

The Rise of New Brokerages and the Restructuring of Real Estate Value Chain

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Preface: The Redefinition of Intermediaries

At present, China's real estate industry is at the history turning point of transformation. Housing supply as a whole is becoming more balanced, and the time of supply shortage is past. China's housing market is experiencing a transition from incremental development to stock circulation. In 2016, the sales of secondhand houses in a dozen Chinese cities exceeded that of new houses. The sales of secondhand houses in Beijing, Shanghai, and Shenzhen are twice to three times of that of the new houses, respectively, which signifies that China's first-tier cities have entered the stage led by secondhand houses. Some second-tier cities like Hangzhou, Nanjing, and Suzhou also see a rapid rise of the turnover rate. As the rate of urbanization and turnover is rising, more cities will enter the time of housing stoke.

In this day and age, the intermediary industry serves as an important part of housing stock circulation market. The standardization and development of it play a very crucial role in improving the effective housing circulation. Theoretically, the circulation rate not only determines the housing market's supply, it also influences the upgrades of housing demand and finally will make a difference to the effective allocation of housing resource. The nature of circulation lies in the match of supply and demand. The match efficiency fundamentally determines the utility of the supplier and the demander. In principle, if the market is effective enough, each flow of houses represents a Pareto improvement of housing consumption. From these perspectives, the role of intermediary is self-evident. In recent years, the intermediary penetration in the secondhand house trades and circulation continues to improve, and it is almost 90% in Beijing and Shanghai. In the future, with the continuous standardization and service capability improvement, the intermediary industry will have a more and more significant role and outstanding function in the secondhand house circulation.

More importantly, the definition of intermediaries today has experienced fundamental changes. First, the boundary between secondhand house intermediary had new house agent and is becoming more and more vague. The connected effect of new houses and secondhand houses is increasingly obvious. Second, the connection between intermediary and finance is becoming increasingly closer. The circulatory finance development has led to the establishment of more effective links between

housing assets and cash flow. It also helps realize a freer flowing of the ownership of houses. Third, the intermediary industry becomes an important transmission channel. Fourth, participants of the intermediary industry are more and more diverse. Developers, agents, Internet companies, and financial institutions have joined the brokerage industry. This complex and diversified industry structure did not exist anywhere in the world before. From this point of view, the standardization and healthy development of the intermediary industry are not only of great interest to the house buyers and sellers, but are also of direct interest to the real estate market's healthy development.

However, the chaotic intermediary industry is also one of the most obvious subdivided trade structures. Though long established, it has a very short history. Many years ago, intermediaries already played a role in housing transactions. However, the housing intermediary industry as a whole still has not had considerably mature basic regulations, rules, or a scientific theoretical system. It also lacks fundamental industry bottom lines. From the point of a broker, the short working years, the high draining rate, and the lack of belonging and security are all prevalent problems.

As a result, the rise of the new intermediary will be an industry mission in the next 5–10 years, whether from the point of real estate industry's transition or from that of the industry's healthy development. There are at least five symbols of the rise of the new intermediary: First, the flow rate of secondhand houses rises to the comparable level of developed countries. Second, there are a great number of professional brokers. Their earnings increase with their working years. There are codes of conduct, sales languages, moral bottom lines, and business ethics for brokers. Their senses of belonging and happiness are enhancing. Their learning materials are constantly being improved. Third, there are a number of comprehensive and vertical listed companies in the housing stock market. Fourth, there is wide attention from the academia.

Of course, the rise of the new intermediary cannot be achieved by itself. We studied and compared the brokerage industry's development in the USA, Japan, Britain, Australia, Hong Kong (China), and Taiwan (China). We summarized successful experience and shortcomings. According to the current development of China's industries, we put forward the following six key pillars of the brokerage industry:

The first pillar is the production, distribution, and matching of information. It is necessary to implement written commission, recognition, and encouragement of exclusive entrustment, and also to apply the "name and shame" system and punish severely those intermediaries that transmit misleading information. These constitute the starting point of establishing industry-wide norms.

The second pillar is the trading system. Force the implementation of property rights verification and capital supervision, and protect the transaction security and consumer rights and interests. It is the core of the realization of transaction security.

The third pillar is the liquidity finance. Clearly distinguish and support the financial innovation of the smooth trading's short-term capital turnover. It is the key to resolve the capital pain point of customer transactions.

The fourth pillar is the mobile Internet. Reshape the process of housing transactions, break the traditional brokerage industry cost structure, and achieve the unity of economies of scale effect and network effect. It is the most important infrastructure of the future real estate brokerage industry.

The fifth pillar is the industry supervision system. Implement parallel management mechanisms of the government and industry self-discipline, and better play the role of industry associations. It is the fundamental support of the brokerage industry standardization and development.

The sixth pillar is the team of professional brokers. Bring in the brokers access mechanism, establish the broker behavior norms and rules of practice such as business ethics, etc. Promote the specialization and professionalization of brokers. This is the core pillar of the brokerage industry norms.

Facing the historic opportunity of industry development and looking at the present situation and the future of the brokerage industry, it is the mission of all industry participants to create a well-regulated and healthy brokerage industry. As researchers, Dr. Yang Xianling and I are honored to observe and witness the development and maturing of the industry and systematically sort out and summarize the process as much as we can. We also carry out initial theoretical discussions to some degree. We also look forward to more scholars to join the research of this industry and bring in more thoughts and changes so as to gradually lead this industry to a healthier future.

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Shusong Ba

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We are fully aware that errors and negligence in the book are inevitable due to limited time and knowledge, taking into consideration that basic research in real estate brokerage industry is still weak and study of international experience and best practices is insufficient. We will strive to improve our study continuously and apologize for any mistakes or negligence in the book. We look forward to having more peers and researchers in other fields to join us in the pursuit of valuable research that drives industrial progress.

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