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UK's online estate agents begin to squeeze bricks-and-mortar rivals

By Peter Hobson and Esha Vaish | LONDON

Ash, in his 30s, is about to sell his flat. His neighbor in the apartment upstairs sold easily with an online agent. In London, says Ash, a house "sells itself". "What does a (traditional) estate agent contribute?"

A growing number of people are being attracted by the cut-price fees of online estate agents in Britain. The sector has caught the eye of big-name investors like fund manager Neil Woodford and traditional branch-based agencies which once dismissed online rivals are having to react.

Mindful of the impact web-based start-ups have had on industries like gambling, taxi services and banking, traditional high-street agents are beefing up their own digital businesses, cutting fees and costs and cherry-picking the competition.

"You're (either) watching and wondering what's going to happen or you're going to step in and take action," says Ian Wilson, chief executive of estate agents Martin & Co, which has over 300 offices and in September said it would buy online rival EweMove.

Fees from residential home sales in the UK are worth about 4 billion pounds a year, according to government data. Online agents' fees of between 500-1,000 pounds have pushed traditional estate agent commissions down to around 1.3 percent of the value of a sale from about 1.8 percent five years ago, according to analysts at UBS. They see fees falling further, to 1 percent.

The industry is highly fragmented with the UK market leader Countrywide, which has 822 branches, having only a 5 percent market share. Rightmove, the country's top property portal reckons the many web-based agencies now account for 5 percent of its listings having doubled their share in two years. This may herald a wave of dealmaking.

High street chain Connells, one of the UK's biggest players, bought online agency Hatched a year ago while Savills (SVS.L) bought a minority stake in Yopa in June. Second placed agency LSL Property Services owns the Your Move chain of branches.

"I can only see M&A in the sector increasing exponentially," said Rachael Elliott at consultancy BCMS. "We're at the beginning of seeing quite a boom."

Some online agencies underestimated the value customers place on local knowledge. A growing number like EweMove use a hybrid model with local property agents to provide valuations and advice but no costly branch network.

As the pressure ratchets up Countrywide has responded with its own online business. It has also said it will close about 7 percent of its high street network as it looks to cut costs.

Countrywide and another traditional bricks-and-mortar estate agent Foxtons have

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Countrywide and another traditional bricks-and-mortar estate agent Foxtons, have reported declines in first-half profits and warned of tough times to come. Foxtons said its first-half profits had dropped 42 per cent from a year earlier, while LSL has also warned on full-year profits.

Shares in Foxtons and Countrywide have lost two-thirds of their value since early 2014, while LSL's have halved.

The industry employs around 250,000 people. Rob Ellice, chief executive of easyProperty, backed by easyjet founder Stelios Haji-Ioannou, says it operates on about 20 percent of the staff of a traditional real estate agent.

Purplebricks which launched in 2014, is the biggest online agency and was the first to list on the stockmarket just 19 months later. It is a hybrid operator backed by highly regarded Neil Woodford and says it is now the third biggest in the industry overall having overtaken Connells. UBS reckons it commands a 2 percent market share. Its value has risen from 240 million pounds to 321 million pounds.

Industry leaders and analysts forecast online operators could capture 25-50 percent of the market by 2025.

Just three or four players are likely to dominate the online segment, according to Patrick Brophy, who manages global real estate investments for Janus Capital and has invested in UK real estate agents.

Other leading online agents include emooov, HouseSimple which is backed by Charles Dunstone, the founder of mobile phone retailer Carphone Warehouse and Tepilo which was launched by television personality Sarah Beeny.

Many other online estate agents like Houses.co.uk have tried their luck over the last decade and failed in the cut-throat market.

Purplebricks has had to work hard for its success. It spends 1 million pounds a month on advertising and is currently lossmaking. It expects to become profitable this financial year.

Unlike traditional players who only collect their fee when they sell a property, hybrid agents charge for listing a home whether or not it is sold, helping them to charge less.

While that can work in a booming market, it could prove a barrier when markets struggle. Traditional agencies say they still contribute valuable personal service and negotiation skills which will ultimately safeguard their business as they also invest in their technology.

Britain's housing market weathered the initial shock of the vote to leave the European Union but confidence is forecast to dip. Investment bank Liberum expects transactions to fall 5-10 percent next year.

Ed Jones, Finance Director of Hunters, a traditional estate agent, said if it becomes harder to sell houses "That'll make life very difficult for online agents." "If you've just listed your house (and not sold) you've wasted your money."

(Editing by Elaine Hardcastle)



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