The REX Vision of the Future of the American Residential Real Estate Business

Over the last twenty years, the Internet has changed the way we conduct our lives, transforming the way we buy and sell goods, hail rides, book tickets, watch movies, trade stocks, pay taxes and do our banking. The Internet has made transactions faster, cheaper to execute, much more convenient for people and generally more secure.

A big outlier to this trend in the United States is the sale and purchase of residential real estate. This could be because the sale and purchase of a home is typically among the biggest financial transactions of a person’s life and one that happens so infrequently that it is hard to feel confident in decision making. According to a recent Homes.com poll, 40% of Americans said buying a home was the most stressful thing they’d ever done.

Harnessed properly, the Internet can greatly alleviate that stress. Companies like Zillow and Realtor.com have over the last decade provided more information and tools to consumers to educate themselves about real estate markets and available options. And nearly 90% of consumers looking for a home now go first to these sites and search engines like Google to learn and eventually select the properties that best suit their needs.
Once past the discovery phase, though, the buying and selling of homes becomes an offline process that remains stubbornly unchanged despite the incredible advances in technology we experience every day. Why? Because the transaction remains deliberately constrained and obscured by business practices that predate the advent of these technologies.

We created REX in 2015 to be the first licensed residential brokerage that uses AI and big data to push past the outmoded business practices of traditional realtors with the goal of providing dramatically better outcomes and experiences for both buyers and sellers at a dramatically lower cost.

Critically, we exist outside what is known as the Multiple Listing Service (MLS) system, the loose confederation of realtor organizations that maintain artificially high fees even though the Internet has radically reduced the value traditional realtors offer to consumers. That sets us apart from other real estate firms that describe themselves as technology-enabled disrupters, but remain compliant with the MLS, a confederation of around 750 realtor organizations that maintain restrictive practices.

We believe our business model and what we’ve accomplished to date sets the stage for a transformation of the US residential real estate market that could break the grip of the MLS system, massively driving down consumer costs and unleashing greater purchasing power to benefit the broader economy. The stakes are enormous: Americans spend about $1.5 trillion annually on consumer products, but $4.5 trillion a year on consumer services -- many of them related to the home.

So how does REX do things differently from traditional agents and why is it better? As a technology company, REX started by collecting data from a wide variety of sources --
from census data to purchaser habits at big box retailers -- and then organizing it in a secure cloud environment where it can be easily accessed and studied. Using machine learning, we’ve built predictive analytics that can target and accurately match sellers and buyers of properties.

By more efficiently pairing sellers and buyers, we can reduce costs for all involved -- REX charges a fixed 2% covering both sides of the transaction instead of the 5-6% customarily enforced by MLS participants. In its three years of operation, REX has shown it can sell homes as effectively as traditional brokers but at one-third the cost to homeowners and with significant savings for home buyers throughout the process.

The reduction in fees alone is a huge benefit to consumers -- some $60-70 billion annually if the cost of brokerage were 2% instead of what MLS members charge. But the REX model importantly opens a path to far better understanding and managing the value of a home over the long-term.

To understand the possibilities, let’s step back to understand how traditional real estate agencies operate and why and how they’ve forestalled the technology-driven fee reductions seen in the travel, financial services and every other consumer-facing agency industry.

Traditional brokerages hire agents on commission and take a cut of up to 50% of the fees collected when homes are bought and sold. In the US, the seller pays 1-3% for the services of an agent and another 2.5-3% to the so-called “buyer’s agent” who, though ostensibly representing the interest of the buyer, is actually compensated by the seller (who in turn recoups the fee by raising the cost of the home).
Traditional brokerages argue their agents provide a better outcome because of their deep local market knowledge, their expertise in the intricacies of real estate transactions and their personal relationship with the parties. And they require, as MLS members, that both seller and buyer fees are paid irrespective of the value the agents bring to the deal.

Without keeping commissions at that high level, the traditional brokerage business would collapse. Because agents are paid on commission only, they are forbidden by law from generating revenue from the provision of all the other services that are typically needed when buying or selling a home -- escrow, title insurance, mortgages and home insurance. Once the home is bought or sold, the realtor typically collects the fee and walks away.

That's what led to this unusual situation in the U.S, where brokerage commissions are three times higher than in other major markets, including China, Sweden, South Korea and the U.K. Technology allows buyers to find homes on their own online and the work the agent does -- from photos to open houses -- have become commoditized, yet the commissions agents collect have stuck at the same sky-high level for 50 years.

Neither U.S. brokers nor the traditional agencies that employ them are incentivized or equipped to help homeowners on a longer term basis. Their business model and practices were created at a different time, with different technologies and rather than adapt, they've fought to maintain their privilege through anti-competitive and ultimately, anti-consumer behavior.

REX organizes itself differently than traditional agencies. Our team is salaried and incentivized to satisfy customers rather than to close a transaction and collect the fee. Unlike the MLS that prohibits data sharing outside its agent membership, REX provides
to the parties involved all information about a home transaction and the services needed to complete it via easy-to-use dashboards that are updated in real time. REX helps consumers with escrow, titling, service connections, mortgages and insurance shopping and keeps all of the data about the home and the legal and financial information related to the transaction securely in their hands.

The ongoing access and updating of that secure information, in turn, will make it possible for the homeowner to manage and maximize the value of their home for the long-term. Instead of having to rummage for a folder crammed in a desk drawer, you will be able to look to the REX dashboard to inform you when the roof needs replacing, HVAC filters must be changed and the trade-offs between depending entirely on your local utility or investing in solar panels. With REX you will be able to manage your home -- likely your most valuable asset -- the same way you manage your financial portfolio or bank account.

Right now, buying and selling a home is both nightmarish and expensive for consumers. It doesn’t have to be. At REX, we believe that by using technology and organizing our team more efficiently to do the job consumers need, we can radically reduce the total cost of home purchase and ownership (including fees paid to mortgage providers, for title and other customary services etc.) from an average of 14% of the home purchase price to between 7-8% Thinking about it another way, the all-in fees paid on an $800,000 home transaction would drop from a staggering $112,000 to around $60,000.

The REX vision of the US residential real estate market is that fees go way down -- enabling consumers to use that money how they see fit -- and that technology is leveraged to make it a pleasure for families to manage and enhance the value of their most financially and emotionally profound investment, their home.
Our vision of where this leads is even more expansive. As consumers save billions of dollars over time through lower fees on home-related transactions, REX itself will grow its existing program to build one new home for a family in need for every fifty homes we sell. It’s a key part of our mission and one more thing driving all of us at REX to succeed.

At REX, we’re motivated to build a great business that exceeds consumers’ expectations of what a real estate company can do for them and that enriches and fulfills its employees. We’re excited about tackling the big challenges of improving the deeply dysfunctional but critically important U.S. residential real estate market. And we are thrilled by the notion we can take some of the dollars that would otherwise be lining the pockets of real estate agents to build homes for families who might otherwise be living on the streets.