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Technology and regulators have been unable to break down relatively high property sale fees, but the sector's downturn just might succeed where others have failed

The power of the Internet was going to shatter the grip that realtors have on house sales in Canada, driving down commissions and empowering consumers.

The Internet failed.

The Competition Bureau waded in to overcome the industry's stasis, attempting to create a market where consumers pick which services they want and data are more widely available.

But, so far, it's accomplished little.

In a country where grousing about bank fees is a national pastime, where a 5-cent rise in gasoline prices sparks outrage, one fee remains remarkably static: the thousands in commissions paid to real estate brokers. Technology has failed to snap consumers out of their complacency, and regulatory efforts to force the industry to make it easier for new Web-based firms to compete have been abortive.

But there is a new threat to the status quo that could be the catalyst for industry-rattling change: the housing slowdown.

Canadian house prices were generally on a tear from the turn of the century until last year, with most sellers still netting a tidy profit even after paying commissions. But that growth has now begun to taper off, with year-over-year price increases slowing from more than 6 per cent at the outset of last year to less than 3 per cent at the outset of this year (and some markets, such as Vancouver, seeing outright declines).

Economists suggest that the market could be entering a lengthy period in which house prices remain essentially flat. Toronto-Dominion Bank's economists recently estimated that the nominal annual rate of return on real estate will be about 2 per cent over the next decade. In other words, the rise in home prices will just keep pace with inflation.

And that means that homeowners who buy and sell homes in the next 10 years will not be making the profits that homeowners who bought and sold in the past decade got used to. More commonly, sellers will be accepting prices that are much closer to what they paid.

John Andrew, a professor at Queen's University, suggests the following analogy: When the stock market is rising and you're making money, then you don't mind paying a broker a fee, but if you lose money on your investment, then the charges will be upsetting.

The market dynamics are changing at a time when new real estate startups, which are largely Internet based, are becoming more innovative. "There is no question that commissions are very high, and there is a big consumer pushback against that," Mr. Andrew says. "It doesn't make sense to me that it be a fixed per cent, and perhaps it's time to begin to look at more of a sliding scale like we have for the land transfer tax, like we have for the income tax."

Realtors' commissions are negotiable, and industry sources say the current average commission in the Greater Toronto Area, as an example, is between 4 and 5 per cent. Commissions tend to be higher in rural areas than in major cities, and in many parts of Canada they are often lower. In Western Canada, sellers often pay a two-tiered rate that is closer to what Mr. Andrew would like to see, such as 7 per cent on the first $100,000 of sales value, and 1.5 per cent on the balance.

Over the course of the past 12 years, a period in which house prices rose at an astonishing clip, the average resale price of a house in Toronto roughly doubled, while commissions remained around 5 per cent (that commission gets split between the buyer's agent and the seller's agent). That means the average total commission rose from about $12,160 in the year 2000 to $24,950 last year. Price increases have been steeper in some other parts of the country. If you take 5 per cent as a basic commission, Calgary saw commissions on an average sale rise to $20,620 from about $8,820 during the same period and Vancouver saw them increase to $36,500 from $14,800.

Change comes slowly

The stakes are high. Real estate agents took in an estimated $8.26-billion in commissions across the country last year (based on a 5-per-cent rate), up from $3.96-billion 10 years ago, reflecting both an increase in the value of home prices and the number of sales.

"Real estate agents used to have to sell quite a few houses to make a living, and in cities where the prices are really high, they don't any more," Mr. Andrew says.

But he and others are quick to point out that the life of a realtor is not a life of leisure. A lot of work goes on behind the scenes, and since the number of homes changing hands in most areas of the country has shrunk significantly since last summer, agents have had to work harder in recent months to keep business up.

Canada lacks data on the exact amount of commissions that are paid to realtors each year.

"There are no set commissions," says Gary Simonsen, the chief executive officer of the Canadian Real Estate Association, which represents about 100 real estate boards and associations. "They are purely negotiable between buyer and seller and the agent involved, and it's not something that we track nor do our boards and associations."

Canada also lacks data on how many consumers buy or sell a house without a realtor.

Mr. Simonsen says the number of transactions that are occurring over the MLS has remained remarkably constant over the past decade. "I think people will certainly try various and sundry things depending upon their own personal circumstances, but at the end of the day we still see that people are relying upon a realtor ultimately to assist them in the transaction, whether it's on the buying or the selling side."

Amid the market turmoil, CREA launched a new TV ad campaign this spring. Its amusing commercials are based on the theme of Internet overconfidence. One spot shows scenarios such as a man searching "how to be your own lawyer" online and winding up strip-searched by police; a guy checking relationship advice on his smartphone only to find his date storming out of dinner, smashing the dishes on the restaurant table and popping her middle finger on the way; and a cheat sheet on edible mushrooms followed by footage of a naked man laughing like a lunatic and spinning around the woods. Cue the announcer: "Why do we think if we can look it up we can do it? When it comes to your home, get help, get a realtor."

Home sales have been in a slump since last summer, creating a situation where a realtor's help is generally more valuable to sellers. But economists expect the declines to dissipate and give way to a period of more stable, but moderate, sales. "The market has to swing a bit more in favour of the seller, and sales have to pick up, for these alternatives to really have the opportunity to compete," Mr. Andrew says. The companies that cater to do-it-yourselfers argue that sellers without a realtor have an advantage in this market, because they can afford to reduce their asking price by the amount of commission they stand to save.

The Competition Bureau recently noted that, at least when it comes to Toronto, the top five agencies have cornered the market, taking in more than 70 per cent of commissions in recent years. Re/Max and Royal LePage combined are responsible for more than 40 per cent of commissions.

Walter Melanson, director of partnerships at PropertyGuys.com, is hoping that the market dynamics will loosen the grip that the big brokerages have on the market. "We anticipate that an increasing number of sellers will abandon the high cost of using a traditional agent because they won't want to give up what little equity they do have," he says. But he's been wrong before.

PropertyGuys.com has been up and running since the dot-com era was in its heyday. The company sells advertising services to people who want to sell their home without a realtor, and is rolling out a new product it calls "Pro Approach" where online experts, real estate lawyers, appraisers and others are made available for a cost that Mr. Melanson says still amounts to a small fraction of a realtor.

Not long after starting out, PropertyGuys.com had thousands of customers a year. But in the early days those customers couldn't get their houses onto the all-important Multiple Listing Service and the industry's realtor.ca website without paying to use a realtor's full services. That changed in 2010 as a result of prodding by the Competition Bureau. The Canadian Real Estate Association, which represents realtors from coast to coast and owns MLS and realtor.ca, agreed to change the rules so that brokers could post a listing on those sites for a flat fee.

It was supposed to be a game changer. Sellers could get their listings on the most important website in Canadian real estate for a relatively small amount. Overnight, PropertyGuys.com saw the number of customers it was dealing with rise from between 7,000 and 8,000 a year to about 10,000, Mr. Melanson says. But growth stalled at that level.

"The market is right where the bureau left it, it's in the same state almost that it was then," he says with a sigh, calling the failure of technology to upend the industry "the non-existent revolution."

Fighting against lower fees

One of the highest hurdles new entrants say they have to clear is access to data that are controlled by the realtors' association. While it's possible to sell a home through MLS without an agent, it's still largely impossible for those outside the system to access the vast trove of market intelligence and sales figures assembled by local real estate boards.

That makes competing real estate services and websites less attractive to people selling their homes.

"The Canadian Real Estate Association controls the listings, controls the MLS, nationally, and as a result nobody else has been able to make inroads into the buying-and-selling-property business with online tools and apps," says Peter Zollman, founding principal of Aimgroup.com, a consultancy based near Orlando, Fla., that publishes a report on real estate websites around the world. "In our view, Canada is still very much an outlier, because there is so little competition among real estate sites."

The Competition Bureau recently lost, and is now appealing, a case in which it was seeking to make data about the prices that have been paid for homes more accessible online. That case, against the Toronto Real Estate Board, which represents more than 35,000 agents, was seen as a test case for the whole country.

"As a practitioner with an interest in the field, I can say that the...decision bears close scrutiny and it raises important issues about the interplay between the statutory prohibitions in the [Competition] Act and conduct by those few firms in Canada that are truly dominant in their market," says Melanie Aitken, who stepped down as Competition Bureau commissioner last fall.

PropertyGuys' Mr. Melanson argues that the dominant players are resisting change with all their might. "There are 100,000 real estate agents in this country that don't want fees to drop," he says. "We're going to have to fight for every inch."

Stories abound of consumers who have tried to sell their home on their own and thrown in the towel, but there is also a growing number of satisfied do-it-yourselfers.

Deryck Hatheway paid PropertyGuys $798 plus tax for their full-service package to sell his house in Bathurst, N.B., recently, as he sold his optometry practice there to move to Fredericton. He also paid $299 to have his house listed on the MLS, $39 for photos and $20 for an additional ad in the paper.

His house sold in December, two months after he listed it, for $146,000, a bit less than his asking price, and saved thousands of dollars by putting the extra effort in himself.

"We have a zinc mine that's closing down, so it's not booming real estate," Mr. Hatheway says.

"So I found two months to be pretty good for Bathurst. And, having done that, I'd never go through a real estate agent again."

Anecdotally, it's believed that about 20 per cent of sellers in Quebec and 10 per cent in the rest of the country don't use a realtor, says Phil Soper, CEO of Royal LePage and Brookfield Real Estate Services.

There's no evidence that the sales-by-owner model and lower-commission alternatives are making significant headway; there is no evidence they aren't. No one's certain.

But Mr. Soper's not worried. The threat from technology? He points to other technological revolutions that haven't panned out: "Grocery Gateway, we were going to have intelligent fridges..." The Competition Bureau's efforts? "I'd say in the aftermath of it all, nothing's changed," he says.

He adds that most of the new ventures aren't turning much, if any, profit. Part of the reason is that real estate services have low profit margins, he says. In order to cut commissions, you need high volumes.

"While we've looked at it, and while there has been a lot of interest at the low end for four or five years now, I don't see anybody making money," he says. "The full-service brokerage remains the most preferred model in the country, or at least the model with the highest level of satisfaction. We're not investing in the alternative brokerage model any time soon."

While the proportion of people who want to use alternative models has remained the same, the number of companies catering to them has risen, says Gurinder Sandhu, executive vice-president at Re/Max Ontario-Atlantic.

"So there's less and less to go around for each one of those players."

Will the stagnation of house price growth be the catalyst that ultimately changes that? With the new players raising their game and the Competition Bureau not backing down, Queen's University professor Mr. Andrew, for one, believes that the commission revolution is still likely to occur.

"I think the full-service real estate agent who is charging full commission and providing the full host of services is probably going to become few and far between."

AGENTS OF CHANGE

In addition to companies such as Propertyguys, Comfree and Quebec-based DuProprio, which cater to people who want to sell without a real estate agent, firms have been popping up with a variety of business models. Here's a sampling:

Realosophy

A Toronto brokerage whose agents charge sellers a 1.5-per-cent commission, which the agency boasts is "a savings of at least $5,000 on a $500,000 house." Realosophy recommends sellers pay the buyer's agent 2.5 per cent, because otherwise fewer agents might bring clients to see the house. "In urban centres, this is a generation that uses things like wedding planners," Realosophy's John Pasalis said. "At the end of the day, people still need help."

Commission Pitch

A new startup focusing on southwestern Ontario that allows agents to compete for business in an auction-style process, which the company says can save thousands of dollars in commissions.

SundayBell.com

A Canadian online service that markets itself as being akin to an online dating service, matching consumers with real estate agents throughout North America.

TheRedPin.com

A Toronto-based service that employs real estate agents but it pays them differently. Rather than being commission-based, they are paid a salary plus a bonus that hinges on customer satisfaction as opposed to sales. TheRedPin.com still takes standard commissions from clients, but returns a portion in the form of rebates. It counts Onex Corp. founder Gerry Schwartz as a backer.

Zoocasa

An online service for buyers and sellers, owned by Rogers Communications, that has recently obtained a brokerage licence, primarily so it can access more data. It is in the midst of rolling out its newest services across Canada, works with agents from all of the major brokerages, such as Royal LePage, but it is pressuring commissions by offering consumers a rebate of roughly 15 per cent of their commission. "This industry as a whole has been determined to control the speed of progress and innovation, and has been successful in slowing innovation," said Lawrence Dale, group head of the real estate business at Zoocasa. "It's as if progress is only permitted if it does not upset the status quo and is available to everyone."