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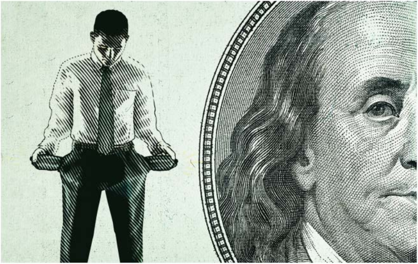
"They'll do it until they can't": StreetEasy's rental hike squeezes brokers amid tough market

Some critics say the listings portal's dominance leaves agents with no other choice but to cough up cash

By Meenal Vamburkar | December 12, 2018 04:30PM



(Credit: iStock)

In a market marred by oversupply and concession mania, StreetEasy's rental fee hike is inviting a new wave of criticism.

After introducing a fee last year of $3 per day per rental listing, the portal immediately attracted outrage from the industry. Now, with the increase to $4.50, some industry players see the move as a way for Zillow Group to boost revenue as its share price has taken a beating — while forcing agents to shell out for a platform that still dominates the market.

"It's disgusting," said Bess Freedman, CEO of Brown Harris Stevens. "Why are we empowering them by giving them more money?"

StreetEasy said the move is tied to cleaning up stale or fraudulent listings in order to provide better information to consumers. According to Matt Daimler, the general manager, the portal has seen a 60 percent drop in complaints about fraudulent listings since the initial fee went into effect. He also claimed there has been a 40 percent uptick in messages sent to rental listings.

When the Zillow-owned firm started charging for listings in July 2017, the number of listings on the platform plummeted by 55 percent to about 14,000. But the company eventually navigated the backlash — including cutting deals with individual brokerage firms. The Corcoran Group and Citi Habitat's parent company Realogy, for example, struck a multiyear agreement to cover the costs of listings for its agents.

Similar to the initial response, brokers and executives said StreetEasy may see another drop in listings, but by and large, agents will acclimate to the higher fee. Stan Broekhoven, an agent at Keller Williams, said the company knows it has a monopoly and is forcing brokers to "cough up the money." Mdrn. Residential CEO Zach Ehrlich said the company is smart about monetizing its services. The move may contribute to the shadow inventory not on the portal, but there's unlikely to be a mass exodus.

"Everybody is going to bite the bullet," he said. "The question is: what does it cost me to not be there? It's going to cost you your business."

For its part, Zillow said the fact that 85 percent of renters in New York use their rental network is a testament to the quality of the network.

Ehrlich and others also pointed to Zillow's stock slump. Shares are down 15 percent this year and previously dipped as much as 36 percent. In November, when the company said revenue from its Premier Agent program was lower than expected — after agents protested recent changes — the stock tumbled 20 percent. In the midst of the sell-off, two executives doubled down, buying $44 million in shares.

Emily Heffter, a spokesperson for Zillow, said the share price slump wasn't the motivation behind the move. The company said it has addressed concerns about the lead vetting process in its Premier Agent program, which makes up the bulk of its revenue. The rental fee increase reflects the added value of the product, she said.

"We don't make business decisions based on what might happen to the stock price," Heffter said.

Still, Robert Dankner, president of Prime Manhattan Residential insisted that the fee increase is "the path of least resistance in terms of trying to placate shareholders."

"They'll do it until they can't," he said.

But in the long run, monetizing advertising may not remain sustainable, said Leasebreak.com founder Phil Horigan, who launched another rental platform Frele. It's a short-term play for a financial boost. "Why would you do that if you didn't need the revenue?" he said.

For agents, paying the upped fee is simply the cost of doing business, Dankner said. Though it may change the calculus for brokers working mainly on lower-end listings. A 50 percent increase adds up, especially in a slower market, said Olshan Realty's Donna Olshan.

"In a market that's fragile to begin with, where marketing time is longer, it's a business decision," Olshan said. The fee uptick is "year-end chutzpah," she added.

The added cost comes amid what's already been a tougher environment for rental brokers. The market has seen swelling inventory and rampant concessions. At the same time, landlords have more ways to advertise directly to consumers — as offerings like flexible leasing and co-living stand to transform the rental landscape.

In that environment, however, some see the higher fee as a way to gain competitive edge. Nooklyn CEO Harley Courts said StreetEasy has helped accelerate business and this move will benefit them.

"This increase will squeeze out competition," he said. "The ones that are solely relying on StreetEasy for lead generation."

StreetEasy's move also raised questions about future fee increases, including speculation that the company will also charge for sales listings down the line. (The company said it has no plans to charge for sales.) Dankner said the platform has been good for consumers — acting as a neutralizer by making information more transparent — and also effectively cleaned up listings. But until there's a comparable alternative, the company will continue to be able to increase costs.

"I don't think anyone should be surprised. There was never a world where there was going to be one fee and that's it," said one brokerage executive. "It's all the more reason why the firms need to come together and solve the data challenge in New York."

It's also up to agents to take up the issue with their firms, said Freedman. BHS spends no corporate money on StreetEasy and its agents pay out-of-pocket if they choose to the use portal. Given their frustrations, more agents should question why their brokerages are buying into it, she said.

"They used to provide a good service," Freedman said. "They have lost course completely, and they're going to monetize whatever they can."

Additional reporting by E.B. Solomont

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