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THE FUTURE OF ESTATE AGENCY: SOME CONSEQUENCES OF THE RECENT ACQUISITION BOOM IN SOUTH WEST ENGLAND

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The Future of Estate Agency: Some Consequences of the Recent Acquisition Boom in South West England.

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1 Introduction

The estate agency industry in the UK is currently experiencing an unprecedented period of change in its structure and methods of operation. General deregulation of the financial markets and the 1986 Building Societies Act in particular have caused large financial institutions such as insurance companies, banks and building societies to enter the estate agency business in order to cross sell services and compete in a wider financial sphere. This has transformed what, only three years ago, was a cottage industry served by small, privately owned, often local firms into one dominanted by a handful of large national chains each owned by a company whose main industrial interest lies in another field. The transformation has occurred mainly through buyouts of existing estate agents as opposed to the establishment of brand new companies, although a few, notably the Woolwich and the Norwich and Peterborough, have started from scratch. The outcome of this "acquisition war" is that whilst as recently as 1982 only two estate agents had more than 40 outlets and the top ten averaged 41, by December 1988, six companies had over 500 outlets; the Prudential had 805, Royal Life Estates 803, General Accident 612, Black Horse Agencies (now part of Abbey Life Assurance) 562, the Halifax 579 and Nationwide Anglia 520 (Lunn, 1989). The transformation in the structure of the industry obviously has consequences for the methods of operating within the industry. The purpose of this paper is to consider these consequences and to speculate on future changes.

The information in the paper derives from two sources. The first source is a postal questionnaire survey carried out in July 1988 of 391 estate agents in four major travel to work areas (TTWAs) in South West England (Plymouth, Exeter, Bristol and Swindon), which yielded a usable response rate of 42%. The second source is detailed semi-structured interviews with 13 estate agents in the Plymouth TTWA during December 1988. Seven of the agents interviewed were branch managers of national chains and six were managers of independent companies. The interviews were designed to furnish more detail on some of the issues raised in the postal questionnaire. Much of the information from the postal questionnaire was compiled in Hallett and Bishop (1988). This paper focusses mainly, therefore, on the information obtained from the interviews. It considers the extent of diversification in the industry, commission rates, the future of the independent estate agents, estate agents attitudes to 1992, the marketing activities of the industry and finally, the likelihood of takeovers in the business agency industry. We start, however, by outlining the extent of the takeover activity in the industry in South West England.

2 Takeovers

Results of the questionnaire indicated that the national takeover trends in estate agency referred to above were certainly evident in the South West region. Four main types of large financial institution had acquired 31% of estate agents offices in the four TTWAs, as shown in Table 1.

Table 1: Type of Acquiring Company by TTWA.

TTWA	Insurance Company	Building Society	Bank	Holding Company	Total	% of offices taken over
Plymouth	8	3	4	0	15	31
Exeter	4	3	0	0	7	23
Bristol	6	3	7	4	20	38
Swindon	4	1	0	4	9	25

Source: Hallett and Bishop, 1988.

Of those offices which had been taken over, 43% had been taken over by insurance companies, 22% by banks, 20% by building societies and 15% by holding companies. The subsequent interviews established that in Plymouth, the acquisition boom was continuing with several previously independent firms having been acquired by large financial chains in the six months between the postal questionnaire and the interviews. Acquisitions were also occurring at a much higher level in the ownership hierarchy, with for example, Black Horse Agencies having been acquired by Abbey Life Assurance. Thus the whole industry is becoming more concentrated.

One point to emerge from the interviews on the subject of takeovers was that despite the change in the housing market from boom conditions in July 1988 (when the postal survey took place) to slump conditions in December 1988 (when the interviews took place), all but one of the branch managers of the chains interviewed stated that their companies had no intention of ceasing their expansion policies. The expansion methods of the companies which were continuing to expand had, however, changed. The number of desirable and obtainable independent companies had decreased over the period making it more prudent to open "greenfield" offices, i.e. to purchase non-estate agency offices in which to establish estate agencies, than to continue taking over less desirable, already established, estate agents. Multiple branches, city centre sites, and owners who would be willing to sell out for a "sensible" sum were viewed as the most important factors making an estate agent desirable and obtainable. One result of this change in method of expansion by the chains was an absolute increase in the number of estate agents offices. Previously, entry into the industry by the large financial institutions merely entailed a change of ownership status for those agents who were acquired. Some towns were trying to impose limits on the number of estate agents by restricting the number of "change of use of premises" applications (required to change non-estate agency premises into estate agencies) which are granted. At the time of the interviews even this was being circumvented since no such approval is required for a change of use from fast food outlet to estate agent. The former were, therefore, becoming the targets of takeovers.

About half of the agents interviewed expressed the belief that some of the offices which were acquired in the boom period by the large chains would face problems under normal market conditions as a larger number of estate agents offices would be competing for the same number of houses to sell and at the same time, selling would become more difficult because of the market conditions. The result, they forecasted, would be redundancies in some offices. As some of the interviewees pointed out "estate agents are not charities so if a branch does not make a profit and there is no good explanation for this, they must expect to be axed." Three agents stated that top management in large financial institutions involved in estate agency took a very short term view of business and would not tolerate short term losses. Their forecasts of redundancies has subsequently been proved correct. Redundancies have already occurred in some smaller agencies in the South East and Nationwide Anglia have recently announced the closure of 50 of its branches (Guardian, 23/11/89). Thus in the short period of time between carrying out the interviews and reporting on the findings, the situation regarding growth in number of outlets has changed for some chains which are now concerned more with consolidation and rationalisation of branches than with expansion. Thus, although there may have been some increase in the number of estate agents' outlets, the increase may not be on the scale originally perceived.

3 Commission Rates

Analysis of the results of the postal questionnaire illustrated that estate agents that were part of a chain charged significantly higher commission rates than independent agents (for a full discussion see Bishop and Hallett, 1988). It seems likely, therefore, that the trend towards concentration in the industry would lead to increased commission rates overall, making them closer to those prevailing elsewhere in the developed world (e.g. France has rates of 5-6%, USA has rates nearer 7%). Most of the interviewees believed that commission rates would indeed increase in the future - perhaps to 3% - and that this would be particularly likely to occur if house prices stabilised for a long period. The main reason given for the desired increase in commission rates was the increase in the costs of providing the service. Since the beginning of the takeover boom many offices have been refurbished, glossy, high quality photographs of houses have become the norm, staff work longer hours, particularly at weekends and the volume of advertising has increased.

Eight of the agents mentioned that higher wage bills due to improvements in the calibre of the staff were a major contributor to the higher costs. Since the beginning of the acquisition boom, more emphasis was being placed on staff training and the staff entering the industry were more academically qualified. The entrance of the large financial institutions into estate agency has resulted in improvements in the image of estate agents to match that in other service industries with which the chains were connected, such as banks and building societies. A difference in the methods used to increase professionalism was noticeable between agents who were part of a group and independent agents. The former were more interested in in-house training of staff who generally had few formal qualifications, whereas the latter employed more highly qualified staff but had less specific estate agency training. Independents employed a greater number of qualified surveyors and were employing graduates, some with foreign language qualifications for dealing with overseas properties, whilst offices belonging to chains were more involved with establishing training schemes specific to the industry.

While house prices were increasing rapidly, increased costs could be absorbed by the higher fee incomes and furthermore, during the boom houses sold easily without the need for advertising. The end of the boom in house prices has already heralded a slight increase in commission rates as conditions have switched from being a sellers to a buyers market. Most agents believed that margins were being cut so dramatically, that further commission rates increases would be necessary. The agents stressed that even during the boom in house prices they did not make massive profits because there was a complete lack of supply of houses to sell. They could not, therefore, subsidise increased current costs with vast profits made during the boom.

Despite the "improvements" in service made since the beginning of the acquisition war, the increased competition in the industry makes it seems unlikely that agents will increase commission rates significantly overnight. The impression gained at the interviews was that although agents would like to see an increase in rates to 3%, none of them would make the first move for fear of loss of business. It seems likely that they will rise, but gradually over a period of time.

Some of the estate agents interviewed believed that if commission rates increased, the smaller independent would be attracted back into the market as they could survive without charging higher commissión rates. In particular, the original owners of agents that had been acquired during the acquisition war would be attracted back into the industry enabling them once again to use their entrepreneurial skills and their knowledge of the business to their best advantage. This seems likely given the ease of entry into the industry.

There was much agreement that at the end of the day, the commission rate charged was often irrelevant to the customer, up to a certain point. In only a minority of cases was the commission rates charged the major factor determining which estate agent was used. Most customers, they believed, appreciated that quality of service was more important than commission rates as it was the latter which determined the speed of sale of the property in many cases. Some agents said that they could usually convince people that they got what they paid for so it was worth paying a little more in commission and furthermore that many people did not even ask what commission rates they charged. The one exception to this came from the manager of an estate agent which was located in a poorer area of Plymouth who indicated that commission rates were very important in determining peoples choice of estate agents in his particular area suggesting, perhaps, an income effect on the demand for services of estate agents. However, general lack of sensitivity to commission rates implies that higher rates could be supported by the market.

4 Marketing

Responses from the postal questionnaire indicated that companies who were part of a chain were statistically more likely than independent firms to market their properties in the South East. One way of marketing properties in other parts of the country is through use of the branch network and this is stated by most of the chains in their sales brochures to be a major advantage to a customer of using a chain. Prudential, for instance, state in their brochure, "While most buyers are still local, nearly one third of homes these days are bought by people from outside the area. This means that 3 out of every 10 buyers could slip through your fingers if you fail to use our national network of branches." At the interviews, most of the branch managers in the offices which were part of a chain stated that this was a good marketing strategy which in fact sounded better than it worked in practice. They suggested that the vast majority of those people moving into an area from outside would visit the area and the estate agents in that area; they certainly would not rely on house details sent to them through the post. Similarly, exhibitions of property details in the South East, also marketed as an advantage to using a chain, do not, they said, actually sell many houses. Stressing the national branch networks and the exhibitions in London is a way of obtaining instructions to sell rather than of actually selling houses. This type of marketing works because customers are ignorant of the house exchange process and the work of the estate agent i.e. they are gullible to the marketing of the chains because their experience of moving house is minimal. In fact, the small independent agent probably has more time, incentive and freedom to advertise a property in the best place for that particular property rather than marketing all properties in the same way.

5 Diversification

The results of the postal questionnaire survey showed that diversification was a feature of the modern estate agent. Forty seven percent of respondents also engaged in surveying, 37% engaged in property management and 36% in insurance. The estate agents interviewed were generally diversified into many more areas, though in the case of the chains, the additional activities were not always carried out at the branch visited. Instead, there were "experts" who floated between branches according to need. Auctioneering, advice on town planning, advice on rating, submission of planning applications, financial advice to name but a few, were covered. The breadth of operations appeared to be increasing in most offices, as a competitive strategy. In many respects, the "one stop property shop" was being approached. However, when asked about the desirability of including solicitors on the team (not at present legally permitted) in order to simplify the house exchange process, all but one agent were against the idea. Most believed that independence between solicitor and estate agent was important and benefited the consumer. Most also liked dealing with a range of solicitors for different types of business. Employing an individual solicitor would put a stop to this and isolate the estate agent from the solicitor community. Recommendations work in both ways and business might be lost by restricting the communication lines.

6 The Future of the independent estate agent

In June 1988, one third of the offices in the four TTWAs surveyed had been taken over by large chains in the past two years. Between June and December more independent offices were taken over. The obvious question must therefore be, "Is there a future for the independent estate agent?" Opinions on this question were mixed but the overall impression gained was that there is a future for the small independent agent with one or two offices but that the medium size independent with say 5-10 offices was indeed facing extinction. That is not to say that all small independents will survive, but that the likelihood of survival is good for those with attributes such as dynamic owners who keep ahead of the general market trends; well trained staff with good personal knowledge of the local area; good local reputations maintained by personal contact in the community (particularly in smaller towns where contacts are more important) and aggressive marketing strategies and some sort of niche or specialisation (such as in agricultural property). The emphasis in these establishments is on personal service. The medium sized firms cannot offer such personal, customised service and therefore cannot compete on these grounds with the very small independent. On the other hand, they do not have the backup or the resources to be able to compete effectively with the chains who can market their national networks and rely on their reputation gained in other areas of business.

One of the branch managers of a chain suggested that independents would be eliminated from the market altogether because the chains could afford to abolish commission rates for a period of time and instead offer a package whereby if a mortgage was obtained from them, there would be no commission rates on sale. If this occured, it would, of course, put pressure on the independents and might reduce their number still further. The beneficiaries of this type of package are those with property to sell who require a mortgage to purchase their next property. It would be of no advantage to anyone who needed no further mortgage, for instance anyone who had paid off their mortgage and was moving to a cheaper property, or anyone who was not purchasing another property. This may not seem a large segment for the independents but there will also be people who prefer personal service to zero commission rates and a core of sellers who do not wish to be tied to a package. Since the chains could not afford to continue this package for a long period of time, it seems that there will be room enough for the independent in the market. Furthermore, it seems likely that large chains do not view independents as their main competitors and so eliminating from the market would not necessarily be in their best interests.

The independents interviewed were very positive about their future. They had definite niches in the market which they considered could be maintained. They were also positive about the recent changes in the industry. They did not fear the competition but inferred that it had made them more competitive and sensitive to the needs of the consumer.

7 Attitudes to 1992

With 1992 approaching and industries being reminded by such bodies as the DTI to prepare for it, agents were questionned as to their thoughts on 1992 and what it would mean for their particular industry. All but one agent had very few thoughts on this question. Branch managers of the chains knew of nothing being done at all in preparation for 1992. They had not fully settled down after the merger activity yet and had had no time for consideration of the effects of 1992 (though whether preparations were being made at a higher level, is unknown). Two of the independents had thought about it a little but had no fixed ideas on what it would involve for them. Both were already involved in selling French properties to UK residents. Overall, however, there seemed to be a general appreciation that 1992 may have some affect on their business but they were unaware of how to start gathering information on what they ought to be doing about it, i.e. there was an information deficiency which was leading to inertia. Asked whether they thought that 1992 might lead to european estate agents entering the UK market, most believed not because commission rates in the UK were not sufficiently high to attract them, although interestingly, every agent spoke as if France was the only country in the EEC. Since agents opinions of the French system of house exchange were not very high, they saw little competition arising from there. On the mortgage side, however, there was agreement that 1992 would lead to a widenening of the market with EEC financial institutions providing an increasing number of mortgages, particularly since at present, mortgage interest rates are lower in most EEC countries than in the UK.

8 Business Agents

Thus far we have considered estate agents which deal primarily with residential properties. The property market also includes business agencies which can be divided into two types; business transfer agents, which deal with businesses which are going concerns and commercial agents who deal with empty business properties. Whilst several of the large chains have "business departments", much of the market remains in the hands of small independent companies who usually deal also with a small number of residential properties. There are only a few business agents and they therefore cover a fairly wide geographical area.

The large financial institutions have not yet entered the business agency side of the market with any enthusiasm, although some takeover activity is taking place. The fact that business is concentrated in so few companies indicates that they could easily be the target of future takeover activity. This notion was put to several business agents in Plymouth. It was generally agreed however, that although the number of agents was small, the service they offered was highly specialised, requiring qualified staff (such as surveyors and architects) and furthermore was very personal in nature, making it an unviable proposition for the large chains. This, perhaps, is debateable for it would be fairly easy for large chains to enter the industry by buying out existing agents and keeping the existing staff (as happened on the residential side). In this way the personal contact system would remain in tact and the problems caused by the need for qualified staff, reduced.

9 Summary and Conclusions

The estate agency industry is experiencing its largest structural change for decades, brought about by the general deregulation of UK financial markets. Entrance of large financial institutions into the industry has had various effects on its methods of operation and performance. Some of the changes have occurred not because of the changes in ownership status of the operators per se but merely as a result of the increased competition enforced on the market by the merger activity. Estate agents, once solely sellers of houses, now offer a wide range of services relating to the house exchange process. Diversification has become an important competitive strategy. Training and formal qualifications have assumed a new level of importance as the large financial institutions try to improve the image of the estate agent to match that of other service industries with which they are connected. The consequences of the changes for the consumer/client are mixed. On the plus side, the process of property exchange should now be more pleasant. Offices are more attractive and have efficient photographic layouts of properties. Staff should be better trained to serve the needs of the customer. Furthermore, the move towards a "one stop property shop" should eliminate some of the problems of moving house. On the negative side, however, sellers may have to pay more for the service obtained. Whether this increase in price is justifiable is questionnable. Certainly some aspects of the service have improved, but the impression gained is that some of the "improvements" (especially those marketed by some of the chains), are more cosmetic than real. An instance of this is the emphasis placed on the advantages of size by the chains. So long as the independent agent remains in the market, however, the customer will at least have a choice as to the type of firm he uses.

10 References

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