional purposes is electronic mail. E-mail is an effective means to publicize real estate services but it must be used carefully to avoid violation of laws against unsolicited commercial e-mail (i.e. “anti-spam” regulations). E-mail is most effective as part of a permission-based marketing strategy.

#### **Banner Ads**

Web sites commonly sell space for banner ads. These ads are the online equivalent of billboards. Real estate firms are both buyers and sellers of such advertising space.

#### **Click-Through Ads**

Some online advertisers are making increased use of click-through ads, which are more interactive and provide more information to consumers than conventional banner ads. Click-through ads enable users to access more information about the product or service by clicking on the ad icon which will either link them to the advertiser’s full site or to a “mini-site” which provides additional information but does not take the viewer from the original site.

Another common advertising option is purchase of advertising space on search engines (e.g. Lycos, Alta Vista). Many businesses buy “keyword” advertising. They purchase advertising space associated with specific keywords. When a user of the search engine conducts a keyword search using one of the “purchased” keywords, advertising from the purchasing company appears along with the displayed search results. Note that care should be exercised to avoid trademark law problems when purchasing keyword advertising (e.g. do not buy keywords that are trademarks of other businesses).

### **Property Listing Online**

Online systems are also now widely used to provide access to property listing information.

### **MLS Database Online**

Multiple Listing System database is available through the Web. MLS is publicly accessible through multiple Web sites, including [www.realtor.com](http://www.realtor.com), [www.century21.com](http://www.century21.com), [www.remax.com](http://www.remax.com).

### **Informal Online Listings**

Numerous online services now provide access to limited property listings. Examples include: [www.househunt.com](http://www.househunt.com), [www.realtorsexpress.com](http://www.realtorsexpress.com), [www.fractels.com/realestate.html](http://www.fractels.com/realestate.html), [www.allre.com](http://www.allre.com), [www.homeportfoliojunction.com](http://www.homeportfoliojunction.com), and [www.virtualrealestatestore.com](http://www.virtualrealestatestore.com).

### **Sale by Owner**

Some online services specialize in providing information regarding properties being sold by their owners. An example of this service is [www.wirelink.com/realestate.html](http://www.wirelink.com/realestate.html).

## **Electronic Systems for Financing / Mortgages**

Financing activities are increasingly supported by the Internet and other computer-based systems. At present most of that online activity is aimed toward the distribution of financing information, however, in the near future substantial financing transaction activity will be supported by online systems.

### **Mortgages Online Today**

In 1999, approximately \$2.6 billion in residential mortgages were arranged for online (approximately 2 percent of the market). Some estimate that, in five years, that percentage will be closer to 15 percent. The front end of the mortgage process has moved quickly online, but the back end of the process has moved more slowly.

Online mortgage activity has mirrored the overall process of e-commerce development in other industries. The first step of e-commerce activity tends to be rapid expansion of online information sources and systems. The next step is the development of online transaction processing capabilities applicable to the information that is already available online.

### **Current Online Mortgage Systems**

Key Internet-based mortgage systems include:

E-Loan.com ([www.eloan.com](http://www.eloan.com))

Home Advisor ([www.homeadvisor.com](http://www.homeadvisor.com))

Mortgage.com ([www.mortgage.com](http://www.mortgage.com))

LoanApp.com ([www.LoanApp.com](http://www.LoanApp.com))

Loangiant.com ([www.loangiant.com](http://www.loangiant.com))

Ired.com ([www.ired.com](http://www.ired.com))

Bestrate.com ([www.bestrate.com](http://www.bestrate.com))

Quickenmortgage.com ([www.quickenmortgage.com](http://www.quickenmortgage.com))

### **Fannie Mae Online**

Fannie Mae has established significant online presence in support of mortgage information and transactions. That presence has been created through the [www.fanniemae.com](http://www.fanniemae.com) and [www.homepath.com](http://www.homepath.com) Web sites.

### **Commercial Property Mortgages**

Online resources directed toward commercial property mortgages are also developing. One example is Mortgageramp.com ([www.mortgageramp.com](http://www.mortgageramp.com)) and another is Redbricks.com ([www.redbricks.com](http://www.redbricks.com)).

### **Secondary Mortgages Online**

Several online systems are now aimed at the secondary mortgage market, enabling banks and mortgage companies to buy and sell loans using the Internet. Examples include: Ultraprise.com ([www.ultraprise.com](http://www.ultraprise.com)) and Pedestal.com ([www.pedestal.com](http://www.pedestal.com)).

### **Foreclosures**

Information regarding foreclosures is also available online. Services such as [www.foreclosureworld.net](http://www.foreclosureworld.net) provide information in this area.

## **Internet Used to Support / Enhance Client Relationships**

An increasing number of real estate professionals are actively using the Internet and other computer systems to enhance their ability to meet the service needs of their clients.

### **E-Mail**

Many real estate professionals now make aggressive use of electronic mail to support ongoing contacts with their clients. E-mail facilitates continuing contact with the client. A key component of effective e-mail use is to ensure that information distributed to clients is timely and informative.

### **Online Resources for Real Estate Professionals**

Numerous online services provide access to basic tools for use by real estate professionals to support their clients more effectively. Examples of these resources include Vistainfo ([www.vistainfo.com](http://www.vistainfo.com)) and the Real Estate Sales Tool Center ([www.real-estate-tips.com](http://www.real-estate-tips.com)). Other online resources for real estate professionals are provided by the American Real Estate Society ([www.aresnet.org](http://www.aresnet.org)) and by the Institute for Real Estate Management ([www.irem.org](http://www.irem.org)). Online services also provide professionals with access to specialty consultants for particular real estate issues (e.g. The Counselors of Real Estate Web site at ([www.cre.org](http://www.cre.org))). Agents Online ([www.agentsonline.net](http://www.agentsonline.net)) and [www.realestate-resources.com](http://www.realestate-resources.com) also provide information and services to support real estate professionals. Training for real estate professionals is provided through sites such as Star Power Solutions Center ([www.starpowersolutions.com](http://www.starpowersolutions.com)), and Star Power also provides an online referral service (HomeAgent.com). Real estate investment information is provided online through sites including Realty Research ([www.realtyresearch.com](http://www.realtyresearch.com)).

The Internet's usefulness as a system to access specialized information or expertise and as a mechanism to support continuing education and training can be particularly valuable. It is likely that this will be an area of exceptional expansion of Internet use in the real estate marketplace.

### **Broader Geographic Coverage**

Computer networks make it easier for real estate professionals to support clients involved in searches or transactions outside of the realtors immediate geographic region. For example, EstateNet specializes in providing general information on properties located outside of the United States ([www.estate.de](http://www.estate.de)). Real estate information about properties in specific countries (e.g. Australian real estate information at [www.aaa.com.au/matilda/real\\_estate](http://www.aaa.com.au/matilda/real_estate)) or specific regions in the US (e.g. Cape Cod property listings at [www.capecod-homes.com](http://www.capecod-homes.com)) is now available online.

The Internet's ability to help shrink geographic distance makes it particularly useful for real estate professionals who need access to information and people in other regions. If applied to add greater value to customers, this aspect of online activity can be very useful for real estate businesses.

### **Specialty Properties**

Numerous specialty property listings are now online. For example, country properties are the focus of United Country Real Estate ([www.unitedcountry.com](http://www.unitedcountry.com)). Luxury properties are covered by [www.luxury-realestate.com](http://www.luxury-realestate.com).

### **Information Processing Tools**

Some online resources provide calculators and other information processing tools for real estate professionals and their clients. For example, Homefair.com provides cost of living and moving cost calculators at its Web site [www.homefair.com/homefair/cmr/salcalc.html](http://www.homefair.com/homefair/cmr/salcalc.html). Basic information for consumers regarding real estate transactions is available at sites such as the ABC's of Real Estate ([www.realestateabc.com](http://www.realestateabc.com)).

### **Online Transactions Support**

Online systems are now widely used to provide information to clients and to support advertising/marketing/promotional initiatives. The next phase of computer network use in the real estate industry is to support commercial transactions, both those involving clients and those necessary for effective operation of the real estate office.

There are currently a variety of software-based and online operational support systems in use by the real estate industry. These systems are intended to improve the efficiency of real estate business operations, thus reducing operating expenses and enabling the businesses to serve more effectively the clients needs.

Synteleos, Inc. offers real estate transaction software to real estate offices, on a “hosted” basis ([www.synteleos.com](http://www.synteleos.com)). Transaction Network Management software links all parties involved in the real estate sale transaction process (buyers, sellers, agents, lawyers, home inspectors, etc.). This software is now in use by 1,500 real estate offices in the Chicago area, through the Chicago Association of Realtors. The Chicago association expects that by the end of 2000, 15% to 20% of their sales transactions will use the system and 75% to 80% will use the system in the next three years.

### **Internet Based Systems for Realty Office Professionalism**

An increasing number of real estate businesses now recognize that online systems carry great potential to enhance the efficiency of their office operations. Associated cost reduction can be the key to preserving profitability while reducing prices and increasing the quality of client service.

These systems add value to real estate businesses and their clients by streamlining office operations and reducing operating expenses.

#### **Microsoft’s Realty Desktop**

Microsoft has released a software package aimed at real estate agents. Realty Desktop is designed to support the standard operational activities of real estate offices.

#### **IProperty.com**

A new company that provides Web-based services to real estate agents enabling them to manage their office operations and transactions more efficiently.

#### **Other Real Estate Operations Support Software**

Numerous other software products to support real estate professionals are available online. Examples include [www.realworks.com](http://www.realworks.com), [www.realdata.com](http://www.realdata.com) and [www.aufrance.com/reint.html](http://www.aufrance.com/reint.html).

#### **Intranets**

Some real estate offices are making aggressive use of intranets to enhance office efficiency. For example, use of personal Web pages for all professionals in an office to support a variety of important office and transaction functions including: distant access for e-mail, generation of forms, contracts, advertising, templates for letterhead, business cards, promotional flyers, accounting/finance information access, and transactions/event status monitoring.

Intranets use the same technologies and systems that enable businesses to support external online activities (e.g. e-mail, Web sites, online transactions) to serve communications and information sharing among employees and clients of the business, as well. Just as online resources empower consumers, they can also be used to empower employees. Intranets help to link geographically distant offices of a company, and they enable employees to access all of the resources of the business (e.g. forms, customer information, human resources information, training) quickly and easily. In a real estate setting, for example, an intranet would enable a single agent to access the firm’s e-mail system from remote locations, generate forms or contracts as needed, create advertising material (e.g. brochures, ad copy), place ads in publications, and monitor the status of particular accounts or transactions. Intranets can be expanded to give the firm’s clients access to information regarding their transactions or accounts through the firm’s Web site, in a secure manner.

#### **Forms and Documents**

Several online services now provide a resource for real estate professionals as they attempt to develop and maintain forms and other documents required for their transactions and office operations. For example, [www.realestateforms.net](http://www.realestateforms.net) provides an online catalog containing basic transaction forms used in several different jurisdictions.

### **Online Systems for Commercial Property Management Relationships**

Online systems are becoming highly popular in the commercial property management environment. Effective use of these systems will significantly increase the value real estate professionals can add for their commercial clients.

Enterprises involved in the commercial property market have actively adopted e-commerce systems. Much of this trend has been driven by the need to contain costs and to respond to client demands.

### **Commercial Property Information Sources**

Numerous online resources provide information and support for commercial real estate transactions. The Commercial Investment Real Estate Institute's Commercial Real Estate Network ([www.ccim.com](http://www.ccim.com)) is one example. Commercial property listings are available at ComSpace.com ([www.comspace.com](http://www.comspace.com)) and Cityfeet.com ([www.cityfeet.com](http://www.cityfeet.com)).

### **Commercial Property Brokers**

Several major traditional commercial property brokers have developed significant online presence (e.g. Cushman & Wakefield ([www.cushwake.com](http://www.cushwake.com))). Internet-oriented commercial property services such as LoopNet ([www.LoopNet.com](http://www.LoopNet.com)) are also active in this market space.

### **Online Buying Cooperatives**

Commercial property management firms are making active use of the Internet to reduce their property management costs. For example, several leading commercial real estate services companies have created an alliance to develop an online procurement cooperative which will help them to reduce the cost of purchasing the various goods and services they must acquire in order to manage commercial properties. CB Richard Ellis Services, Inc., Jones Lang LaSalle, Inc., and Trammell Crow Company have agreed to form this online procurement enterprise. This process will enable them to aggregate their buying power, reduce prices and the costs associated with procurement transactions.

Use of the Internet to support coordinated purchasing efforts is one of the leading applications of the system in the commercial property marketplace today. A property management firm (or a group of such firms) can use the Internet in the same way that large buyers in other industries are using the system to identify the most attractive product prices, to place their purchase orders in the most efficient manner, and to obtain bulk purchase discounts by aggregating purchase orders. This process reduces the operating expenses of the property managers, and it enhances the quality of the service they provide to their clients.

### **Project Constellation**

Eleven real estate companies are investing \$135 million to create a company that will establish and operate a commercial property development and management Web portal. The company will create and support e-commerce businesses that delivers products and services to commercial properties tenants and users. Participating real estate companies include owners and developers of shopping malls, office buildings, industrial buildings and apartment buildings. Also investing are real estate services companies. Key investors in the project include: Simon Property Group, Inc., Equity Residential Properties Trust, Equity Office Properties Trust, AMB Property Corp., Spieker Properties, Inc., Kaufman & Broad Home Corp., CB Richard Ellis Services, Jones Lang LaSalle, Trammell Crow Co., and Chase Manhattan Corp.

The Project Constellation initiative represents a step beyond the online purchasing collectives now being created by commercial property managers. Project Constellation creates a purchasing collective, but it also establishes a business development function which will be used to fund the creation and development of new businesses that can provide valuable goods and services to owners, renters, and users of the commercial property in question. The commercial property managers in this venture will thus attempt to ensure the expansion of the number of goods and services available to their clients by identifying and investing in businesses that can provide that additional client value. For example, Project Constellation will identify and fund businesses that provide goods and services of value to tenants in commercial office space and shoppers in shopping malls, so that those goods and services can be provided, subject to favorable terms, at the properties owned and managed by Project Constellation's owners.

### **Internet Use by Builders and Lease Managers**

Builders and property lease managers are rapidly expanding their online systems use. This enables builders and property managers to reduce operating costs and provide enhanced value to customers.

Builders and rental property managers are using the Internet as a means both to provide greater value to their customers and to reduce their operating costs.

**Builder Homesite, Inc.** Eleven major residential construction companies have formed Builder Homesite, Inc. to create an online directory of the new homes constructed by the companies. The online system will enable buyers to obtain information about new homes and make purchases. The Web site will also sell ancillary products (e.g. furniture, home security products) to buyers.

### **Residential Rental Properties**

Online services now support residential rental searches and transactions. Systems such as SpringStreet ([www.springstreet.com](http://www.springstreet.com)) provide information and support for rental relationships and ancillary activities (e.g. moving).

Information and transaction support for ancillary services for renters is an area of particular focus for online service providers. These online resources enable renters to obtain electronic access, for example, to moving companies and providers of other services that are a necessary part of relocation.

### **Commercial Property Directories**

Several enterprises now offer commercial property lease information to tenants. Those companies include: CoStar Group, Inc. ([www.costar.com](http://www.costar.com)), PropertyFirst.com, Inc. ([www.propertyfirst.com](http://www.propertyfirst.com)), LoopNet, Inc. ([www.Loopnet.com](http://www.Loopnet.com)), and RealtyIQ.com ([www.realtyiq.com](http://www.realtyiq.com)). These online systems focus on providing information to tenants but do not provide for direct online lease closing.

### **Developers Online**

Online services specializing in the development of real estate property have also become active. For example, EquityCity.com provides an online service to match developers with investors ([www.EquityCity.com](http://www.EquityCity.com)).

### **Goldman Sachs Commercial Leasing Venture**

Goldman Sachs Group, Inc. will invest approximately \$40 million to create a Web-based service to match commercial property tenants with owners. This system differs from the commercial property directories, as it will support direct online lease closings. The system is now operating in Houston and Washington, D. C. and is expected to be operational by the end of 2000 in New York, Chicago, San Francisco, and Dallas as well.

The initial focus is on smaller commercial lease transactions (e.g. leases for 5,000 to 20,000 square feet, at \$5 million to \$50 million value).

The Goldman Sachs venture is of particular interest as it is one of the first that appears to be challenging, in part, the traditional role of commercial property brokers. The initial plan for the venture involves use of the online system to match tenants directly with property owners, and to integrate selected brokers into the transactions only for those transactions that are of exceptionally large dollar value or have some complicated feature. To the extent that the venture adopts this business model, it presents an interesting example of a limited form of disintermediation in the commercial property marketplace.

### **Real Estate Industry Online**

Online marketplaces, or “portals”, attempt to serve as the primary online information source for customers interested in a particular subject or market. They seek to meet all user needs through a combination of useful content provided at the Web site and access to content available at other, associated sites. The real estate industry has begun to develop several such portals, including Realtor.com ([www.realtor.com](http://www.realtor.com)) and HomeStore.com ([www.homestore.com](http://www.homestore.com)).

The first real estate portals have been directed by industry-wide organizations and associations, thus their focus and structure tend to be more open than those portals developed by individual businesses.

### **Other Real Estate Portals**

Other major realtors have also established major online real estate portals. Century 21 ([www.century21.com](http://www.century21.com)), Coldwell Banker ([www.coldwellbanker.com](http://www.coldwellbanker.com)), ERA ([www.ERA.com](http://www.ERA.com)), and Long and Foster ([www.longandfoster.com](http://www.longandfoster.com)) are some examples. Groups of smaller brokers are also moving toward development of online portal structures to reach and support their clients. Initiatives such as [www.homeservices.com](http://www.homeservices.com) provide an example of this developing trend.

As individual real estate firms develop significant online presence, there is a continuing struggle between their efforts to promote their own individual “brand” in the site with the sometimes-conflicting need to provide diverse information at the site in order to attract and retain consumers. This conflict is the same one that is now being addressed in virtually every industry. On the one hand, enterprises that have well-known and respected brand identities want to take advantage of that asset in their online initiatives. On the other hand, some of those firms have discovered that online consumers see greater value in online resources that provide them with a wide range of information and options and let them make their own comparisons. The balance sought is one that enables the owners of well-known brands to use those assets to capture online attention, while also providing enough open, diverse information and options to consumers to satisfy their desire to access and apply online resources as they see fit.

### **General Commercial Portals**

Several major commercial portals outside of the real estate industry have also established significant real estate sections within their portal structure. For example, Yahoo! Real Estate ([www.yahoo.com/r/yr](http://www.yahoo.com/r/yr)) and Netscape through its Digital City local property listings ([www.netscape.digitalcity.com](http://www.netscape.digitalcity.com)) have created consumer-oriented real estate information centers.

In addition to these general commercial portals, real estate content is now provided online through other online service providers. For example, America Online has a real estate information center as part of its Personal Finance “channel.” AOL subscribers thus have access to property listings, message postings, calculators, and ancillary services (e.g. information on moving and rentals) through the AOL service. AOL links directly with specific real estate industry players (e.g. Quicken Loans, Century 21).

We are likely to see development of more interesting alliances between significant online brands (e.g. Yahoo, Amazon.com) and major real estate brands. Such alliances will serve the needs of both groups – enabling the online brands to diversify the portfolio of value-adding content and services they provide to their customers and also enabling the real estate brands to obtain a more visible online presence in addition to access to the most current available online technologies and systems for use by their customers (e.g. online transaction processing systems).

### **Characteristics of Successful Commercial Portals**

Successful commercial portals are easy to access and use. They contain useful, current information and they support a variety of transactions.

Portals are designed to try to attract large numbers of users and to persuade them to spend a significant amount of time at the site. In addition to providing current, useful data, portals must also provide features and functions that are valuable to the user. These sites commonly provide features such as free e-mail, transaction processing, and chat/instant messaging capability. These features and functions help attract users and keep them at the site. Real estate industry portals have not expanded their features as extensively as have sites in other industries, but this will change in the near future.

## **Section 2 Review**

11. To expand the number of hits to a web site, developers attempt to make sites narrow and specialized. T / F
12. Financing transactions are the most common form of financial/mortgage systems used online today. T / F
13. Information of foreclosures is not available online. T / F
14. E-mail is becoming an important tool in maintaining communications with clients. T / F
15. Computers and online access are making it easier for Real Estate Professionals to search for transactions outside their immediate region. T / F
16. The main purpose of online systems is to provide information to clients and promote marketing/advertising initiatives. T / F
17. iProperty.com is an example of a program that allows Real Estate Professionals to manage their offices and expenses more efficiently. T / F
18. There is not a lot of information available online to Commercial Real Estate agents. T / F
19. Builders and rental property managers use the Internet to reduce operating costs and provide greater value to their customers. T / F
20. Online marketplaces are a narrow resource and attempt to provide information on only one portion of a subject or market. T / F

## **SECTION 3: REAL ESTATE E-COMMERCE TRENDS**

### **Learning Objectives - After completing this Section, students should be able to:**

1. Explain 2 components of E-Commerce
2. Give 3 examples of online transactions
3. Explain the changing role of Real Estate Agents as it pertains to technology
4. List examples of online systems that will enhance current brick and mortar companies
5. Describe some key online legal issues that will be raised as new technology emerges
6. Give examples of creative partnerships that are evolving with the Real Estate Industry
7. Discuss new transaction methods that are evolving with the Internet

### **Online Transaction Processing**

One of the key aspects of future e-commerce development in the real estate industry will be increased use of computer networks to process real estate transactions. In the future, consumers and real estate professionals will also use those networks to negotiate and execute real estate transactions.

Electronic commerce has two key components: information access/processing and online transactions support. The dramatic expansion in the future will focus primarily on the transaction support function.

### **Online Contracting**

Online systems are moving to a position to support negotiation and execution of contracts associated with real estate transactions (e.g. sales, lease, financing). Key aspects of this continuing trend include advances in network security and modifications to commercial transaction laws necessary to facilitate electronic contracting. Key policy initiatives in this area are underway, such as the movement in state legislatures to adopt the Uniform Electronic Transactions Act (UETA). Legal requirements associated with electronic signatures, identity verification, and electronic documentation validity are important, and are yet to be resolved.

UETA and other forms of electronic transaction legislation are designed to make sure electronic contracts and other forms of electronic documents and records receive the same legal status, as do documents in traditional form. These laws do not require the use of any specific system or technology for the electronic transactions. Instead, they try to leave the interested parties free to apply the systems/technologies that they prefer. In the future, more jurisdictions will increase the scope of electronic commercial transactions that they recognize to be legally valid and enforceable. Governmental authorities will increasingly treat electronic transactions, documents, and records as the legal equivalent of the traditional written form.

### **Development of Common Standards and Practices**

Technical and operational standards must be developed to support efficient secure processing of online transactions. Standards are important to ensure that the various online systems and databases developed by the real estate industry are openly accessible and operationally compatible.

Technical standards play a key role in e-commerce development in all industries. The policy balance that must be struck is promotion of standards sufficient to ensure that e-commerce systems and transactions are all compatible with each other while avoiding excessive standardization that could slow e-commerce expansion rate and impede innovation.

### **Real Estate Transactions Standards (“RETS”)**

The National Association of Realtors has played an active role in the development of the Real Estate Transactions Standards. RETS is a set of technical standards that will be used as the basis for future Web-based transactions, forms, and documents commonly used in the real estate industry. Adoption of RETS will help to ensure compatibility and interoperability among the various online transaction processing and information sharing systems developed by various participants in the real estate marketplace. NAR’s work in the development of RETS is an example of prudent industry cooperation on an important standards issue.

### **Electronic Professional Program**

An example of an industry-sponsored online standards program is the Electronic Professional Program (“e-PRO”) implemented by the National Association of Realtors. The e-PRO system provides an instructional and certification

program for real estate professionals ([www.eproinfo.com](http://www.eproinfo.com)). This system delivers online instruction as to: effective use of the Web and e-mail for marketing and operations, development of effective online relationships with customers, reduction of security, legal and regulatory risks when online, and management of new Internet-based business models. Those who successfully complete the e-PRO program can display the e-PRO certification logo on their public material.

Systems that assist real estate professionals to make effective use of e-commerce are valuable initiatives. In the near future, e-commerce expertise will be an important source of competitive advantage. It will provide an important basis used by consumers for distinguishing among competing real estate service providers and will enable some providers to protect their profit margins even as competition increases.

### **Avoiding Disintermediation**

In order to function effectively in the future, real estate professionals must find ways to add value to client relationships. In the near future, clients will be using computer systems to obtain access to far more relevant information than they have access to today. The new value-adding functions may be substantially different than the traditional functions real estate professionals performed in the past.

Several key steps should be taken by real estate professionals to help them avoid being displaced as more and more clients move online.

### **Understand the New Medium**

Real estate professionals, like professionals in all other industries, should study the online medium and understand its opportunities and challenges. There are many sources ranging from formal, industry-sponsored sources such as the National Association of Realtors, to informal sources (e.g. the Real Estate Cyberspace Society at [www.recyber.com](http://www.recyber.com)). Consulting a wide range of such resources can be an effective first step for real estate professionals.

To make effective use of the Internet and information technologies, real estate professionals must understand those systems and technologies and must find ways to keep that knowledge current even as the technologies rapidly advance.

### **Adding Value**

Increased use of online resources makes it easy for buyers and sellers to obtain basic information quickly and inexpensively on their own. In this environment, realtors must find ways other than serving as a conduit for information to add value to their clients. As one industry observer noted, agents can no longer simply “drive the taxi, for their clients”. Basic information about specific property and the purchase/sale process will be readily accessible to clients directly. To add value to those clients, agents must help their clients to put all of the information they have obtained into proper perspective and to make good decisions based on that analysis.

### **Counselor not Conduit**

To add value in the online environment, realtors should be counselors for their clients, not information conduits. As clients have access to more information, the need for assistance to process, analyze, and evaluate becomes more pressing. Realtors should play the role of the advisor.

### **Building Long-Term Relationships**

One way to add additional value is to cultivate long-term relationships with clients. These relationships should be less focused on the single buy-sell transaction and should instead consist of value-adding functions that extend well beyond the property sale. Real estate professionals should find ways to help clients access ancillary services that are related to the ongoing ownership and management of the property that they buy or lease. These additional, longer-term services are likely to include:

1. Home Cleaning and Maintenance
2. Property Landscaping
3. Security Systems and Services
4. Telecommunications/Other Utility Mgmt
5. Remodeling and Interior Design
6. Concierge Services

The strategy behind offering connections to these ancillary services is that access to these service providers offers longer-term value to the client. Access to concierge and remodeling services, for example, remain valuable to home buyers long after the sale has been completed. If a real estate firm can create an online portal that supports the client through the entire purchase transaction, then continues to add value to that client by providing a gateway to goods and services needed for the duration of the buyer's residence in the property, then the real estate firm has used the Internet to transform its relationship with the customer from one based on a single transaction to a relationship that can span many transactions. The firm thus effectively uses its initial contact with the client as an entry point into a long-term relationship. When that client is then ready to sell the old property and buy a new one, the firm is ideally positioned to handle the new real estate transactions, as those transactions are simply extensions of a continuing commercial relationship.

To handle these ancillary goods and services successfully, real estate firms will need to explore alliances and joint initiatives with the providers of those goods and services. A key aspect of effective implementation of those alliances will be effective coordination and integration of the e-commerce systems and capabilities of the firms involved.

### **Establish a Trusted “Brand”**

In the online environment, customer trust is often even more important than it is in the traditional marketplace. Enterprises that build customer trust create the most powerful online brands and will be best positioned for long-term success, as those brands will attract customers. The Internet makes vast amounts of information from a nearly infinite number of sources available, and in that setting, individuals will rely first on those sources that they know and trust. If trust is lost the commercial consequences are likely to be devastating.

E-commerce businesses are discovering that building an effective brand requires successful satisfaction of several objectives. The business must provide its customers with useful, accurate information that is timely and easily accessible. The business must have an online presence that is secure and attracts (and retains) the customer's attention. Finally, the online business must be able to support effectively the online transactions it solicits, and it must deliver everything that it promises to its customers.

### **Bricks & Clicks**

One of the most important future areas of focus for real estate professionals is the need to find ways to make use of online capabilities to supplement and to enhance their brick and mortar operations. The key to successful integration of online and traditional systems is to remember that the Internet is simply another communications and information management tool for use by businesses. Online systems should not be adopted simply for the sake of having an online presence, instead they should only be adopted to the extent that they enhance revenues, reduce costs or add additional value to customers.

Online activities should be evaluated and assessed based on the extent to which those activities can be effectively coordinated with brick and mortar functions. Every online initiative should be examined to determine how it could best be structured to supplement or enhance traditional business operations, and every traditional business operation should be examined to see how it could be improved or even replaced by an online activity.

### **SOMA Living System**

A California company, SOMA Living, blended online and traditional brick and mortar operations for real estate sales. It operates a storefront where buyers can make use of high-speed Internet access and databases to check listings, builder information and other online material, and buyers can also consult with licensed real estate professionals, who staff the facility, and are employed by the company.

### **Education and Training**

Computer-based systems have substantial value as a resource for education and training for real estate professionals. To the extent that those systems are developed and integrated effectively into real estate business operations, the benefits for realtors and their clients will be significant and long-term.

The most successful e-commerce enterprises will be those that most effectively integrate online business activities with the brick and mortar ones. Only a very few types of businesses can operate most effectively as purely online operations. Similarly, only very few businesses can reach optimal efficiency with no computer network use. The majority of businesses will find that their optimal business structure will consist of blending brick and mortar and

electronic operations. Thus the majority of businesses will struggle with this need to foster optimal integration of traditional and electronic business functions.

### **Managing Key Online Legal / Regulatory Concerns**

Expanded use of e-commerce in the real estate industry will raise important issues of legal and regulatory compliance, just as similar initiatives have in other industries.

Greater reliance on electronic economic relationships and commercial transactions raises many different legal compliance issues. Compliance is made more challenging due to applicable laws and rules not being firmly established or articulated.

#### **Commercial Transactions Law**

As more real estate transactions move online, real estate professionals must ensure that the electronic systems they use to support those transactions comply with all legal requirements associated with the formality and security of those transactions. Several states have already enacted laws that facilitate use of electronic systems for commercial transactions (e.g. the Uniform Electronic Transactions Act). More jurisdictions are certain to enact similar requirements in the near future.

Real estate professionals should continue to monitor the evolving state of commercial transactions law as it is applied to electronic transactions. In addition to UETA, a second uniform commercial statute that is under consideration in many states is the Uniform Computer Information Transactions Act (UCITA). UETA and UCITA are two examples of efforts by the legal community to find ways to facilitate increased use of electronic systems to process and support commercial transactions. Information UETA and UCITA is available at the National Conference of Commissioners on Uniform State Laws Web site ([www.nccusl.org](http://www.nccusl.org)). As laws expand to authorize broader use of electronic transactions, real estate professionals should be prepared to quickly integrate new transaction systems into daily practice.

#### **Licensing Requirements**

In all industries in which services are regulated (e.g. medicine, law, securities trading), increased Internet use has raised regulatory issues associated with compliance with licensing requirements. E-commerce is multi-jurisdictional, by nature, but many industries have specific licensing requirements that differ from jurisdiction to jurisdiction. Real estate licensing and regulatory requirements imposed by various jurisdictions must still be complied with, even in the age of e-commerce. These compliance issues must be carefully considered as e-commerce initiatives are planned and implemented.

Businesses that make use of e-commerce systems must make sure that their online activities comply fully with industry requirements in all jurisdictions in which their online operations reach. This multi-jurisdictional compliance requirement is an important part of e-commerce business initiatives.

#### **Antitrust Issues**

As more real estate industry participants move their operations online through collective operations (e.g. commercial portals and online marketplaces), there is an increasing need for oversight to ensure compliance with all relevant antitrust and competition laws. Antitrust regulators (e.g. the U.S. Dept. of Justice, the Federal Trade Commission, and state attorneys general) are focusing enforcement attention on e-commerce initiatives (e.g. the U. S. Dept. of Justice is currently investigating potentially anticompetitive conduct in the online real estate listing industry.).

The U. S. Dept. of Justice has issued subpoenas to obtain information from real estate industry participants including Homestore.com, Inc. This investigation is an examination of potentially anti-competitive conduct associated with access to online listing information. E-commerce initiatives have become an area of increased attention for antitrust regulators. As development of online commercial marketplaces involving multiple industry participants increases, antitrust concerns will also increase. Federal, state and foreign regulators enforce antitrust laws. Those laws are intended to protect fair competition in all commercial markets. E-commerce initiatives that involve competitors working together or unequal treatment of industry participants should be approached with caution.

#### **Intellectual Property Management**

Online systems create challenging environments for effective protection and management of intellectual property (e.g. copyrights, trademarks, patents).

Many e-commerce systems rely heavily on distribution and use of material protected by copyright, patent or other forms of intellectual property laws. As businesses make increasing use of e-commerce, they find that they must manage the intellectual property created by other parties and at times manage development and use of intellectual property that they have created. At present, there are several areas of increased intellectual property law concern that directly affect e-commerce (e.g. the expansion of patents associated with “business methods”). Many of the key e-commerce systems (e.g. reverse-auctions, “one-click” online purchase systems) have been granted patent protection, but the scope of the enforceability of those patents remains uncertain. Copyright issues associated with online content and software are widespread. As your enterprise becomes more active in e-commerce, intellectual property management issues merit substantial attention.

### **Privacy and Security**

Laws and regulations in many jurisdictions are devoting increasing attention to the need to protect privacy of consumer information and security of computer systems. As real estate professionals make expanded use of computer networks, compliance with data privacy and network security obligations will become increasingly important. Treat client data and network security as critically valuable commercial assets, and manage their use accordingly.

Concerns regarding information privacy and computer network security are major areas of legal concern. Current initiatives are underway that expand the scope of protection provided by law with regard to “personal data” – information about individual people that can be readily linked to the person in question by use of an identifier (e.g. name, address, social security number). Recent initiatives in the U. S. place certain restrictions on acquisition and use of personal data obtained from children and personal data pertaining to financial or medical status or condition. Some states and other countries (e.g. the European Community) have been more aggressive about restricting access and use of personal data. The Federal Trade Commission has expressed interest in expanding the scope of data privacy regulation at the federal level in the U. S.

As much of e-commerce revolves around acquisition and use of information about customers, privacy controls associated with that information take on important commercial implications. E-commerce operations must monitor carefully the evolution of personal privacy laws in all relevant jurisdictions. Effective management of such data is essential in order to ensure legal compliance, but that management is also a vital part of the process of cultivating and maintaining customer trust. Customers will trust and reward those online businesses that treat them as they want to be treated. Effective protection of personal data from customers is thus potentially a source of competitive advantage for businesses that manage the process well.

Network security is another key legal compliance issue. E-commerce businesses have both legal and commercial obligations to protect their networks from unauthorized use. Businesses must be prepared to do the best they can to invest in effective network security measures (e.g. encryption, firewalls, network use monitoring systems, secure physical facilities, insurance for network misuse and data compromise). This may mean spending a bit more money, but enterprises should recognize that this type of investment is now just a part of the cost of doing e-business. Just as one would not open a traditional store without adequate security measures (locks, alarm systems, insurance), one should not conduct electronic business without similar basic protection.

### **Adding Value for Clients**

To add value more effectively for their clients, real estate professionals are developing non-traditional online alliances. One example is the alliance between online rental services, SpringStreet, with online pet supplier retailer, Petstore.com. The alliance makes use of links and information sharing/coordination between the two online services, enabling both enterprises to expand customer reach and to serve their current customers more effectively.

### **Jumphome.com**

Another example of the future trend in creative online partnerships is provided by Jumphome.com ([www.jumphome.com](http://www.jumphome.com)). Jumphome.com is a service that enables homebuyers to make their utility connection arrangements online, in advance of moving into their new homes. This service is made available at no charge to the homebuyer (the utility companies pay Jumphome.com). Real estate firms are now moving to expand their alliances with Jumphome.com in order to enhance the quality of the services they can offer to their buyer clients.

### **Free Equipment and Services**

Some enterprises in the real estate marketplace are likely to explore promotional options such as making free or low-cost computers and Internet access available to their clients as part of an effort to build a longer-term relationship with those clients. Loangiant.com is an example of one company currently exploring this approach. It is also likely

that the various real estate portals will soon provide additional free services (e.g. e-mail, Web site hosting) to their clients as part of an effort to attract and retain more customers.

Creative use of alliances is an essential element of future e-commerce. No single business can provide online customers all of the content and transactions that they seek. In order to attract and retain the attention of these customers, businesses must continue to develop more valuable content and functions for them. The most effective way to accomplish this task is to develop and expand effective alliances with other online businesses that offer goods and services of value to customers. As noted previously, those alliances can include online relationships with providers of goods and services that are ancillary to (or associated with real estate). Alliances with well-known and successful online businesses (e.g. Yahoo) can also be effective. Also of interest to the real estate community are potential alliances with large retailers that are developing significant online presence, such as Home Depot or Lowes. In every instance, however, the merits of an alliance should be judged by the extent to which the alliance is likely to add greater value to clients.

We will also likely see the development of alliances between real estate companies and computer equipment/service companies. For example, an alliance between a realtor and an Internet service provider (e.g. Starpower) could give the realtor preferred access to the ISP's customers and it could give the realtor's customers free or low-cost Internet access. Similarly, an alliance between a realtor and a computer equipment provider (e.g. Gateway) could help the realtor's clients obtain access to computers and the Internet, subject to favorable terms. An alliance between a large realtor (e.g. Remax) and a major computer equipment provider (e.g. Hewlett-Packard) could result in H-P equipment and Internet access for employees and clients of the realtor, along with H-P provision of e-commerce development and hosting services for the realtor's online presence.

Although none of these alliances have yet formed in the real estate industry, similar alliances are in place in other industries (e.g. Ford and H-P have entered into an alliance under which Ford buys computers and Internet service for its employees from H-P, subject to favorable terms, and H-P builds and manages the Ford system) and we are likely to see them in the real estate marketplace soon.

### **New Transaction Methods Offered Online**

Online systems can support auction sale mechanisms for real estate purchases. Online auctions are highly popular for an increasing number of consumer and commercial transactions. The company, eHome is starting to offer homes for sale in California using online auctions.

The dramatic expansion of the online auction system opens the door for possible future alliances between auction providers and real estate businesses. For example, technology and systems developed by eBay or other auctions leaders could be used to drive future real estate auctions systems (e.g. online auctions for access to time-sharing vacation property or, in the future, actual property rental or purchase). But the expansion of online auctions has also raised some interesting challenges. For example, online auction operators such as eBay struggle daily to make sure that their sites are as free as possible from fraud.

### **Unbundled Services**

In the future, clients will seek different levels of service from real estate professionals. Realtors should be prepared to offer a menu of services on an "unbundled" basis. This structure enables each client to select the services sought from the agent.

Unbundling of services is a process that is being rapidly driven by the Internet. Not all customers have the same needs, so service providers must be prepared to offer a "menu" of services, empowering clients to select those services they want. Online systems provide an efficient and effective mechanism to support these unbundled service offerings, empowering customers to mix-and-match the services they choose to purchase.

### **Alternative Fee Structure**

Unbundled services require more flexible fee structures. Fees charged to clients should be based on the level of service provided. Real estate professionals should also be prepared to offer flat fees for certain, more limited, services.

Alternative fee structures are a natural extension of the unbundling of services and empowerment of customers. To add value to a wide range of clients and to compete effectively, alternative fee structures should be implemented.

## **New Technologies**

Technology continues to advance dramatically and will continue to expand online tools. Useful new technologies on the horizon include: mobile access devices (including handheld equipment), online scent/aroma distribution systems and 360 degree video systems. To make effective use of new technologies, continuing training and education are essential. It is helpful to monitor new technology adoption initiatives in other industries (e.g. financial services) as part of a benchmarking process.

New technologies continue to develop at an incredible rate, and innovative businesses find effective ways to integrate the most useful of those technologies into practice first. For example, digital video systems (Including the 360 degree systems that enable full vision images to be accessed through Web sites and e-mail) are now in commercial use by real estate professionals to help clients get a better sense of the property they are considering. Several young companies have recently made breakthroughs in technology that would enable aromas to be communicated through the Internet (e.g. TriSenx, Inc. and Senselt Technologies). Imagine being able to smell freshly baked cookies or bread as you viewed 360-degree images of a house you were interested in online. Virtual reality systems are increasingly used to permit participants to have an “immersive” experience from a distant location, another potentially valuable tool for a potential buyer of real estate, a property manager or the designer/builder of some property.

New technologies should not be adopted simply because they are new. Adoption of new technology should be based on an assessment of the ability of that new technology to increase profitability or to enhance customer service. In the world of electronic business, however, where customer demands continue to increase, where competition is fierce, and where there is always an immediate need to respond to changes in market conditions, effective adoption of new technology is not a luxury, but is instead a competitive necessity.

## **Section 3 Review**

21. The U. S. Government developed Real Estate Transaction Standards (RETS). T / F
22. It is not important for Real Estate professionals to understand and learn a lot about the Internet and other new technologies. T / F
23. With so much added competition online it is important that companies create a powerful online image that builds client trust. T / F
24. Real Estate companies should implement as much new technology as they can without regard to the actual value it adds to the enterprise. It is more important to just have a presence. T / F
25. UETA is an example of a commercial transaction law that have been enacted recently in many states. T / F
26. Creative alliances are becoming very important in the future of e-commerce as a means to provide more value added services to clients. T / F
27. Online auctions are becoming less popular in consumer and commercial transactions. T / F
28. In the future, some clients will seek different types of services in that they are sold separately or “unbundled” rather than a full service experience. T / F
29. The advance of technology will have little effect on the Real Estate industry. T / F
30. The implementation of technology is a luxury that Real Estate professionals do not need to adopt. T / F