CALIFORNIA ASSOCIATION OF REALTORS®

July 24, 2006

Chairman Robert Ney
House Financial Services
Subcommittee on Housing and Community Opportunity
2129 Rayburn H.O.B.
Washington, D.C. 20515

RE: July 25, 2006, Hearing on "The Changing Real Estate Market"

2006 OFFICERS

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Dear Chairman Ney:

As President of the California Association of REALTORS® (C.A.R.) and on behalf of the more than 195,000, members I would like to submit the following Statement to the House Financial Services Subcommittee on Housing and Community Opportunity for their July 25, 2006, hearings on "The Changing Real Estate Market." Two of the changes taking place in today's real estate market are an unprecedented increase in new agents and the application of new technology. C.A.R. would like to dispel any misconceptions about today's ever-changing real estate market by demonstrating how these changes continue to benefit consumers by increasing competition streamlining transactions and opening the door to new business models. In addition, C.A.R. would like to take this opportunity to express their member's concerns with the federal government expanding its regulation and oversight of the real estate industry.

Primary oversight and regulation of the real estate industry is currently and always has been by individual states and the local governments. Because property and real estate markets across the country vary so greatly, lawmakers realized the issue could best be governed and regulated at the local level. Variables that differentiate real estate in one state from another are too numerous to count, but include zoning codes, sprawl, environmental dangers, supply and demand, taxes, chemical hazards, and countless others. Additionally, real estate transactions are by their nature local with the majority of transactions done as intrastate transactions. Taking this into account it stands to reason that regulatory agencies and elected officials at the state and local level would be in the best position to determine and pass laws to ensure consumers are protected and that the real estate market is fair and competitive.

The success of local supervision of the real estate market can not be overstated. The United States real estate market is the envy of the world. According to the Association of Foreign Investors in Real Estate's (AFIRE) 2005 annual survey, 73.5 percent of respondents stated the U.S. provides the most "stable and secure real estate investments." The survey also concluded that the U.S. provides the "best opportunity for capital appreciation."

Conventional wisdom holds that government intervention is almost always a hindrance on a market. Therefore any regulation or law should only be done when necessary for the benefit of consumers. C.A.R. feels the current real estate market would only suffer from the continued increase in regulatory intervention by the federal government with no benefit to consumers. This intervention would appear to be aimed at a lack of competition in today's

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real estate market. C.A.R. could understand this intervention if there was such a lack of competition, but the market bares a different truth.

The reality is competition has **NEVER** been as strong in the real estate market as it is today. Growth in competition has been spurred by both an unprecedented increase in new agents coupled with new business models utilizing today's technology. Perhaps no state's real estate market is as competitive as California, where there were 500,053 licensed real estate agents at the end of May 2006. This is an increase of approximately 50,000 new agents in the last year. Further proof of this increased competition is the pressure felt by REALTORS® themselves. When asked "What part(s) of the business process do you find the most challenging?" 35.6 percent stated "personal professional marketing." This was second only to "working with buyers." The pressure on new and existing agents to stand out among an expanding pool of real estate agents is growing and will only continue to do so. This increase in competition has led to a direct benefit to consumers' bottom line as commissions decreased from 6.1 percent in 1991 to 5.1 percent in 2004.

Consumers are also benefited by the utilization of technology by entrepreneurs to create new business models. Thirty years ago California led the way in expanding consumer choice in real estate when, in 1976, Help-U-Sell created a new business model that allowed sellers to choose which services they wanted to pay for. Following in their footsteps by using today's technology, ZipRealty.com created a new on-line business model in 1999. Both of these businesses continue to grow year after year as both have found ways to meet consumers' needs.

It has been suggested that new business models and technology are viewed as a threat to the "traditional" real estate agent. The truth is that C.A.R.'s members have not only embraced technology, but have led the way in utilizing it to benefit the real estate market. C.A.R. has taken the real estate transaction–which includes hundreds of papers, forms, disclosures, contracts, and other documents–and turned it into an effortless automated transaction. With C.A.R.'s new RELAY® Transaction Management platform, agents are able to process an entire real estate transaction utilizing safe digital document storage. Additionally, agents today can better communicate with clients by using email, giving virtual tours of homes over the Internet, and placing "for sale" advertisements online at a lower cost than traditional newspaper ads. Information now flows to all parties of a real estate transaction quicker and more efficiently.

With the immense increase in new agents and advancements in technology, REATLORS® are now working harder then ever to help satisfy the needs of consumers. The competition between real estate agents is enhanced further by these factors in addition to today's real estate market welcoming with open arms alternative business models. One needs only to look at the number of new agents and the success of ForSaleByOwner.com, Help-U-Sell, and ZipRealty.com to see that real estate agents are operating in a competitive market. Both the traditional real estate businesses and these alternative models continue to grow and thrive because they have found a way to satisfy the needs of the consumer. The reality is, real estate agents do not belong to a "cartel," but instead are a part of the most competitive industry in America; an industry that works everyday to help make the American dream a reality for millions of satisfied consumers.

Thank you for your consideration of our views. If we may provide you with any additional information, please do not hesitate to contact Matt Roberts, Federal Governmental Affairs Manager, at 213-739-8284 or fax 213-739-7255, or via email at matthewr@car.org.

Sincerely,

Vince Malta
President, California Association of REALTORS®