

The History of the Real Estate Industry

The real estate industry of one hundred years ago looked very different than the real estate industry of today. Actually, in 1907 the real estate industry was not an industry at all. Similar to the town barber also being the person who pulled a rotten tooth (the forerunner of your friendly neighborhood dentist), the men who sold insurance were your friendly neighborhood real estate agents.

In some places even today, you can drive down the main street of a small town and see two or three businesses with signs that say “Insurance and Real Estate.” Some of you reading this book are associated with very large real estate companies that have come full circle. These companies have returned to the historical linkage of insurance and real estate by offering a full range of financial services along with real estate services, such as Prudential Real Estate, among others.

For Sale by Owner

If the truth be told, back in the day, most real estate was bought and sold principal to principal without the assistance of a real estate industry. A seller would put a sign on their

land, farm, store, commercial building, or home. The sign would say something like the following:

40 Acres Prime Grazing Land
\$1000 Paper Money or \$975 in Gold
See Fred at Moncrief's Feed Store

If you were a buyer interested in 40 acres of prime grazing land, you would go see Fred at the feed store. The negotiations would consist of you and Fred agreeing on the price and the terms, shaking hands, you giving Fred the money for the property, and then going to the clerk at the courthouse to have Fred sign a deed transferring the title to the property to you.

If you were smart, you would have Fred's signature witnessed by two people. This would add to the validity of the deed. Unfortunately, the witnesses more than likely would sign with an "X" because they could not read or write! Then you could ask the clerk of the court to record the deed in the courthouse records. After the deed was signed by Fred, you were the new owner of the property. Or were you?

Attorney's Opinion of Title

As for getting title insurance, there was no title insurance. At best, you could pay a local attorney to abstract the title. This would consist of the attorney looking at the existing recorded deeds at the courthouse. Then the attorney would give you a written opinion that Fred owned the acreage. This implied that you were receiving a valid deed from Fred giving you ownership of the property.

Many of you have heard the story of the famous American whose father purchased and lost three different properties based on initially receiving an attorney's opinion that he would receive valid title. Ownership claims were put forth by other parties on each property and in each instance were upheld by a court leading to the loss of all three properties.

The attorney's opinion of title was not worth the paper it was written on. Yes, you could sue the attorney, but what is the likelihood that the attorney had any money, or if they did, that you could get any of it? This happened to Abraham Lincoln's father for those of you who have not heard the story.

Sophisticated Marketing

If Fred was a savvy businessman, he might even place a classified ad in the town newspaper to advertise his acreage. The newspaper ad would read exactly the same as the sign on the property. If Fred owned property on the frontier, he might advertise in an eastern big-city newspaper to take advantage of the latest wave of immigrants chasing the American dream. This is how the ad might read in the *Chicago Sun*:

40 Acres Prime Grazing Land
Where the West Begins
\$1000 Paper Money or \$975 in Gold
Write or Telegraph to Fred Moncrief, Fort Worth, Texas

The Real Estate Business in 1907

Let's say you were one of the people in Fort Worth who sold insurance and real estate in 1907. You see Fred's ad in the *Fort Worth Star* newspaper. As a smart businessman, you decide to go pay Fred a visit at the feed store. You have a client coming in from Chicago in the next week who would be interested in Fred's 40 acres.

You would really like to get Fred's insurance business. Fred is one of the up-and-coming movers and shakers in the business community. Besides the feed store, the Moncrief family owns one of the slaughterhouses that sends beef north and east to satisfy the insatiable American hunger for meat. Perhaps you can get on Fred's good side if you bring him a buyer for his grazing land.

You already have made a deal with the buyer from Chicago. If you find him something he likes, he has agreed to pay you \$50 in gold. You know the buyer has \$1,000 in gold to spend on Texas grazing land and pay you your fee. If you can negotiate the price of Fred's acreage down to \$950 in gold, your buyer will have \$50 in gold to pay you.

Deal or No Deal

You meet with Fred at the feed store. You tell him you have a buyer from Chicago who is looking for exactly the property Fred has for sale and will pay in gold. You ask Fred if he will take \$950 in gold for the property. Fred tells you he wants \$975 in gold for the property or \$1,000 in paper money; otherwise there will be no deal. (Does this sound like something you have heard from a seller before? The seller wants their price and their terms.)

You do some quick thinking on your feet. You know the acreage will be perfect for your Chicago client. With the \$1,000 in gold from them, you can get Fred the \$975 in gold he wants for the acreage. This will leave \$25 in gold for your fee. This is not the \$50 in gold you were expecting to receive.

Your hope is that Fred will want to send some of his insurance business your way now that you have demonstrated an ability to get him what he wanted for one of his real estate holdings. You are investing the \$25 you are not receiving on the real estate side of your business to create client loyalty with Fred. This may lead to doing business with Fred in the future on both the insurance side and the real estate side. Amazingly, even at the beginning, real estate commissions were negotiable!

Soft Money versus Hard Money

We are sure some of you are wondering about the difference in price for Fred's acreage between paper money and gold. Real estate has always been a real asset. You can see it, hear

it, touch it, smell it, and taste it. People form an emotional attachment to their real property.

Gold is also a real asset. People would bite a gold coin to see if it was real. They were biting it to discover if it was soft. Real gold is soft enough for your teeth to make an impression. One hundred years ago, people wanted to receive like kind property when they sold or traded one of their real assets. Gold for real estate or real estate for gold was like kind property.

Greenbacks

Paper money was highly suspect to most people. It was not a tangible asset. It was not real. In an effort to have people accept paper money in lieu of gold or silver and use it in everyday transactions, the federal government printed so-called greenbacks that were huge in size. Our money today is six inches by two and a half inches ($6" \times 2.5"$). One hundred years ago, greenbacks were eight and a half inches by three and a half inches ($8.5" \times 3.5"$)!

Greenbacks also stated on the bill that they were redeemable for gold or silver by the federal government. The idea was that because of their sheer size and the fact that the U.S. government would guarantee the greenbacks with gold or silver, people would be more likely to use and accept paper money.

Fred wanted a risk premium for accepting paper money for his real estate. That is why he wanted \$1,000 in paper money and only \$975 in gold for the acreage. We have the expression "cash is king" in the real estate industry from these earliest origins. Cash then meant gold or silver. Paper money was not considered cash. Paper money was a promissory note that was considered inherently risky.

Open Listings for Sellers

What was your alternative to approaching Fred in 1907 if you didn't yet have the buyer from Chicago? Said another way, how could you convince Fred to list his 40 acres of prime

grazing land with you? That was a piece of cake. Fred would give you a listing just for the asking. Just like Fred would give a listing for the asking to the other twenty to thirty people who were in the real estate business in Fort Worth with you at that time.

That's right. You could get an open listing from Fred. Fred might make an agreement with you to pay you a fee for bringing him a buyer who bought the property. You could put your real estate for sale sign on Fred's property. Of course any potential buyer might have a hard time distinguishing your real estate company's for sale sign from the other twenty or thirty real estate companies for sale signs that were also on Fred's property.

30 Different Real Estate Companies Signs

We know that for some of you picturing Fred's property with 30 different companies' real estate signs must look like something straight out of a Tim Burton nightmare movie. But that is the way business was done. The seller would agree to pay a fee only to the real estate salesperson who brought an accepted offer.

Or the seller could say, like Fred, that he wanted a net amount for his property and would not agree to pay any fee to you for bringing the buyer. The real estate agent would have to get paid by the buyer. Whatever amount you received from the buyer as your fee was between you and the buyer. The seller had no say-so in the matter.

No Exclusive Authorization and Right-to-Sell Listings

In 1907 there were no exclusive authorization and right-to-sell listings! Can you possibly imagine a real estate industry that looked and functioned like that? The point is that there was no real estate industry yet. There were insurance businesses that had a real estate fourth-cousin branch of the family.

No one was representing the seller. No one was representing the buyer. The seller was pitted against the buyer and the real estate agent. The buyer was pitted against the seller and the real estate agent. The real estate agent was pitted against the seller and the buyer.

The real estate business was literally every man for himself. And, as with many businesses of the time, women were few and far between in the real estate business. There was room for all kinds of shenanigans. At this point in time, the real estate business was completely unprofessional.

One Real Estate Agent and One Seller

By the 1920s, the real estate industry had emerged in the form that we recognize today. One real estate agent working for one seller became the standard. This was the breakthrough that put real estate on the map as an industry. One real estate agent working exclusively for the seller is in the seller's best interest. This professionalized half of the real estate industry.

Working with Sellers in Today's Real Estate Market

The way you work with sellers in today's real estate market has been developed over more than eighty years of real estate industry growth. Whether you work for a small company or a large company, the way you work with sellers is the same. In fact, the way you interact with sellers is automatic.

Every one of you works with sellers in the following manner. We will start with the assumption that you already have an appointment to make a listing presentation. After you have made your successful listing presentation, you will do the following over the next several days and weeks to market this property.

Lockbox and Pole Sign

You will put a lockbox on the property with a key from the seller to gain access to the property when the seller is not at home. You will order a pole sign to be placed in the front yard. You will input the data on the property to your local Multiple Listing Service using your desktop or laptop computer to expose the property to the other real estate agents in your area.

You will talk to your office manager about running ads for the property in the local newspapers. You will schedule the property for your office to caravan or preview. You may have even taken digital photos and made them available to prospective buyers or other agents on the Internet.

As part of your listing presentation, you have promised the seller several open houses that you will have your assistant schedule over the next two to three weeks. A flyer describing the property will be put in the flyer box on the real estate sign in the next two to three days. You have a buyer coming in from out of town next weekend who may find this property a perfect fit for their housing needs.

Exclusive Authorization and Right to Sell

And of course you will do all of this only after you have a written agreement signed between you and the seller. This exclusive authorization and right-to-sell agreement guarantees you will be compensated for services rendered to the seller. You do not even have to sell the property yourself.

As the listing agent, you or your company will earn the listing office commission no matter who sells the property. Someone in your office could bring the buyer. Someone from an office across town could bring the buyer. Someone from out of town could bring the buyer. Even the seller could bring the buyer and you would still earn your listing commission!

Is there any one of you out there who would do all the things you do to successfully market a property without a written and signed exclusive authorization and right-to-sell

agreement between you and the seller? We know your answer. But how do you work with buyers?

Many Real Estate Agents and One Buyer

By the 1970s, the way the real estate industry worked with buyers had evolved into the form that we recognize today. Many real estate agents working with one buyer became the standard. This was the drawback that kept real estate from losing its fourth-cousin status as an industry. Many real estate agents working with one buyer is not in either the buyer's best interest or the many real estate agents' best interest. Working with buyers has remained unprofessional and needs a set of standards to professionalize this side of the business.

Working with Buyers in Today's Real Estate Market

The way you work with buyers in today's real estate market also has been developed over more than eighty years of real estate industry growth. Whether you work for a small company or a large company, the way you work with buyers is the same. In fact the way you interact with buyers, like the way you work with sellers, is also automatic.

Let's say you are in the office on the up desk on a Sunday morning. The phone rings and you have an interested buyer calling about your new listing. They have seen your ad in the Sunday paper. Your ad is one of 20 properties that they have circled as having potential. Then they have gone on the Internet and eliminated 10 of those potential properties.

They have time to look at three properties Sunday afternoon. They want to be home before the game starts. They are calling to eliminate 7 of the 10 remaining properties that they have picked out of the paper. This potential buyer is calling to eliminate your property over the phone!

Phone Wars

Congratulations, because you are an expert on the phone, you are able to convince the caller to come into your office. They will be there in one hour. You call and make an appointment with the seller to show the buyer the property. You already have defied the odds and are one of the three properties the buyer will take the time to see.

You know that once you get in front of the buyer, you will be able to sell them a piece of property. You are that good. However, you are already operating with one hand tied behind your back. This buyer is smart, sophisticated, and has been programmed to treat you as completely subservient. You disagree? Let's see how your meeting with the buyer turns out.

Meeting with the Buyer

You spend the next hour preparing to show the buyer your listing and three other properties that are listed with other brokers and that meet the buyer's requirements. You are feeling time pressure because the buyer has told you they do not have much time because they want to be at home to watch the game within two hours of meeting with you.

Within five minutes of the buyer arriving at your office, you put them in your car and begin driving them all over town. (Who did you say is paying for gas?) You show them your listing first. This will get you brownie points with your seller. This will turn out to be the high point of the day.

In between showing them the other three properties, you stop and buy everyone refreshments in order to provide them a good service experience. You are also building rapport and trying to discover how motivated the buyer is. Because you are so organized, you are able to show them all four properties and get them back to your office with plenty of time to spare for them to get home to watch the game.

You are feeling pretty good about yourself. You think you may have a live buyer on your hands this time. They really seemed to like your listing and one of the other properties

you showed them. They seemed committed to you. They also seemed like they were ready to buy.

Although you have told yourself a million times not to do this, you cannot help but think about how much commission you will make if the buyer buys your listing. Even if they buy the other broker's listing, you will still make a nice commission.

The Follow-Up

Two or three days go by and you decide to follow up with your Sunday buyer. You have done more research and have found six more properties that may work for them. You call them on the phone and discover one more time why you hate working with buyers.

In the most pleased and excited tone, the buyer tells you that they have made an offer on one of the properties you showed them on Sunday and it has been accepted by the seller! You can hear in their voice that they expect you to be happy for them. After all, you have been so nice to them that they think you are one of their buddies. Of course, you feel like you have just been punched in the stomach. You are having a hard time breathing let alone saying anything.

You manage to recover enough to ask them what happened. They tell you that they called the listing agent on the other property you showed them that they liked and went back to see it after the game on Sunday. It was a tough choice for them between your listing and this other property.

The listing agent for the other property convinced them to write an offer and see if the seller would take it. Much to their surprise, what do you know the seller accepted their offer! Isn't that unbelievable? You numbly congratulate them and hang up the phone.

Time and Money Wasted

You have wasted your time, spent money on gas and refreshments, and made no money. Why did this happen to you?

Why does this keep happening to you? Maybe the buyer did not like you. Maybe the buyer felt you were too aggressive. Maybe you talked too much and should have listened more. We know why this happened to you. You did not have a professional relationship with the buyer.

The Real Estate Industry Paradigm for Buyers

The real estate industry paradigm for buyers historically is that buyers come in one of three categories. These categories are the real estate industry shoptalk that is not meant for public conversation. Category 1 is that buyers are liars. Category 2 is that buyers are flakes. Category 3 is that buyers are lookie-loos.

Category 1, buyers are liars, has been proved to you over and over. Buyers tell you that they are going to buy something but do not. Buyers tell you that they are going to buy property from you but then buy it from someone else. Buyers tell you they are motivated but are not motivated. Buyers tell you that they have a great credit score but, well, you know the answer.

Category 2, buyers are flakes, is one of the universal truths in the real estate industry. Buyers blow into your office bragging that they are going to buy this property and that property and a third property. They tell you that if you can find them good deals, they are going to make you lots of money. Just stick with them and you will have a lifelong business relationship. Yeah, right. This happens with one out of a hundred buyers.

Category 3, buyers are lookie-loos, is one of our all-time favorite buyer paradigms. Several years ago, a well-known real estate company produced a national TV commercial that was designed to show that they were professional when it came to taking care of the sellers that listed their properties with them. The implication was that unlike other companies, the company producing the ad would never let your home be overrun with lookie-loos.

Lookie-loos were portrayed in the ad as little cartoon characters that would just race through the seller's home with

no intention of buying. The lookie-loos were just busy being nose. They were unqualified buyers. The implication was that other companies would parade lookie-loos through a property to make the seller think they were actually working hard to sell the property. But they were just wasting the seller's and everyone else's time, including their own.

Only Sellers Are Worthy of Your Representation

The bottom line is that your paradigm regarding buyers is completely shaped by your thinking that only sellers are worthy of your representation. The reason buyers are liars, flakes, and lookie-loos is because of the way the real estate industry regards buyers. The real estate industry interacts with buyers with an open-listing mentality.

Many real estate agents working with one buyer is the norm for the real estate profession. Essentially, the real estate industry operates with buyers as open listings. An open listing with buyers means whatever agent sells the buyer a property gets a commission. Too bad for you if you showed the buyer the property first.

Buyers Are the True Consumers

Buyers are the true consumers in the real estate industry. You can have all kinds of exclusive authorization and right-to-sell listings with sellers. But until you have a buyer that is ready, willing, and able to purchase a piece of real property, you will not make one dime in real estate commissions.

Buyers are now demanding representation by real estate agents. Buyers realize they are the driving force of the real estate market. If you do not give a buyer complete representation in the real estate transaction, then they will find someone who will.

After all, a real estate purchase is the biggest ticket item that a consumer will make in their lifetime. That is until the next time they make a real estate purchase! If we do not

represent buyers, someone else will. We are not kidding about this. Attorneys are very interested in working with buyers.

In the next chapter, we will talk about the changing real estate market. We are in the process of going from open listings with buyers to exclusive listings with buyers. This is the opportunity for you to professionalize the buyer's side of your real estate business. Won't it feel great being out of your subservient role with buyers? What will make it feel even better is that it will also be the opportunity for you to double your commissions by working with buyers in a professional manner.