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Journal of Housing Economics 12 (2003) 134–150

JOURNAL OF
HOUSING
ECONOMICS

www.elsevier.com/locate/jhe

Internet use and real estate brokerage market intermediation

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Received 23 July 2002

Abstract

This paper examines the factors that influence the use of the Internet as part of the home buying process and the resulting effect on the efficacy of buyer search. Cross section data acquired from NAR's 2000 Home Buying and Selling Survey is used to conduct the analysis. This study finds that the use of the Internet as a search tool does not reduce buyer search time. Instead, by reducing within-period search costs, it encourages buyers to search more intensively. By making it possible to learn more about the availability of properties on the market, the Internet allows buyers to visit more properties without a commensurate increase in search duration. The implications of these findings with respect to the future role of brokers as market intermediaries are also examined.

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1. Introduction

As with firms in many other industries, residential real estate firms have been incorporating Internet use into their day-to-day business operations. The National Association of Realtors (NAR) On-line Technology survey, conducted in 1999, indicated that nearly two thirds of NAR members (Realtors) access the Internet

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for real estate business purposes. In addition, the survey also found that 23% of all potential homebuyers searched, to some extent, for a home on-line.

Technological innovations have resulted in new on-line applications that allow homebuyers to take virtual tours of listed properties, obtain neighborhood and quality of life data, determine affordable price ranges, and comparison shop for loans. Recent approval of the use of electronic signatures will also make it more likely that much of the work associated with a home purchase will become paperless and completed on-line in the near future.

Just what are the implications of these changes for the operation of the residential real estate market? Will the availability of on-line listing information speed the search process and result in homes selling sooner, or will selling time increase because potential buyers have access to a larger universe of available homes? Will the use of the Internet to market residential properties reduce transaction and information costs associated with a home purchase? Is it possible that the advent of the Internet will restructure the demand for residential brokerage services in such a manner as to alter commission rates? To what degree could on-line listings work to replace real estate brokers and salespeople? Although this paper will touch on many of these issues, our primary interest here is to determine the effect, if any, of Internet use by buyers on their search time.

This study uses data from a large nationwide survey of recent homebuyers and sellers that was conducted by the National Association of Realtors in 2000. A two-stage procedure is employed to model the decision by homebuyers to use the Internet as a search tool and its impact on the effectiveness of the buyer's search process.

The paper is composed of five sections. In the following section, the relevant literature is reviewed. In Section 3, the data and methodology are described. Section 4 presents the empirical results, and Section 5 presents conclusions.

2. Review of the literature

2.1. Internet use

Although there has been considerable discussion about how the Internet will affect the residential real estate market and the brokerage industry, there has been little empirical research documenting or supporting hypothesized outcomes. Baen and Guttery (1997) and Tuccillo (1997) argue that the growing use of Internet real estate applications and on-line sites will reduce information and transactions costs, speed transactions, and ultimately lower commissions by reducing the demand for brokerage services. However, little supporting evidence is provided by these authors. Examples of other recent works concerning the Internet and residential real estate brokers include, but are not limited to, Bond et al. (2000) and Bardhan et al. (2000).

Bond et al. provide evidence on the diffusion of on-line technology in the real estate industry. Bardhan, Jaffee, and Kroll suggest that many firms go through stages of Web use as they become more familiar with the technology and are better able to assess the benefits and risks of e-commerce. In the initial stage, businesses establish

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