

Property Agents & THE QUESTION OF REAL ESTATE MARKET

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Outlining the Issue: Purchasing a vehicle from another individual owner (or second hand vehicle as we commonly call it) has become a rather easy process in Pakistan. Displaying a small paper on the vehicle back windscreen with **"For Sale"** written on it along with the owner's contact information though is still practiced by a few people, but has at large gone out of fashion. But Why?

The reason is the emergence of alternate platforms for buying and selling of vehicles. A significant number of car dealers now exist in all urban areas of the country who have the vehicles at display and present and available for inspection by potential buyers round the clock. Additionally, multiple online market places exist where sellers can enlist their vehicles and buyers can view all vehicle details and owner information. Such an increased level of information availability as well as large number of buyers and sellers means no one individual, group or party is able to manipulate the prices, instead the market forces of demand and supply act as the primary determinants of transaction price.

No Practical Way to Escape a Real Estate Agent!

On the contrary, the real estate market is the complete opposite. Significant information asymmetries exist in the market which has meant that the real estate agents wield too much power when it comes to setting prices and facilitating transactions. This often is at the disadvantage of the main transacting parties, who in the absence of market information have to resort to working through the real estate agents.

Wait, Don't We Have Online Platforms Now?

Recently alternative platforms, particularly online ones have surfaced, but even a layman's view of the listings on these platforms reveals that most of the listings are posted and managed by real estate agents and not them property owners/sellers themselves. Although there is no restriction on who can or not post of these platforms, but having the same real estate agents



involved in most of the transactions on these platforms very often defeats that main philosophical reasoning for having them: these online platforms connecting sellers and buyers directly without the need for a middleman i.e. a real estate agent.

How Real Estate Agents Influence Prices and Market Trends?

To think that every real estate broker is capable of manipulating the market trends would be equally foolish though. Instead, the entire market has been captured by only a handful of brokers. These brokers are backed by rich investors who buy multiple properties, usually as soon as they are launched. Then based on their own interests, the supply and demand of these real estate properties is manipulated through putting more earlier bought properties on sale and increased marketing of these properties via the same real estate brokers. This way they are also able to dictate the market prices of the real estate properties, thus, becoming price setters in the real estate markets.

This price setting powers of the brokers makes it even more difficult for the individual buyer and sellers to conduct a transaction. Without the advice and help of these real estate brokers, no buyer is able to sell their property and no seller is able to buy. The information asymmetry about the property and the buyer intention initially always remains a cause of distrust among the buyer and seller. Other inefficiencies in the entire system also add importance to the role of real estate brokers.

Real Estate Agents Also Perform Critical Functions

There exists no mechanism for buyers to be able to verify the ownership details and property history, while the sellers are provided with no protection in case the potential buyer turns out to be a fraudster or for any other reason does not live up to their end of the deal. In such a scenario, the role of real estate brokers is further enhanced. This is why we see brokers not only connecting buyers and sellers and helping them negotiate a deal, but also performing other duties. The presence of brokers adds the factor of trust among the parties involved, who also help in completing through the entire transfer process which has been made too document oriented and complex for a common person to understand and give time to complete. The broker takes upon the responsibility of fulfilling all the prior requirements of the notifying authority allowing the buyer and seller to show up only to sign the transfer papers and making the payment.

Who is to Blame more – Real Estate Agents, or Poor Institutions and Governance?

It is not all evil on the side of real estate brokers. In fact, it is not them who might have managed to strong arm the system into caving in to their antics. Instead, it is the responsibility of the policy makers and regulators to develop effective and efficient market mechanisms that prepare a level playing field for all parties involved and does not allow any one agent or party involved to gain the price setting and market manipulation powers. It is of utmost importance that regulatory authorities must act immediately to remove the information asymmetry in the real estate market by digitizing the real estate ownership record and making the data publicly available. Multiple listing system must be introduced and made mandatory for real estate transactions. This will allow all parties to perform their role efficiently while not being under threat of being overpowered or deceived by another. Market will be driven through the demand and supply forces which shall also become the price determinants.