The Subcommittee on Housing and Community Opportunity

The Changing Real Estate Market

Redfin Testimony

Ladies & Gentlemen:

Thank you for inviting me to testify. It is an honor to be here. I am Glenn Kelman, President & CEO of Redfin Corporation, the first online real estate brokerage in the United States.

Just so you know where I stand, I am here today to ask that Congress act:

- to ensure that all licensed brokers get fair and equal access to the multiple listing services used to share listings between brokerages;
- to empower the Federal Trade Commission to monitor and preempt states' minimum-service laws, which are used to protect realtors and limit consumer choice;
- to allow commissions to be refunded at closing, so buyers can take the portion of their own money reserved for commissions and apply it to their down-payment; and
- to ensure that consumers are able to access directly all the relevant information stored by multiple listing services about a property, so they don't have to rely on agents.

In 2004, Redfin was the first company to display real estate listings on an online map like MapQuest. In February 2006, Redfin launched the first service to let people buy a home online. Customers find homes to tour via our Web site, draft an offer using our online forms, and rely on us to handle negotiations. The average customer gets better, data-driven service, and saves $10,000 because we refund two-thirds of the standard brokerage commission.

As the first online brokerage with national aspirations, we believe we bring a unique perspective to the subcommittee on how the industry today is stifling Internet innovations. Discount agents have long offered customers the same in-person service as traditional agents at a marginally lower price. But an online brokerage that doesn't employ field agents is a radically different service at a radically different price, and it has engendered resistance on what seems to be a new scale.

Competing agents have threatened us with violence, intimidated our customers and tried to block their offers. Sixty-three percent of our customers report meddling from other agents, who in the absence of clear consumer law make up grade-school legal mumbo-jumbo to scare our clients. One customer was so upset by an unsolicited hostile call from a competing agent that he sat on the kitchen floor and cried. Many agents have told our clients that the sellers would never see their offer because it came from Redfin.

We expected a competitive, even combative, reception from realtors, but the impunity of those in this self-regulated industry has still come as a shock. We've drafted complaints to state real estate commissions, only to learn that the commissioners worked for the brokerages we were complaining about. It has been like a Western where the cowboy promises to report the desperadoes to the sheriff, only to have the desperadoes whip out their badges.

We posted the photos of agents hostile to our customers on a Web site we called the Hall of Shame, only to have agents immediately apply to appear there. Perhaps no one is surprised that realtors would damage their own clients' interests by discouraging Redfin offers, but that agents are proud of this fact makes it plain this industry has failed to regulate itself.

It's a wonder with all the blackballing that anyone has been able to buy a home through Redfin. And yet many have. We've represented clients on hundreds of transactions. Our customer satisfaction rate is 98%. We've been featured in The New York Times, the Wall Street Journal, Business Week, and National Public Radio.

Our business is based on a startling asymmetry. We discovered in our research that while agents view their jobs as identifying the best home for their customers to tour, 63% of real estate consumers view the agent's most important function as writing a winning offer and closing the deal.

Moreover, a California Association of Realtors report finds that Internet consumers engage an agent for two weeks rather than the traditional seven before finding a home, but pay agents the same amount. By focusing on the offer paperwork for the Internet-savvy consumer we can deliver better service at lower cost.

Whereas the average agent completes seven transactions per year, a Redfin agent completes twice that each month. Redfin sales have been doubling month over month. We will have saved consumers nearly $1 million in commissions in our first six months as a brokerage.

This is the way much of the industry will one day work, and in the dwindling after-hours of industry cocktail parties and trade shows you would be hard-pressed to find any realtor who could deny it. An April Wall Street Journal survey found that over 70% of consumers feel their agents are overpaid. According to our own surveys, over 50% of our Web site users clearly prefer an online home-buying service, but less than 1% of the home-buyers who visit our site end up making an offer through Redfin.

We shouldn't sit here wondering what happened to the other 49%. It seems indisputable that national laws to protect consumers from intimidation would embolden consumers to choose the service they want and make the industry more efficient.

This brings us to the second part of our story. If Redfin is so great, why hasn't there been a Redfin before? Realtors would have you believe that, alone in the American economy, the economics of real estate have been unaffected by the Internet because real estate consumers don't want e-commerce. Our own fund-raising efforts tell a different story: that the rules of real estate are designed to preclude competition from an online brokerage.

I came to Redfin's financing effort as an experienced entrepreneur, having co-founded Plumtree Software in 1997 and worked as an executive at the company through six financings and a 2002 public offering. Because Plumtree had become a profitable, global business, many investors told me I could raise money for almost any venture.

Financing Redfin should have been especially easy. Our management team is experienced, our technology is unique, and the real estate market is large, fragmented and inefficient. Add to that that venture capitalists are investing money these days like it's 1999.

But Redfin nearly got shut out. Investors who put $6 million into a Swedish Web site for dressing up virtual celebrity dolls turned us down as too risky. Pro-agent real estate sites such as Zillow easily raised millions because they didn't compete with traditional brokerages.

Time and again we were told that we were competing against an industry that ran the multiple listing services used to share inventory, and that without access to the listing service for each market, our business would die. The reason there's no national E-Trade for real estate is that everyone in Silicon Valley knows the realtors control the listing services.

To help us understand what we were up against, one venture capitalist introduced us to the CEO of eRealty, an online start-up that had faltered in 2000 where we hoped to succeed.

He said that every time he applied to enter a new market, the local multiple listing service used to share listings called the National Association of Realtors to find a way to gum up his application. His business withered waiting for lawyers to clear the local rules and regulations of each market he entered.

But the eRealty CEO also offered us hope: a 2005 Department of Justice lawsuit against the Kentucky Real Estate Commission for supporting anti-competitive practices had tempered the realtors' tactics. It was that lawsuit and other federal legal action that became the rationale for our eventual investors to believe that anti-competitive real estate rules would ease enough for an Internet startup to take root.

We have since seen this work firsthand. Whenever a multiple listing service challenges our business model, we ask that the challenge be made in writing, and never hear about the issue again. We believe that only the possibility of further federal action has maintained this uneasy truce.

But we fear that if Congress does not enact a law codifying the Department of Justice recommendations, the Department of Justice will at some point shift its attention elsewhere, and real estate innovators like Redfin will again be in jeopardy of losing access to listings.

The realtor industry's rhetoric opposing government action is hogwash. One reason the industry exists as it does today is because of government action at the state level, with minimum-service laws protecting traditional realtors from online brokerages in at least a dozen states. The paternalistic rationale behind these rules, that consumers are incapable of making their own choices, is inimical to free markets.

And the variations in local regulations are themselves already a formidable deterrent to new businesses. We run Redfin on a shoestring, with no public relations agency, lobbyists or administrative assistants, but today we employ five law firms, in large part to keep pace with differences in MLS rules and state minimum service laws. We will never compete in some states unless their minimum-service laws are overturned.

Minimum service laws and MLS rules stifle innovation not just in business models, but in how Web share information with consumers. Realtors want consumers to get real estate information from realtors, not Web sites. You can find out more on the Internet about an eBay beanie baby than you can about a million-dollar home.

We have been told by multiple listing services that we can't publish commentary on a listing, that we can't offer customers the ability to search for homes by time on the market, that we can't display for-sale-by-owner properties on the same page as broker-listed properties, that we can't display key information about a property without first requiring a cumbersome registration process.

MLS rules like this are a thousand tiny shackles on Internet businesses, which are especially sensitive to the free flow of information. The premises of any Internet business are the laws of free markets taken to their extreme: radical openness and instant gratification. Amazon publishes scathing customer reviews of its best-selling products. Google provides immediate service without requiring registration. Consumers love it.

But imagine if Amazon got legal threats when it published a ho-hum book review, or if Google required its customers to call an agent to access certain types of information. The Internet would be a gigantic marketing brochure rather than a useful consumer tool, and it would be a less powerful engine for economic growth. But this is exactly what is happening in online real estate today.

What is needed is a simple set of laws to allow consumers to pursue the best deal without fear of realtor retribution, and to protect consumers' access to data, so they can make free, informed choices. Realtors who oppose this make four arguments:

- **The industry is competitive**: this is like saying a football game is competitive when the score always stays the same. Competition is meaningless without price competition.
- **The industry consists of small businesses**: the size of the multiple listing service, not of the brokerage, is what matters. Each listing service enjoys a virtual monopoly in its area, and every mom-and-pop brokerage has little choice but to join this monopoly.
- **Consumers like real estate agents**: as anyone who has voted for Castro will tell you, consumers express their preferences best when they are given a choice.
- **American real estate is a well-functioning market**: the market functions well only for customers willing to tolerate partial access to information and high commissions.

Redfin thus asks that Congress act to empower the consumer, not the realtor, by giving brokerages of all types fair and equal access to multiple listing services, and empowering the Federal Trade Commission to regulate states' minimum-service and anti-rebate laws.

This very simple law would make the real estate industry far more competitive, saving the average family $10,000 or more on every transaction. We can think of no other action that Congress could take this year that would save more money for the American middle class.