Intelligence MEMOS

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To: Canada's Real Estate Regulators

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Re: **HOW TO LEVERAGE NETWORK EFFECTS TO CREATE ADDITIONAL VALUE FOR CANADIAN HOME BUYERS AND SELLERS**

You may have noticed an increased number of lawn signs advertising a home as an "exclusive listing" or "coming soon." These are more than marketing strategies to sell homes. They are examples of approaches that could lead to a reduction in the value created by Multiple Listing Service® Systems (a trademarked term, referred to simply as MLS Systems here).

Canadian home sellers can list their homes on an MLS System to advertise to a broad audience. Home buyers use portals, like realtor.ca or point2homes.com, to search for a wide set of potential homes listed on MLS Systems. Even individuals who are not committed to buying or selling rely on MLS Systems by, say, consulting an app on a walk. MLS Systems in Canada provide a single source of rich and accurate information about a wide selection of homes for sale today and in the past and thereby create substantial value for Canadian home sellers as well as buyers.

This value is created, in large part, from network effects that create greater value when use or participation is increased. When more buyers consult an MLS System, listing a home becomes more attractive for sellers. And more sellers on the platform makes it more valuable for buyers to participate, creating a virtuous cycle.

Cooperation among REALTORS® (members of The Canadian Real Estate Association) is the foundation for MLS Systems and, in Canada, is governed by rules adopted by local real estate boards and associations. The real estate industry has been the subject of competition scrutiny over the years. But we restrict our attention to the impact of network effects on MLS Systems. Fundamentally, network effects simply reflect the intrinsic benefits to buyers and sellers transacting in "thicker" markets relative to "thinner" markets.

Because *comprehensive* MLS Systems create the strongest network effects, we examine how the current rules could be changed to support comprehensiveness. In a [study](#) we wrote, commissioned by The Canadian Real Estate Association, we discuss ways to do this. We provide directional guidance; our recommendations are not overly prescriptive.

Here are three key takeaways:

First, cooperation between Realtors is largely voluntary in Canada in the sense that they are generally free to put some listings on an MLS System but free to withhold others. This "voluntary listing service" model allows some Realtors to lessen network effects and, hence, value created.

Realtors, with their clients' permission, lessen network effects when they create private listing networks composed of exclusive listings. Coming Soon marketing practices can operate as *de facto* private listings. These actions threaten to fragment MLS Systems, lessening their comprehensiveness, and hence the value they create. While some Realtors, and potentially some buyers and sellers, may privately benefit from those practices, a smaller pool of potential buyers would harm most sellers. Those practices also harm buyers through increased search costs. Further, by keeping properties off an MLS System, the breadth of "comparable" data is reduced – particularly in segments of homes with few sales. This makes it harder for buyers and sellers to accurately estimate home values.

The current rules on listing, implemented and managed by local boards and associations, are likely too lax and should be tightened. For example, Realtors who place some of their listings on an MLS System could be required to post all their listings to that MLS System within a short period of first marketing the property to the public. That said, a strict and rigid prohibition against practices such as exclusive listings is almost certainly not the answer. Some home sellers – such as celebrities or politicians – may have legitimate privacy concerns about listing their home on an MLS System. There may also be limited circumstances under which "Coming Soon" marketing practices may be justified. To the extent that such exceptions are permitted, real estate boards and associations should tailor them carefully and precisely to only allow legitimate exceptions.

Second, the network effects that are present on MLS Systems are indirect: home buyers benefit from greater participation by home sellers, and home sellers benefit from greater participation by home buyers. From this perspective, participation by both buyers and sellers is critical to value creation. This dynamic reflects the two-sided nature of MLS Systems, which is present in other industries. For example, a credit card is not useful to consumers if no merchants accept it; similarly, a merchant is unlikely to accept a credit card that very few consumers use. Portals, which are technology to access MLS System data, are important in ensuring participation by home buyers directly and home sellers indirectly and compete with one another for user attention with innovative features and data. Home buyers benefit directly from that innovation but home buyers and sellers benefit indirectly through increased participation and, hence, stronger network effects. Local real estate boards and associations, as well as regulators, need to bear these beneficial effects in mind when developing and crafting rules so that MLS Systems continue to leverage highly effective portals to create value.

Third, despite the presence of network effects, increased use of MLS System data does not always increase value. Unfettered access may result in overly broad dissemination of information about a seller's home (e.g., floorplans, photographs) reducing privacy, which may discourage sellers from listing on an MLS System. Privacy concerns may be particularly acute if that information were maintained in perpetuity and controlled by a third party with distinct economic incentives. Separately, broad access may also lessen incentives to invest in innovations that improve portals and MLS Systems. We argue that local real estate boards and associations should restrict access when they perceive a threat to comprehensiveness, for example from third-party marketing of home-specific data in ways that home sellers or buyers would find objectionable. To be clear, any entity whose access is used for the transaction of real estate would presumptively create value and should (continue to) have access. Other entities, such as PropTechs, which provide complementary tech services to the real estate industry, may also add value to MLS Systems.

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