



D.A.N.G.E.R.

definitive analysis of negative game changers emerging in real estate

REPORT

canada edition

researched and authored by



Swanepoel
T3 Group

commissioned by



canada **D.A.N.G.E.R.** report

Definitive Analysis of Negative
Game Changers Emerging in Real Estate



THE CANADIAN REAL ESTATE ASSOCIATION

The Canadian Real Estate Association (CREA) is one of Canada's largest single-industry trade associations. Our membership includes more than 100,000 real estate brokers, agents and salespeople, working through over 90 real estate Boards and Associations across Canada. CREA works on behalf of the public and its REALTOR® members. To do so, it assists our REALTOR® members to better serve their clients. CREA represents the interests of its members to the federal government and its agencies on existing or proposed legislation that will affect those members. Our advocacy to governments continues to influence legislation for the benefit of homeowners. We also support our members with leading technology services, including REALTOR.ca, the Data Distribution Facility (DDF®), Webforms® and REALTORLink®.

In addition, CREA enhances member professionalism and ethics by providing national standards, including establishment of symbols of quality associated with using CREA brands and trademarks. CREA also produces accurate, up-to-date information and analysis on economic issues. CREA's vigilant eye on the economy and government, plus the economic statistics and analysis we provide, enhance our members' knowledge. This in turn can improve the quality of advice they can provide to clients.

Message from CREA Leadership

"The dangers of life are infinite, and among them is safety." – Goethe

When things are going well, it's often hard to imagine it being any other way. The Canadian real estate industry has enjoyed a prolonged period of prosperity and REALTORS® are an optimistic bunch. We are a profession of self-starting, extroverted, type-A, "people." Over decades we have shown that we can adapt and thrive in varying conditions.

But there is no safety for our industry in counting on things being as they always have been. Change is everywhere, and it is not always clear when it is going to be disruptive.

It is in that spirit that we embraced the ethos of the Danger Report, a thoughtful, sober ex-

amination of the state of our industry yesterday and today, with a view to tomorrow. Stefan Swanepoel has a track record of asking the questions that need to be asked, sniffing out the cultural and economic trends that are brewing, and synthesizing the information in a way that it can be used to foster important conversations about the future.

We hope you will read this report and take part in the conversations we need to have to steward our industry into a prosperous tomorrow. We need all of us working together to make this happen.

Join us.



Pauline Aunger
CREA President

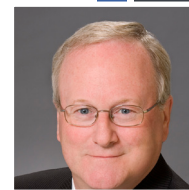


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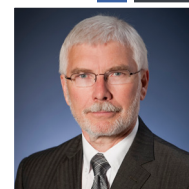
"Danger can never be overcome without taking risks." – Latin Proverb



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SWANEPOEL | T3 GROUP

As the leading management-consulting firm in the residential real estate industry in North America, the Swanepoel brand has become synonymous with quality market intelligence by publishing its annual *Swanepoel Trends Report*, the *Swanepoel Power 200*, and the *T3 Tech Guide* as well as a large portfolio of white papers under the *Real Estate Confronts* brand. Founded in 1997, the company has served several hundreds of firms over the last 20 years.

The Swanepoel T3 Group serves as host of the annual T3 Summit, real estate's foremost leadership conference where CEOs meet to address industry-wide challenges. The Group is the creator of T3 Fellows, a program providing top producing salespeople and fast growing teams with the best practices, business systems, and a roadmap for how to build a successful real estate company.

The Group's consulting arm, T3 Sixty, has an extensive and experienced cadre of management consultants that are skilled in creating and implementing strategies for high growth organizations and focuses on creative new strategies and innovative technology solutions.

Preface from the Author

The *D.A.N.G.E.R. Report* addresses a key step in a strategic planning process by asking one simple question: What are the threats that could impact the residential real estate industry?

As we often view the industry through a distorted lens, based on some facts and a lot of conjecture, we decided it was time to change that approach. This Report is a bold attempt to answer that question and help the industry wrap its arms around the future. And while the future is not all doom and gloom, a single event has the potential to change the future and that should never be underestimated. Some risks or threats identified in this report may build slowly over time while others may be overnight surprises. Remember to always:

- Be profoundly skeptical and question everything.
- Be zealous in your pursuit of knowledge.
- Shatter conventional wisdom.

CREA appointed T3 Sixty, Inc. (a division of the Swanepoel T3 Group) to research, uncover, and clarify the potential dangers facing the Canadian residential real estate brokerage industry.

The *D.A.N.G.E.R. Report* withholds judgment and solutions; rather it seeks to provide a clear representation of the responses shared by industry leaders during the interview process. Their responses were filtered, reviewed, categorized, and segregated.

ed into key areas, and the threats, risks, and dangers revealed in the interviews were categorized, evaluated, analyzed, and rated as to their probability, timing, and impact. Remember, this is an art and not a science; you are welcome to have a different opinion.

We tried to keep the information objective, apolitical, and one step short of providing solutions. Your role as the captain of your ship is to create the right solutions for your organization.

The dangers contained in this report are not predictions, trends, or allegations. Rather they are potential or actual threats that could impact you or some part of our industry. As you read through each danger, evaluate it as objectively as possible including what, if any impact it could have on you and your organization. To that end, use this Report as a checklist and starting point to prepare. Information creates knowledge and knowledge produces confidence.

It is incumbent upon every real estate professional who reads this Report to ensure that we are leaving a healthy and thriving industry to the next generation. To that end, read this

Report with the intent of not only becoming informed, but with a commitment in becoming a proactive part of finding solutions for the future.

STEFAN SWANEPOEL

CEO, Swanepoel T3 Group
Author of *The D.A.N.G.E.R. Report*
(both the United States and Canada editions),
New York Times Best-Selling Author,
and author of more than 32 Books and Reports



STEFAN SWANEPOEL
NYT Best-Selling Author



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STRUCTURE OF THE STUDY

INTRODUCTION

In the fall of 2015 and the winter of 2016 the Swanepoel T3 Group conducted in-depth interviews with more than 30 of Canada's most influential and knowledgeable leaders. The culmination of the research is this Report titled: *The D.A.N.G.E.R. Report [Canada Edition]*. D.A.N.G.E.R. is an acronym for *Definitive Analysis of the Negative Game Changers Emerging in Real Estate*.

Please note that many of the dangers cited in this Report are theoretical in nature. Furthermore, some of the opinions voiced may be considered controversial. This Report seeks to portray as accurately as possible the actual state of the industry as perceived through the eyes of its leading experts.

The research for this Report was exclusively focused on the residential real estate brokerage industry in Canada and was released in March 2016. A similar Report on the residential real estate brokerage industry in the United States was released in May 2015. A study of the commercial real estate brokerage in the United States is underway and slated for release in January 2017.

OBJECTIVE

The goal of this Report is to provide the REALTOR® Community in Canada with a comprehensive Report identifying the most significant threats, risks, and Black Swans

facing the real estate industry, without judging, blaming, taking sides, or attempting to solve the issues cited. Instead, this Report seeks to empower Canada's real estate professionals with a more extensive understanding of the residential real estate industry's complexity and to utilize that information in future planning.

NO SOLUTIONS

It is said that "Black Swans" are unpredictable future events, some of which may never occur. So do not become paranoid, but at the same time be alert to the potential risks so that you may be better prepared for the Black Swans that do occur.

While this Report seeks to identify the most significant dangers, it deliberately avoids providing solutions. It was decided at the outset that identifying the solutions is the responsibility of each respective organization and its leader. How each leader strategically interprets and responds to the dangers will ultimately determine the unique competitive advantages or the disadvantages that set them apart from their competitors.

It is our intention that *The D.A.N.G.E.R. Report* will help the entire Canadian industry by assisting real estate brokers and salespeople in identifying changes and implementing solutions to be better prepared for the future.

RESEARCH

Stefan Swanepoel and Bernice Ross of the consulting company, T3 Sixty, Inc, interviewed more than 30 senior executives from Canada's largest franchisers, real estate brokerage companies, in addition to senior leaders from the national, provincial, and local boards/associations.

The research was categorized into four major industry sections: Salespeople, Brokers, Boards/Associations, and MLS® Systems. Each danger begins with a reference number (category and ranking; e.g. A1—most severe danger in the salesperson section), followed by a descriptive title, a statement of the danger, an "In Context" section that provides additional clarity on the background of the danger, and the "Author's Perspective."

Remember that the dangers listed in this Report are hypothetical threats that may, or may not, occur. They are based upon the opinions of knowledgeable industry leaders, and were compiled by a team of analysts and writers that have researched and written over 32 books on the topic of real estate, trends and technology. No confidential information was included in this Report. It is also important to note that the content does not necessarily reflect the opinion of CREA, its management, its elected leaders, or the company (Swanepoel T3 Group) that undertook the research or the author(s). The purpose is to provide meaningful information that has been gathered from credible sources and leaders, and provide it with its original intent intact. Because the information may or may not apply to your respective market, every-

one should use sound judgment and consult with proper counsel and business experts before making any important decisions.

EXCLUSIONS

We acknowledge that most catastrophic types of events (an economic collapse, a major natural disaster, a global disease outbreak, a significant terrorist attack, a nuclear accident), would most likely trigger a chain reaction of events that would have a huge negative impact on the housing market in particular and the real estate business in general. These "Acts of God" type unforeseeable events have been excluded from this Report.

DISTRIBUTION

The first presentation of *The D.A.N.G.E.R Report [Canada Edition]* will be at the Canadian T3 Summit in Ottawa on 3/20/2016. The Report will immediately be available electronically at www.DangerReport.com and printed copies in both English and French will later be available from CREA. *The D.A.N.G.E.R Report [Canada Edition]* is copyrighted and is jointly owned by CREA and RealSure, Inc.



Dangers Impacting Salespeople

canada edition

Section A | First of Four Sections

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Section A

DANGERS IMPACTING SALESPEOPLE

- Commissions Spiral Downward **A1**
- Current Baby Boomer Salespeople Are Pushed Out **A2**
- Regulatory Tentacles Strangle Real Estate **A3**
- Marginal Salespeople Damage REALTOR® Reputation **A4**
- Commoditization of Residential Real Estate **A5**
- FSBOs Evolve Into a Do-It-Yourself Model **A6**
- Market Share Concentrates Into Even Fewer Hands **A7**
- Independent Contractors Become Employees **A8**
- The Decline in the Relevancy of Salespeople **A9**



COMMISSIONS SPIRAL DOWNWARD

Consumers exert more pressure and real estate commissions decline.

IN CONTEXT

With the continued rise in home prices, consumers are responding by placing increased pressure on real estate salespeople to reduce their commission rates. Currently brokers independently determine their own commission rates, which can vary widely in every local market. Commissions are always negotiable on a case-by-case basis. Increased consumer pressure, coupled with discounting and the unbundling of services, may create increased downward pressure.

AUTHOR'S PERSPECTIVE

Interestingly, some people say that it is not possible to be a professional when your income is dependent on a commission that is earned from the sale and that real estate fees should not be commission-driven but on a fee-for-service basis like doctors, lawyers, and CPAs. It is, however, uncertain whether this model will result to lower fees or not.

“Consumers are flabbergasted that sales commissions are so high.”



CURRENT BABY BOOMER SALESPEOPLE ARE PUSHED OUT

Boomers are unable or unwilling to adopt evolving technologies and to address the changing needs of digital consumers.

IN CONTEXT

As a new generation of homebuyers emerges, they are demanding more search options, more mobile solutions, and more online interaction than most real estate salespeople are offering. Many Canadian Baby Boomer salespeople continue to cling to their 20th century approach in serving these consumers as opposed to adapting to the consumers' changing needs.

AUTHOR'S PERSPECTIVE

After two decades of the Internet, online marketing, and mobile technologies, the average salesperson still lags behind where they should be. Technology is a wonderful tool, but it requires everyone involved stepping up and becoming more proficient and more knowledgeable.

“ One more new rule or one more new piece of technology and I'm done. ”



REGULATORY TENTACLES STRANGLE REAL ESTATE

Increased regulations impact salespeople's productivity and morale.

IN CONTEXT

Government intervention touches every corner of the real estate business. With salespeople on the front line of real estate transactions, they are impacted by almost every new regulation. If regulators become more and more involved with issues such as mere posting and dual agency, or if different governmental entities issue requirements that are perceived to be inconsistent, then salespeople become frustrated and confused as to how to best follow contradictory regulations.

AUTHOR'S PERSPECTIVE

Salespeople's morale and productivity suffer when they feel constrained by government regulations to collect certain information such as money laundering data and to handle unintended dual agency situations. Industry leaders also voice concern that the REALTOR® image has suffered due to the confusion and conflict generated by governmental intervention.

“We have someone poking his or her finger in at every level.”



MARGINAL SALESPEOPLE DAMAGE REALTOR® REPUTATION

A growing number of incompetent, poorly trained, or part-time salespeople destroy industry credibility.

IN CONTEXT

The majority of consumers report a high level of satisfaction with the service they receive from REALTORS®. However, the industry functions on intense competition between independent contractors (salespeople), many of whom lack an acceptable level of competence. The fear is that the situation will get even worse as a large number of participants, irrespective of their qualifications or abilities, are required to help brokerages and boards/associations cover their fixed costs. As a result of that need there is little incentive for these organizations to change their business model.

AUTHOR'S PERSPECTIVE

Most professions (doctors, lawyers, accountants, engineers, etc.) require thousands of hours of study and are compensated on a fee-for-service basis. Residential real estate is not a profession and obtaining a real estate license has always been relatively easy. Real estate salespeople are compensated on a commission basis—thus on the success of a sale rather than the quality or time invested in their work. With the rapid innovation of technology and the ever-increasing number of regulatory demands being placed on the real estate industry, knowledge and skill is even more important. The time has come for the real estate salesperson to be held to the level of a professional.



COMMODITIZATION OF RESIDENTIAL REAL ESTATE

Without a unique selling proposition the sales battle turns from service to price, and real estate transactions become a commodity in the eyes of the consumer.

IN CONTEXT

Brokerage companies and boards/associations spend millions of dollars each year on training and new technology tools to help salespeople be better qualified and prepared to serve consumers. Nevertheless, few salespeople are actually able to show how the tools and systems they use can shorten the marketing time of a house for sale or help the seller achieve a higher price. Commoditization occurs when consumers see no significant difference in the level of service they receive between salesperson A and salesperson B. As a result their selection of a salesperson is often based solely on who is the cheapest.

AUTHOR'S PERSPECTIVE

Today's consumer does not want another real estate telemarketing call, another "Just Listed" postcard, or another canned email-marketing message. The shortage of personalized service, the perception of higher and higher fees, the availability of numerous apps, and the amount of freely accessible real estate information are driving consumers to opt for buying and selling real estate without the use of a traditional salesperson. When using a salesperson they want to work with someone who really cares about them, understands the new lifestyle choices, their changing values structure, and is genuinely interested in what they want and need and not just earning another commission.



FSBOS EVOLVE INTO A DO-IT-YOURSELF MODEL

Unlicensed real estate marketing companies offer innovative new tools that empower home buyers and sellers.

IN CONTEXT

The For-Sale-By-Owner (FSBO) model is primarily used by consumers who desire to save the real estate commission earned by a REALTOR® by doing the tasks undertaken by a real estate salesperson during a home buying or selling transaction. This option of home sellers selling their own home will also remain available. Recently a number of FSBO type companies consolidated into a larger entity, Yellow Pages, and with others like Kijiji, Canada already possesses a strong do-it-yourself and/or advertising FSBO market.

AUTHOR'S PERSPECTIVE

Traditionally, FSBOs have represented approximately 10 percent of the number of overall transactions, with the exception of a few places such as Quebec where it is believed that this segment of the market ranges between 15-20 percent. The concern is that if advanced tools and apps are developed, the growing self-help and direct to consumer wave (business such as Airbnb, Uber etc.) will establish a foothold in real estate sales, offering consumers a “new” way of selling their own home without utilizing the services of a licensed real estate salesperson.

FSBO/DIY WEBSITES

*Forsalebyowner.ca Canadahomes4sale.com Kijiji.ca
Homesbyowner.com/Canada ForSalebyOwnerCanada.com*



MARKET SHARE CONCENTRATES INTO EVEN FEWER HANDS

A small group of salespeople find the winning formula and secure a disproportionately large market share of all home sales.

IN CONTEXT

For at least the last two decades, anecdotal reports have indicated that approximately 10 percent of salespeople conduct about 90 percent of all residential real estate transactions. In a recent book titled *80/20 Sales and Marketing*, author Perry Marshall expands the original Pareto Principle (80-20 Rule) stating that the top four percent of salespeople represent 64 percent of sales. Whichever statistic is valid in the Canadian real estate market, it is widely believed that a small number of salespeople account for the majority of transactions.

AUTHOR'S PERSPECTIVE

The fear that technology could aggravate this situation exponentially is very real. Salespeople who have already learned how to maximize technology systems better than their counterparts will increasingly close more transactions than ever thought possible. A new generation of salespeople has already shown that previous perceived limitations regarding sales no longer apply.

“Commissions are consolidating into fewer hands—it's just a fact of life.”



INDEPENDENT CONTRACTORS BECOME EMPLOYEES

The Canada Revenue Agency eliminates the Independent Contractor status of residential real estate salespeople.

IN CONTEXT

The Independent Contractor (IC) status of residential real estate salespeople has been questioned in the past and, based on audits of real estate salespeople under the laws governing Worker's Compensation, the battle is far from over.

Canada Revenue Agency Test for IC Status

The test has a number of elements, including but not limited to:

1. If the employer makes the decision about the amount of remuneration, including when, where, and how the work will be done, then this is deemed to be an employee situation. For ICs, these items are normally negotiable.
2. ICs supply their own tools; employees do not.
3. Chance of profit or loss: An IC typically bears the operating costs and controls the decisions that lead to his or her profit or loss.
4. ICs generally do not integrate their activities into those of their employer.

AUTHOR'S PERSPECTIVE

Although there is no indication that any decision is imminent that would upend the independent contractor status for real estate salespeople, such a change would have a far-reaching impact. Salespeople would generally be left with three primary options: work as an employee for a large company under its operational guidelines, become a broker and work as a solo practitioner, or leave the industry altogether. Any of these actions would have a major transformational impact on the industry on all levels.



THE DECLINE IN THE RELEVANCY OF SALESPEOPLE

The role and function of salespeople decline as many struggle to assess and respond to changing consumer demands and expectations.

IN CONTEXT

The residential real estate industry has long served the homebuyer and/or seller on an individual basis but, in the opinion of some industry leaders, salespeople have never really had a firm understanding of consumers as a collective, let alone understood that consumers as a group are evolving significantly. This challenge is exacerbated by “older” salespeople who struggle and resist keeping pace with the new technologies demanded by “younger” consumers, and by the tremendous influx of “foreign” buyers desiring to conduct business in a way that is compatible with their culture.

AUTHOR'S PERSPECTIVE

Despite these industry-wide concerns, consumers in large numbers still opt to work with individual salespeople to help them navigate the complicated home sale process. This seems to be increasingly so, especially in light of the added regulatory changes that continue to make the home sales process very complex for the average home buyer and seller. In order to continue to be relevant, REALTORS® must be willing to be progressive, to embrace changes, and to remain open to the use of technology.

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Dangers Impacting Brokers

canada edition

Section B | Second of Four Sections

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Section B

DANGERS IMPACTING BROKERS

- Real Estate Brokers Simply Go Broke **B1**
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- Mere Posters and FSBs Create Unwanted Liability **B7**
- An Industry-Wide Race to the Bottom **B8**
- Big Companies Increase Dominance **B9**

DANGER
B1

REAL ESTATE BROKERS SIMPLY GO BROKE

Increasing overhead, existing inefficiencies, and growing broker/salesperson conflict destroy the viability of the brokerage entity.

IN CONTEXT

Over the past two decades the control that brokerage companies have enjoyed over their salespeople has shifted. This is changing the financial viability of the traditional brokerage model as margins become very tight. Technology and regulatory compliance costs continue to drive up overhead, and any increase in the minimum wage could exacerbate the problem even further.

“*The per-agent revenue has never been better and broker profitability has never been worse.*”

AUTHOR'S PERSPECTIVE

A growing number of brokerages are not financially sound and, as a result, are reducing the products and the services they provide to their salespeople dramatically. In their attempts to stay viable, many brokerages have made recruiting agents their primary focus. This often creates a vicious cycle in which the broker lacks the resources needed to provide the best tools and systems and salespeople leave, claiming they want more and better services. An economic downturn in big cities, such as Toronto and Vancouver that have experienced almost two decades of continuous growth, could result in a large decline in the number of viable real estate brokerages.



TECHNOLOGY BECOMES A RUNAWAY TRAIN

The financial resources necessary to remain current with the technology solutions for tomorrow exceed the average brokerage company's ability to remain competitive.

IN CONTEXT

Around 40 percent of the world's seven billion people have an Internet connection, and over 90 percent of them have a mobile phone. Technology innovation has taken place at an alarmingly rapid rate, but brokerage companies are not technology companies and neither are they structured to continue to grow at the same rate. As innovation becomes a huge wave hitting the industry, it becomes harder and harder for small and medium sized real estate brokerage owners to remain technologically relevant and competitive.

AUTHOR'S PERSPECTIVE

Being connected is mandatory as items such as big data, predictive analytics, artificial intelligence and augmented reality are all becoming tools of tomorrow. Real estate has never been a level playing field, but the gap between those who can and those who can't seems to be getting bigger.

“*Brokers who fail to adopt the right culture, training, and infuse technology in their business are in serious danger of becoming extinct.*”



REGULATORY TSUNAMI HITS

Increased regulatory involvement weighs heavy on the future viability of residential real estate brokerages.

IN CONTEXT

Regulations continue to pile up at the local, provincial, and federal levels, resulting in increased administrative requirement costs and liability. Salespeople and brokers are confused by all the regulations, especially when there are potential contradictions between the regulatory agencies themselves, and the lawyers provide conflicting advice on how brokers and salespeople are to comply. Hostility toward the Competition Bureau, Canada Revenue Agency, Provincial Regulators, and various Provincial Labour Departments is widespread.

AUTHOR'S PERSPECTIVE

Canada arguably has one of, if not the most, highly regulated real estate industries in the world. And as administrative costs soar the impact of regulatory compliance is cutting deeper and deeper into broker profitability.

“*Legislation keeps compounding and making it harder and harder to track everything. We're dying the death of a 1,000 paper cuts.*”

DANGER
B4

THE EXPANSION OF TEAMS STRANGLE BROKERAGES

Salesperson teams face increased risk from a licensing and regulatory perspective, making it difficult for brokerage companies to remain financially viable.

IN CONTEXT

The team concept has been around for a long time. If it continues to blossom, it will emerge as a significant driver of change in the residential real estate brokerage business. Teams blur the lines of responsibility and accountability for many aspects of the business, such as training and implementation. As a team becomes bigger it basically functions as a company within a company. There are team leaders that do a good job of managing their teams, but there are many that abdicate certain supervisory duties because they are usually the primary real estate salesperson on the team.

AUTHOR'S PERSPECTIVE

As the team's financial per person contribution to the brokerage is usually lower than the same amount of individual salespeople on a traditional compensation structure, brokers no longer feel that it is their responsibility to supervise and manage the individual team members. Thus quality control, consistency, and standards usually decline. Channel conflict becomes more prevalent when the salesperson team leaders make more money than the broker managing the entire brokerage.

“Agent teams are eating
their broker's lunches.”



A NEW BUSINESS MODEL BECOMES A WINNING STRATEGY

The traditional business model and compensation structure is eclipsed as a new way to manage salespeople gains rapid traction.

IN CONTEXT

The relationship between real estate brokers and salespeople has been redefined a number of times during the last 50 years, frequently resulting in the formation of a new company that surges forth to become a new mega company. In the 1970s, the franchise model created new entities such as Century 21. In the 1980s, the 100 per cent model introduced RE/MAX to Canada. In the 1990s, mergers and acquisitions and a successful transition to a publicly traded company helped drive the growth of Royal LePage.

AUTHOR'S PERSPECTIVE

Residential real estate is one of the last major industries that still has a large number of small to medium sized businesses. In most industries newcomers enter, change the rules, seize market share, and push previous industry leaders out of business. For example, in the U.S. over 40 percent of Fortune 500 companies in 2000 were no longer around 10 years later. Yet in the Canadian residential real estate industry the same top three companies have dominated since the 1980s. Many think the time has come for a new business strategy or model to enter and change up the leader board.



BROKERS PUSHED TO BECOME ENFORCEMENT OFFICIALS

Home purchase transactions become saddled with increased paperwork, costs, and time-consuming oversight.

IN CONTEXT

As part of Canada's anti-terrorism, and anti-money laundering regulations, FINTRAC (Financial Transactions and Reports Analysis Center of Canada) pushes increased oversight on to real estate brokerages. Brokers and salespeople are required to track IDs and keep them on file. Any suspicious activities related to money laundering or terrorist activity must be reported to FINTRAC within 30 days and a copy of the report is to be maintained by the brokerage. Should terrorism threats increase, this responsibility could become even more onerous.

AUTHOR'S PERSPECTIVE

Brokers and salespeople fear they are being driven into becoming the government's watchdog. And although everyone is very sympathetic toward the importance of good security, brokers and salespeople do not feel it is their burden to carry. The growing volume of paperwork required or may be required is burdensome, time consuming, and will reduce the brokerage company's already tight profit margins. Some businesses may even be driven to the point of despair or failure.



*We don't want to be quasi-law enforcement.
We don't want to be legal watchdogs. We simply want to sell homes.*





MERE POSTERS AND FSBOS CREATE UNWANTED LIABILITY

Salespeople representing buyers find themselves at greater risk of liability due to unintended dual agency relationships.

IN CONTEXT

The term “mere poster” refers to certain brokerages that do little more than place a seller’s property for sale on a board’s MLS® System, making them exempt from some of the regulatory requirements that govern brokerages and their salespeople. When a buyer’s salesperson then seeks to negotiate the purchase of one of these listed properties, that salesperson is required to create all the paperwork the mere poster did not. This exposes the buyer’s representative to a potential unintended dual agency and increased liability.

AUTHOR’S PERSPECTIVE

When a buyer’s representative takes on additional work that would usually be done by a seller’s representative, it could lead to legal liability for that work. Some brokers believe the existence of mere posters is an industry game changer when it comes to liability issues while others consider it to be a red herring.



AN INDUSTRY-WIDE RACE TO THE BOTTOM

With brokerages recruiting as many salespeople as possible, real estate sales becomes a numbers game with a decline in supervision and a corresponding escalation in mistakes.

IN CONTEXT

As revenue is more often than not driven by headcount rather than salesperson production, some brokers offer little more than a place for salespeople to hang their licenses. Brokers who employ this business model typically provide nominal if any training and minimal supervision and monitoring. As result, the salespeople seldom interact with the brokerage and no strong company culture develops. Salespeople are forced to seek help from other salespeople or from their local board/association because their brokers are not around or available.

AUTHOR'S PERSPECTIVE

Maintaining quality while at the same time building revenue places a heavy burden on any business. As brokerage company profits are further squeezed due to increased administrative costs and increased liability generated by the regulators, something has to give. The widely held fear is that brokers may cut training and quality control as they struggle to remain relevant and profitable.

“ *It feels like it's a race to see who can charge the least. In our area there is a real estate company charging \$1,000 for life plus a small transaction fee. How can this be sustainable?* ”



BIG COMPANIES INCREASE DOMINANCE

Powerful Canadian residential real estate brokerage companies strengthen their already large market share significantly.

IN CONTEXT

Most small countries are almost always dominated by a small number of very big firms. However Canada, by no means a small country (especially not in landmass), has only a small number of cities that are home to most of the country's business. This has resulted in a small number of companies dominating various business sectors. For example, a handful of banks control the banking industry and the Internet service provider market. In the residential real estate brokerage business, it is estimated that the combined salesperson count of the top four companies represent two thirds of the salesperson population in Canada.

AUTHOR'S PERSPECTIVE

Canada's population is concentrated into a handful of cities and areas. The remainder of the country does not have the volume of business required to sustain multiple companies and multiple brands in every industry. It is therefore very difficult for a new brand to break into an industry/market. The residential real estate industry is a good example with many large and well known U.S. real estate franchises such as Coldwell Banker Real Estate, Keller Williams Realty, Sotheby's Realty International, Better Homes and Gardens Real Estate, and ERA Real Estate being examples of companies that have not yet been able to gain the kind of traction and momentum in Canada as they have in the United States.

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Dangers Impacting Boards and Associations

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Section C | Third of Four Sections

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Section C

DANGERS IMPACTING BOARDS AND ASSOCIATIONS

- The Three-Tier Mission Creep **C1**
- The Unwieldy Governance Structure **C2**
- Opposition to Consolidation **C3**
- Shortage of Next Generation of Leaders **C4**
- Regulators and Boards/Associations Face Off **C5**
- Lowest Common Denominator Battles **C6**
- The Big Squeeze is On **C7**
- Huge Declines in Membership **C8**
- The Dues Disconnect **C9**



THE THREE-TIER MISSION CREEP

National, provincial, and local boards/associations find themselves on opposite sides of the negotiating table, often fighting for economic viability.

IN CONTEXT

The REALTOR® Community is composed of a complicated three-tier assembly of national, provincial, and local boards/associations. Growing mission creep across all levels of organized real estate has resulted in channel conflict and a duplication of services. Franchises and regulators have compounded this situation by also replicating some of these services. At least in one province the regulator seized the training function that had traditionally been handled by the provincial association, forcing associations to give up a key part of their offerings. As a result, the association sustained a major reduction in revenue that forced staff layoffs and necessitated a substantial dues increase for its members.

AUTHOR'S PERSPECTIVE

Due to service duplication, resulting in some salespeople perceiving that they are being charged more than once for certain services, the three-tier structure may ultimately become a two-tier structure. The challenge is in separating the respective issues in order to identify where and when uniqueness requires local or tailored solutions and where provincial or national economies of scale or clout are more suitable or effective. If there were a collapse of the three-tier system, the resulting sea of change would reshape the REALTOR® Community significantly.



THE UNWIELDY GOVERNANCE STRUCTURE

The cumbersome governance structure limits the ability of boards/associations to effectively address the complex challenges of tomorrow's dynamically changing world.

IN CONTEXT

Boards/associations have a complex, multi-tiered decision-making structure. By their very nature, large trade associations differ from business corporations because they serve a much wider continuum on the business, professional, and cultural fronts. As business issues become increasingly more complex and the rate of change accelerates, relying upon elected volunteer broker/salesperson leadership in decision-making will continue to hold back the process on all three levels. What makes the process so cumbersome is the requirement that issues be introduced to the board of directors, studied, reported back to the board, and then voted upon, a process that can take many months.

AUTHOR'S PERSPECTIVE

Firstly, due to their breadth and complex mandate, comparing boards/associations and how they operate with an entrepreneurial, profit-driven, business is not an apples-to-apples comparison. Secondly, most REALTORS®, due to their limited business knowledge and training as well as the part-time nature of their voluntary involvement with their board/association, lack the deep technological expertise and time commitment necessary to make complex decisions in today's fast-paced, multifaceted business environment.



OPPOSITION TO CONSOLIDATION

Local and provincial boards/associations resist consolidation due to their anxiety over the loss of their respective identity and voice.

IN CONTEXT

There is widespread opinion that there should be fewer real estate boards/associations than the approximately 90 that currently exist. Most boards were established half a century or longer ago in order to facilitate the local needs and a local paper-based MLS® System. In today's digital environment, most of these needs can be satisfied without having a local presence. Furthermore, numerous smaller boards lack adequate resources to handle many complex and challenging operational issues. The major stumbling block is creating a model that will allow a local voice to still be heard while taking advantage of the economies of scale.

AUTHOR'S PERSPECTIVE

The apparent reluctance on the part of boards/associations to consolidate lies in the fact that many view themselves as uniquely qualified to best serve the needs of their local members. However, it is a widely held belief that economies of scale and great efficiencies can be had. But, in order for a consolidation to be successful, a new structure must establish and implement tangible standards and best practices in order to be better, not just bigger.

“There is broad resistance to consolidation—
it's all about protecting your turf.”



SHORTAGE OF NEXT GENERATION OF LEADERS

There is not a large enough pool of young, knowledgeable, and talented leaders in the industry that are willing to step up and lead the REALTOR® Community on all three levels.

IN CONTEXT

The Millennials do not view boards/associations in the same light as their Baby Boom parents do. It isn't that this generation doesn't care to contribute or serve, they do. They just do so differently. For example people in the Gen Y age group appear to want work that is meaningful and consistent with their socially and environmentally responsible values in helping society in general and saving the planet. As a result, their participation and/or involvement in the leadership of a REALTOR® board/association is at a considerably lower level of interest.

AUTHOR'S PERSPECTIVE

If the REALTOR® Community is to successfully overcome the challenges of the 21st century, the Boomer generation must become far more successful in helping young leaders find a cause for them to get behind. At the present time this is not being done well enough in the real estate industry because Boomers want Millennials to think and act like them, and they simply don't.



REGULATORS AND BOARDS/ ASSOCIATIONS FACE OFF

A substantial decline in board/association education and training income as a result of regulator intervention.

IN CONTEXT

If regulators start offering competing services, relations between boards/associations and regulators can quickly become a battle for survival. For example, some board/associations derive as much as 50 to 60 percent of their income from education and a significant drop in revenue can have dire consequences. This actually happened when a provincial association recently experienced a regulator entering the market and seizing its education program market share, resulting in a 75 percent decline in that association's educational revenue.

AUTHOR'S PERSPECTIVE

Provincial associations and local boards already have their membership/dues driven model and with unexpected competition from regulators that model could become unviable.



LOWEST COMMON DENOMINATOR BATTLES

The fiercely independent and inconsistent REALTOR® mind- and skill-set causes mediocrity to become the norm across all three tiers.

IN CONTEXT

The REALTOR® Community membership has a wide range of experience, knowledge, and qualifications. And while diversity is beneficial, it complicates matters and often contributes to a default to the lowest common denominator. This situation is further exacerbated by the fact that low barriers to entry cause decisions to be based on the loudest, and often times the least qualified voices in the room. Any organization's success is ultimately tied to the quality and experience of the leadership making key decisions.

AUTHOR'S PERSPECTIVE

Groupthink is widely observed in the association world, especially where there is a "let's-not-leave-anyone-behind" mentality. This is a double-edged sword. Membership is composed of vast extremes, ranging from some of the most professional, well educated, and ethical people who in many cases must work with some of the most incompetent, amateurish, and unprincipled individuals. Playing to the lowest common denominator results in a lowering of the bar.

“Associations generally serve the lowest common denominator, even when it flies in the face of a good decision.”



THE BIG SQUEEZE IS ON

As large local boards flex their muscles, provincial associations feel the strain.

IN CONTEXT

In almost every province there is a large local board that commands a strong voice. Some feel that these boards are not receiving value for the amount of money that they contribute to the REALTOR® Community, and therefore, don't have the representation they deserve in terms of sufficient votes. The provincial boards are fighting channel conflict on both sides and often feel that they are being squeezed out.

AUTHOR'S PERSPECTIVE

Large boards may pose a very real concern to the existence of provincial associations. The most serious danger would be if large metropolitan boards were to exit their provincial associations and associate directly with CREA. Although this issue is frequently raised as a possibility in the U.S., it appears that in Canada it is more likely to have a larger impact and maybe even lead to the demise of the REALTOR® association three-tier structure.

“ We have no voice and no choice. They want our money but don't want to hear us. ”



HUGE DECLINES IN MEMBERSHIP

Brokers and salespeople simply no longer care to be members of a REALTOR® Board/Association.

IN CONTEXT

With a large percentage of Baby Boomers retiring and the perception that the new generation of brokers and salespeople do not feel the same level of emotional connection with their REALTOR® board/association, membership may dwindle. This is already proving to be true where one province is already experiencing a growing number of salespeople who see little value in belonging to the provincial association.

AUTHOR'S PERSPECTIVE

Additionally, a market downturn resulting in fewer sales will cause more salespeople to leave the business, which will result in damaging consequences for all aspects of the REALTOR® Community. If not handled wisely, a large shrinking membership base could, in a relatively short period of time, signal the demise of the board/association structure as we know it today.



THE DUES DISCONNECT

Inadequate articulation of the REALTOR® value proposition makes salespeople question the value of belonging to a REALTOR® board or association.

IN CONTEXT

Many boards/associations have only done a modest job of packaging their products and services and explaining their value proposition to their members. This has placed them in a precarious position when their members do not recognize the full range of the benefits provided, including advocacy, access to a MLS® System, education, and the combined value of unity. A growing confusion regarding the partitioning of membership dues between national, provincial associations, and local boards is also fueling the relevancy debate.

AUTHOR'S PERSPECTIVE

The REALTOR® Community must become better at positioning themselves in order to be seen as more than just the products/services they deliver. This is especially true if one considers their advocacy work. In many cases this function alone is sufficient to justify its value proposition. That said, REALTOR® associations at all levels can and should deliver high value and relevant programs, products, training, and services to enhance the careers of their members. If they fail to effectively do so, their members will look for those resources elsewhere.

“Rather than concentrating on what we do well, we have fragmented our services by chasing different voices.”

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Dangers Impacting The MLS[®] System

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Section D

DANGERS IMPACTING THE MLS® SYSTEM

- One New National MLS System **D1**
- Entry By a Powerful Portal **D2**
- Someone Builds a Better Mousetrap **D3**
- Major Security Breaches Occur **D4**
- Consumer-Facing Websites Gain Major Traction **D5**
- Listings Not On MLS® Systems® Escalate **D6**
- MLS® Systems Become a Public Utility **D7**
- Foreign-Based Portals Siphon Off Business **D8**
- Increased Hostility in the Real Estate Community **D9**



A NATIONAL MLS[®] SYSTEM

One new nationwide MLS[®] System would marginalize the value of existing MLS[®] Systems.

IN CONTEXT

One single national MLS[®] System would mean that brokers and salespeople would only have to subscribe/belong to one entity instead of some 90 boards/associations should they want access to all the property data in Canada. All property, listing, and marketing data provided would be through one standard, uniform property listing or management software system. However, it is also important to note that the role of existing MLS[®] Systems includes the facilitation of compensation and cooperation.

“*The MLS going away could happen
with a single court decision.*”

AUTHOR'S PERSPECTIVE

This would most certainly remove some duplication in software and listing systems as well as in board/association management. However, no matter which entity moves forward toward creating a national property listing service, there will still have to be a method for addressing and resolving salesperson disputes and compensation issues. Governance issues for a single national property listing service would also be hard to effectively integrate, especially in light of the complexity involved in trying to understand the needs of the varying local markets. Over the long-term, monopolies seldom provide the best products and services at the lowest possible cost.



ENTRY BY A POWERFUL PORTAL

Powerful portals in Europe, Asia, or the U.S. enter the Canadian market and overpower REALTOR.ca.

IN CONTEXT

While the real estate industry has been hyper-focused on listing data, the real goldmine is the transactional data that is generated at the point of sale. When people move they buy thousands of dollars worth of other products. Real estate data is becoming more and more valuable and companies will increasingly seek more innovative ways to obtain, enhance, and display it.

AUTHOR'S PERSPECTIVE

Boards/associations offering access to MLS® Systems fear the entry of a large portal, Internet, or media company. Transactional data is considered by some as the reason why a U.S. portal (Zillow) acquired Dot-Loop or why powerful search engines like Google, with an insatiable appetite to dominate searching, could become a major player with their own similar listing and/or search service.



SOMEONE BUILDS A BETTER MOUSETRAP

MLS® Systems lose their value proposition as their technology and service delivery methods become outdated.

IN CONTEXT

Technology, the Internet, and portals are making it easier for real estate salespeople to operate worldwide without having to be affiliated with a well known brand or having to necessarily use MLS® Systems. Thus MLS® Systems face a growing risk of becoming less important or relevant for real estate salespeople. The advance of outside third parties (such as portals) into the residential real estate industry is already evident in the search process and with transaction management systems. There are also other companies already developing other systems and services to assist salespeople with items such as lead generation, mortgage pre-approval, contact management, CRM, and agent reviews.

AUTHOR'S PERSPECTIVE

With recent advances in technology it is becoming easier to develop a total shopping experience by adding an increasing number of services to current product offerings. For example, it is deemed that the most difficult part of the transaction is the lending process and the most tedious part is the contractual documentation, yet both of these functions have already been successfully digitized. Meanwhile, some are exploring if changing the “lava flow” of the home buying transaction or creating a home buying dashboard is possible.



MAJOR SECURITY BREACHES OCCUR

Data is being treated too casually and shared too easily, resulting in security transgressions that can lead to a crippling security breach.

IN CONTEXT

Multiple security breaches could damage the credibility of the existing MLS® System. Due to the increasingly more complex IT environment, the industry is expanding its dependence on third party providers, especially in the MLS® System arena. Security breaches have already occurred from within the industry as salespeople have shared MLS® System data with developers.

AUTHOR'S PERSPECTIVE

The danger of not adequately addressing the security of data could have dire consequences. Fortunately, MLS® Systems do not currently store an individual's most sensitive and valuable personal information, but as transaction management systems and mortgage systems are integrated with existing MLS® Systems this risk could become very real.

“ If someone wants to disrupt the real estate industry, they could simply change the sales price or other key information on the MLS® System so that it is incorrect. ”



CONSUMER-FACING WEBSITES GAIN MAJOR TRACTION

Friction escalates over using REALTOR® board/association-owned data from the MLS® System to create Consumer-Facing Websites (CFW).

IN CONTEXT

When boards/associations were first founded, they focused exclusively on B2B (Business-to-Business) serving only the REALTORS®. But in the future, in an effort to maintain relevancy and viability, more boards/associations may add significant B2C (Business-to-Consumer) components and be in direct touch with the consumer. Some brokers and salespeople feel this will erode their current relationship and advantage with the consumer.

AUTHOR'S PERSPECTIVE

Some brokers/REALTORS® feel that the board/associations are in some way "leveling the playing field," and that CFWs are either a deliberate or unintentional attempt to foster the displacement of the REALTOR®. However, there are others that believe that CFWs are a great show of unity and strength and can be used as one of the most powerful tools to combat third-party outsiders that want to disrupt traditional real estate models and activities.

“ *There must be a shift in the industry's focus from fighting against to engaging with.* ”



LISTINGS NOT ON MLS® SYSTEMS® ESCALATE

Non-MLS® and pocket listings soar and undermine the value of existing MLS® Systems.

IN CONTEXT

MLS® System rules typically require REALTORS® to place all listings in the MLS® System within two days of signing the listing agreement. Some boards' rules, regarding their MLS® System, may allow pocket listings when a certification signed by the seller is submitted with the listing. These have, however, been the exception rather than the rule and salespersons should always make sure that they fully explain to the seller the details and impact of their options.

AUTHOR'S PERSPECTIVE

If the practice of non-MLS® listings were to significantly increase, be it due to fewer houses being on the market, the advancement of technology, the desire to only work with a specific group of salespeople, and/or salesperson compensation, this would lead to the unraveling of MLS® Systems. In addition, a growing number of salespeople may decide to form private networks that only benefit those in that group. While this practice is controversial, the overriding issue is not the legality of the practice, but whether the practice benefits or harms the seller.



MLS[®] SYSTEMS BECOME A PUBLIC UTILITY

The Competition Bureau gets the courts to declare that access to MLS[®] Systems data is essential for everyone.

IN CONTEXT

For the last half century, REALTOR[®]-owned MLS[®] Systems have been the informational gateway and transactional intersection of the marketplace. It was created by the industry for the industry and it is the backbone of the residential real estate brokerage business. The management of listings and other real estate data has historically been provided on a local level with MLS[®] committees within the REALTOR[®] boards/associations controlling access and use of the information.

AUTHOR'S PERSPECTIVE

During the past decade the Data Distribution Facility (DDF[®]) was set up by CREA as an opt-in (permission basis) option for brokers to share listings to previously reviewed and approved sites, allowing brokers to remain in control of real estate listing data. If the Competition Bureau were to force MLS[®] Systems to become a public utility, that would be a huge game changer for the residential real estate brokerage business.

“We have become too complacent. A strong competing portal might be the best medicine.”



FOREIGN-BASED PORTALS SIPHON OFF BUSINESS

Without launching a new portal in Canada, non-Canada based portals could diminish the value proposition of REALTOR.ca.

IN CONTEXT

When buyers and sellers—both inside and outside of Canada—search for Canadian real estate, they use their favorite search engine to request information on homes for sale. The search engine then provides them with information from sites in their own language. Unless the user speaks English or French, the search engines will in most cases direct them to a website other than REALTOR.ca that is in the same language they used to initiate their search. This is especially likely to happen in major metropolitan cities such as Toronto and Vancouver where immigration and foreign investment represents a very substantial part of the market.

AUTHOR'S PERSPECTIVE

Canadian boards/associations and REALTOR.ca all operate under Canadian laws, rules, and regulations. Foreign-based portals may not be subject to the same burdens and may therefore find it easier to capture increasingly large numbers of Canada's buyers and sellers. It is estimated that some 72 percent of all online real estate searches in the world take place in languages other than English. In Canada, where there are likely more immigrants per capita than in any other country in the world, the threat of losing local traffic and business to overseas portals is very real danger.



INCREASED HOSTILITY IN THE REAL ESTATE COMMUNITY

A rapidly transitioning marketplace and battles over market share and leadership create antagonism between brokerage operations, the REALTOR® Community, MLS® Systems, portals, and regulators.

IN CONTEXT

Some national franchises and big brokers view MLS® Systems, and REALTOR.ca, as a competitor that diverts potential traffic and leads from their sites. These companies decide to form their own cooperative listing system or national property portal.

“Mere posters” become even more contentious and a source of frustration, as they typically walk away from the seller once the listing is posted on a MLS® System, and legislative and regulatory changes cause brokers and salespeople to become more annoyed with regulators.

AUTHOR'S PERSPECTIVE

Substantial conflict already exists between some important participants in the real estate industry, so redesigning a MLS® System or board/association in such an environment where industry-wide cooperation is necessary will be extraordinarily difficult to achieve. Such channel conflict could lead to future change not necessarily designed or desired by the existing players in the industry.

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Industry Leaders Interviewed

Appendix

REACHING OUT TO INDUSTRY LEADERS

CREA commissioned the Swanepoel T3 Group to research and clarify the imminent and potential dangers facing the real estate industry in Canada. The findings were to be presented in a comprehensive report to inform the industry of those dangers as the first step in marshaling its collective forces in finding solutions. We did so by reaching out to more than 30 of the industry's most senior thought leaders from across the spectrum of the REALTOR® Community, to explore their thoughts concerning the dangers, threats, and risks facing the residential brokerage industry in Canada.

THEIR THOUGHTS

CEOs of the largest franchisers, the broker/owners of numerous large real estate brokerage companies, elected and appointed leaders of the national, provincial, and local boards/associations, and those operating the MLS® Systems were interviewed and asked:

1. As you look across Canada's residential real estate landscape, what are the top three things that cause you the most concern and why?
2. What is the threat that has a low probability of occurring, but would be a major game changer if it did occur?

Gordon Archibald

Executive Officer
Association of Regina REALTORS®

Elton Ash

Vice President & Regional Director
RE/MAX of Western Canada

Pauline Auger

2015 President, The Canadian Real Estate Association
Broker of Record, Royal LePage Advantage Real Estate, Ontario

Edward Barisa

Chief Executive Officer
Ontario Real Estate Association

Michel Beausejour

Co-founder and Principal
Keller Williams Momentum

Bill Benoit

Chief Executive Officer
Vancouver Island Real Estate Board

Ian Burns

Chief Executive Officer
The Alberta Real Estate Association

Martin Charlwood

Chief Executive Officer
Century 21 Canada Limited Partnership

Jonathan Cooper

Vice President, Operations
Macdonald Real Estate Group, Inc.

John DiMichele

Chief Executive Officer
Toronto Real Estate Board

Howard Drukarsh

President, Broker of Record and Co-Founder,
Right @ Home Realty, Inc.

Bill Duce

Executive Officer
Kitchener-Waterloo Association of REALTORS®

Merrily Hackett

Managing Partner & General Manager
Sutton Group – West Coast Realty.

Industry Leaders Interviewed

Title/Company as at date of interview

Cliff Iverson

*President-Elect, The Canadian Real Estate Association
Realtor®, RE/MAX Crown Real Estate North*

Lynette Keyowski

*Executive Officer
Okanagan-Mainline Real Estate Board*

Robert Laing

*Executive Officer
British Columbia Real Estate Association*

Cathy Maxwell

*Executive Officer
Lethbridge & District Association of REALTORS®*

Bill Madder

*Chief Executive Officer
Association of Saskatchewan REALTORS®*

Graham Mayne

*Broker/Owner
Discover Real Estate Ltd.*

Janice Myers

*Chief Executive Officer
The Ottawa Real Estate Board*

Geoff McCullough

*Executive Director
Winnipeg REALTORS® Association*

Andrew Peck

*Vice-President and General Manager
Royal Pacific Realty Corp.*

Rob Philip

*Chief Executive Officer
Fraser Valley Real Estate Board*

Andy Puthon

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Gary Simonsen

*Chief Executive Officer
The Canadian Real Estate Association*

Dominic St. Pierre

*Senior Director
Quebec Region at Royal LePage*

Phil Soper

*President & CEO
Royal LePage,
Brookfield Real Estate Services, Inc.*

Alan Tennant

*Chief Executive Officer
Calgary Real Estate Board*

Mary Van Buren

*Vice President Marketing and Technology
The Canadian Real Estate Association*

Bernie Vogt

*President
Adventure Realty Network*



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