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The Marketing of Residential Real Estate in Southern Alberta

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THE MARKETING OF RESIDENTIAL REAL ESTATE
IN SOUTHERN ALBERTA

by

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Bachelor of Commerce, Acadia University 1960

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A Thesis

Submitted to the Faculty

of the

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in partial fulfillment of the requirement

for the Degree of

Master of Arts

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This thesis submitted by Clark E. Greene in partial fulfillment of the requirements for the Degree of Master of Arts from the University of North Dakota is hereby approved by the Faculty Advisory Committee under whom the work has been done.

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Department Marketing

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ABSTRACT

This thesis analyzes some of the factors that affect the marketing of residential real estate in Southern Alberta. The study was conducted between December 15, 1970 and June 1, 1971 using data obtained from secondary materials provided by individuals involved in the real estate business in the cities of Calgary, Lethbridge and Medicine Hat, and from 65 personal interviews with real estate personnel in these cities. A structured questionnaire was used to gather the primary data.

The premise was drawn in this study that economic, demographic and political factors affect the need for residential real estate in Southern Alberta. Population and household formations, disposable income, construction cost, and mortgage financing were found to be some of these economic and/or demographic factors. Public housing and mortgage financing by the government-controlled Central Mortgage and Housing Corporation were political factors found to affect residential real estate in Southern Alberta.

The real estate agency, the primary institution involved in the negotiation and transfer of residential real estate in Southern Alberta, was examined. It was concluded that the real estate agencies in Calgary, Lethbridge and Medicine Hat have similar characteristics such as: the corporation is the most common type of organization; agencies are generally small in size; the selling of residential real estate is the principal function of real estate agents; personal selling is their

main promotion tool; classified ads and lot signs are the main media used in advertising; and the market approach is the main method used to value single family residential property.

CHAPTER I

PURPOSE AND ORGANIZATION

Introduction

The purpose of this thesis is to analyze and describe some of the factors that affect the marketing of residential real estate in Southern Alberta.

The marketing of residential real estate may be described as that phase of the real estate industry characterized by the exchange of residential real property between buyer and seller. This exchange may occur between the contracting parties themselves or through the actions of their duly authorized representative.

Included in the above description of residential real estate are the following types:

1. Single family residential:- ownership or rental of single family dwellings.
2. Multiple residential:-
 - a) Boarding homes - ownership or rental of single family dwellings for the occupancy of more than one family.
 - b) Duplexes and triplexes - ownership or rental of units constructed with a party wall and containing two or three units.
 - c) Apartments - rental of structure that provides separate family units for more than three families.

The study covered that part of the province of Alberta known as Southern Alberta. This research was confined to urban areas of 25,000 or greater population. Cities in this category were Calgary (389,200 population), Lethbridge (40,856) and Medicine Hat (26,500). The period for which the study was conducted extended from December 15, 1970 to June 1, 1971.

Objectives of Study

The objectives of this thesis are:

1. To discover information on selected economic, demographic and political factors as they affect residential real estate in Southern Alberta.

2. To examine some of the characteristics of the real estate agencies in Southern Alberta. Emphasis has been given to the real estate agency as it is the principal institution involved in the negotiation and transfer of residential real estate. The licensing of real estate agents and salesmen in Southern Alberta has also been examined.

3. To examine real estate promotion (that is, advertising and selling) by real estate agencies. A review is given of the media used for advertising. Personal selling is a major promotional tool in the real estate business. Its importance is focused on this analysis.

4. To examine the marketing factor of pricing. The approaches used by real estate agencies to price real estate for sale or rental purposes and the determinants of property value have been evaluated.

Real estate firms tend to be small in size and they carry out very limited research on the marketing of real estate. To the best of the writer's knowledge, published information on real estate marketing in Alberta is not available. A descriptive thesis covering these

objectives would present a useful body of knowledge, of value to real estate firms. Hopefully, this study will provide a better understanding of the marketing of real estate in Southern Alberta.

Methodology

The study is descriptive in nature. This design was chosen because it makes possible a detailed presentation of a situation.

Both secondary data and primary data were collected, analyzed and documented. Secondary data were obtained from materials provided by individuals involved in the real estate business in the cities of Calgary, Lethbridge and Medicine Hat. As the amount of written material was limited in scope, it was necessary to collect primary data. The real estate agencies in these cities were considered the prime source of information. In order to collect the desired data from these agencies a personal interview questionnaire was prepared.

The questionnaire was designed to survey real estate agencies in the test cities. Other informed sources such as real estate boards, construction firms, city halls, and the Central Mortgage and Housing Corporation (CMHC) were approached on an informal basis and data collected from them were used.

The quota sampling method was used to determine those to be interviewed. The sample was forced to represent 25 per cent of those agents operating a real estate agency office in each of the cities of Calgary, Lethbridge and Medicine Hat. That is, from 208 agencies in Calgary, 30 in Lethbridge and 18 in Medicine Hat the sample was selected on a non-probability quota basis to obtain a 25 per cent selection from each city. The agency names were selected from the 1971 telephone directories of the three cities. The sample was proportionately forced

to discover if differences exist in the marketing of real estate among these three cities.

The questionnaire was pretested in December, 1970. Five Lethbridge agencies were visited between December 6 and December 14, 1970. The pretest indicated that the questions were clear and in proper order, and that no problems would likely arise in the course of editing, coding and tabulating the questionnaire.

The information was collected during the first four months of 1971. The data were hand tabulated and categorized by city.

The findings from the questionnaire were then interpreted in conjunction with data collected from other secondary and primary sources. Finally, conclusions were drawn after a thorough analysis of the assembled data.

Limitations

The study was conducted under the following limitations:

1. The study was limited to those factors that are believed to have the greatest influence on real estate marketing in Southern Alberta.
2. The study was limited to those cities in Southern Alberta with a population of 25,000 or greater. The marketing of real estate is a more prevalent factor in these three cities of Southern Alberta. Combined, they contain more than 65 per cent of the population of Southern Alberta.

Organization of the Study

This thesis is divided into the following chapter arrangements:

Chapter I - This chapter examines the purpose, objectives, methodology, limitations and the organization of the study.

Chapter II - This chapter examines the economic, demographic and political factors that affect residential real estate in Southern Alberta.

Chapter III - This chapter presents an analysis of some of the characteristics of the real estate agency in Southern Alberta with special attention given to the agency functions of personal selling, advertising and pricing.

Chapter IV - This chapter contains the summary and conclusions of the thesis.

CHAPTER II

ANALYSIS OF SELECTED FACTORS AFFECTING RESIDENTIAL REAL ESTATE IN SOUTHERN ALBERTA

Selected economic, demographic and political factors affecting residential real estate in Southern Alberta are examined in this chapter. In Canada's economy the construction of new residential properties contributes directly to the country's capital goods. New housing construction is one of the largest industries in the nation. It accounts for approximately one-twentieth of the gross national product. Most of the growth in residential construction in Southern Alberta has taken place in the major urban areas of Calgary, Lethbridge and Medicine Hat. In these three cities, comprising less than 5 per cent of the total land area in Southern Alberta, lives about 65 per cent of the population. This study of selected factors affecting residential real estate in Southern Alberta is concentrated on these cities. Other data on Canada and Alberta have been acquired to help support the information relative to Southern Alberta. Also, data on the rental market in Southern Alberta is examined.

Economic and Demographic Factors

Economic factors affect the need for residential real estate. In 1969 there were 195,828 housing starts in Canada compared to 88,233 in 1949, a 110 per cent increase in twenty years. Residential construction expenditures in Canada climbed from 1,354 millions of dollars in

1953 to 2,621 millions of dollars in 1969.¹ A continuing need for housing can be foreseen for three major reasons: population growth, household formations and mobility.

Population

The population of Alberta increased from 1,123,116 in 1956 to 1,463,203 in 1966.² Alberta is one of the three provinces in Canada that is showing tremendous growth and expansion. Actual and forecasted population statistics on major Southern Alberta cities is presented in Table 1.

TABLE 1
PAST AND PROJECTED POPULATION OF MAJOR
SOUTHERN ALBERTA CITIES

Year	Calgary ^a	Lethbridge	Medicine Hat ^d
1951	139,105	22,947	16,364
1956	196,152	29,462	20,826
1966	330,575	36,837	25,574
1970	389,200	40,856 (1971) ^b	26,500
1980	535,400	58,000	31,812
1990	705,400	75,000 ^c	48,000

^aCity of Calgary Planning Department, Planning in the City of Calgary, December 1970 and February 1971.

^bCity of Lethbridge, Lethbridge--Facts in Brief, 1971.

^cLethbridge Economic Development Commission, Lethbridge: The Action City, Lethbridge, 1970, p. 6.

^dLetter from Roy W. Balston, Executive Director, Medicine Hat Regional Commission, Medicine Hat, April 16, 1971.

¹Economics and Statistics Division, Central Mortgage and Housing Corporation, Canadian Housing Statistics, (Ottawa: Ronald-Federated, 1970), p. 60.

²Ibid., p. 72.

As indicated in Table 1 the population growth of the city of Lethbridge has been steady. The completion of the new campus of the University of Lethbridge in the newly developed area of West Lethbridge will draw more people to the city. Of the projected 1990 population of 75,000, it is estimated that West Lethbridge will contain 12,000 citizens--4,760 of these University of Lethbridge oriented and 7,250 non-university oriented.³ The Lethbridge Economic Development Commission also projects an expansion of industrial and commercial facilities.

Calgary's growth is due to its being the nerve center for industries dependent upon Alberta's profitable cattle and grain market. In addition, many of the oil industries have shown preference to Calgary over Edmonton for the location of their offices and other facilities. The Medicine Hat Regional Planning Commission projects a possible doubling of its city's population by 1990.⁴ This forecast is based on an expansion of industrial and commercial facilities and the completion of the new Medicine Hat College.

Household Formations and Total Housing Need

Much of the demand for dwelling units is derived from household formations. A household is an occupied dwelling unit. The Economic Council of Canada has estimated that during the period from 1971-1976 there will be an annual average addition of 198,000 new households to the market in Canada.⁵ The Council also estimated that total demand for

³Lethbridge Economic Development Commission, Lethbridge: The Action City, Lethbridge, 1970, p. 6.

⁴Letter from Roy W. Balston, Executive Director, Medicine Hat Regional Commission, Medicine Hat, April 16, 1971.

⁵CMHC, Canadian Housing Statistics, p. 60.

housing (which includes, besides new household formations, the net replacement demand and vacancies) will equal an average annual demand of 229,700.⁶ This is a substantial increase from the actual housing activity of 140,400 dwellings demanded annually on the average between 1961-66 and 190,000 between 1966-71.⁷

Total Housing Need - Calgary

The total housing need is estimated by relating projected population to future household composition. The net additional housing requirement is the difference between the total housing need and the existing housing stock, less demolitions and unfit accommodations.

In Figure 1 is projected the per cent of growth of dwelling units and population to 1986.

Per cent of growth

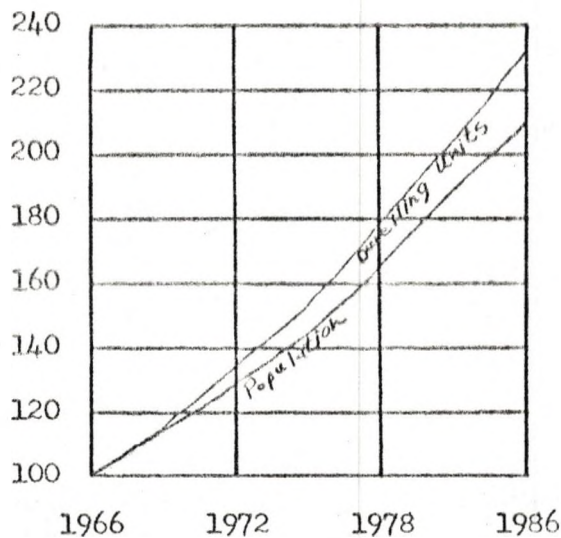


Fig. 1--Total Housing Need to 1986

Source: City of Calgary Planning Department

⁶CMHC, Canadian Housing Statistics.

⁷Ibid.

The city of Calgary has projected its population for five-year intervals up to 1986. In Table 2 is projected new dwellings required to 1986 for the city of Calgary by type of dwelling unit.

TABLE 2

NEW DWELLINGS REQUIRED TO 1986 FOR THE ENTIRE CITY
OF CALGARY BY TYPE OF DWELLING

Type	1967-1972		1973-1978		1979-1986		All periods to 1986	
	Composition	Number	Composition	Number	Composition	Number	Composition	Number
Single family	50%	18,500	45%	19,350	40%	27,600	44%	65,450
Duplex	10%	3,700	10%	4,300	10%	6,900	10%	14,900
Town and row housing	15%	5,550	20%	8,600	25%	17,250	21%	31,400
Low density apartments	10%	3,700	10%	4,300	10%	6,900	10%	14,900
High density apartments	15%	5,550	15%	6,450	15%	10,350	15%	22,350
Total	100%	37,000	100%	43,000	100%	69,000	100%	149,000

Source: City Planning Department, Calgary, February 1971.

Total Housing Need - Lethbridge

Lethbridge is one of the fastest growing cities in Canada according to the November 21, 1970, issue of the Financial Post.⁸ Housing starts for July 1970 compared to July 1969 were up 50 per cent

⁸"Business Across Canada," The Financial Post, November 21, 1970, p. 17.

in Lethbridge.⁹ All other cities west of the Great Lakes showed declines ranging from 22 per cent to 96 per cent. Lethbridge was up 221 per cent in building permits. All other cities but Calgary were down.¹⁰

In 1966 permits were issued for 57 dwelling units in Lethbridge. At that time the city entered an era of expansion. In 1969 building permits were issued for approximately 480 dwelling units. The dollar values of residential construction from 1966 to 1970 inclusive were respectively \$766,000; \$3,427,000; \$6,322,000; \$7,218,000; and \$8,651,200.¹¹ The value of new residential construction for the first three months of 1971 equalled \$3,480,475. This is compared to \$2,105,420 for the same period in 1970.¹² Building construction should reach a record breaking dollar value in 1971; and, if the population estimates in Table 1 are reliable, this housing expansion should continue.

Housing Need - Medicine Hat

As indicated in Table 1 the city of Medicine Hat will experience a favorable growth rate over the next twenty years. This will create a demand for housing.

Mobility

Housing is affected by the population mobility factor. Beyer indicates that this factor is "important to any consideration of housing needs and desires because when a family moves, it gives up one dwelling

⁹Ibid.

¹⁰Ibid.

¹¹Personal interview with T. Kanashiro, Building Inspector, City of Lethbridge, April 15, 1971.

¹²Ibid.

unit and occupies another."¹³ The highest proportion of the population movement occurs mainly from the movement of people from one dwelling unit to another in the same city, town or village, although other population movements within the same province, to a different province or to a different country also occur. Beyer, in a study on the mobility of population in the United States, concluded that "of the proportion that moved nearly two-thirds had stayed in the same county but the remaining third had moved from a different county."¹⁴ Many of these people moved to a location outside a central city. Beyer related that of the "movers who moved from one county to another, 42 per cent had moved into the central city and 58 per cent had moved to a location outside a central city."¹⁵ Beyer, in his analysis, additionally noted that elderly householders are less mobile than younger ones and homeowners are less mobile than renters.¹⁶ Based on rather limited evidence, it would seem that Beyer's data would also be relevant to Canada.

Disposable Income

Disposable income is the amount of income available for personal consumption expenditures and savings after deduction of personal taxes. Since 1955 there has been a steady increase in disposable income in Canada. In 1955 disposable income per capita was \$1,187 compared to the 1970 figure of \$2,507 per capita.¹⁷ A report in April, 1971, by

¹³Glen H. Beyer, Housing and Society, (London, Canada: Collier-MacMillan Limited, 1967), p. 66.

¹⁴Ibid., p. 369-70.

¹⁵Ibid., p. 370.

¹⁶Ibid., p. 427.

¹⁷CMHC, Canadian Housing Statistics, p. 19.

Contemporary Research Limited stated that the "heaviest demand for houses in Canada is among families with higher incomes [over \$12,000] where 5.6 per cent of those polled say they will buy over the next six months, a higher proportion than the 4.5 per cent three months earlier and the 4.4 per cent a year ago."¹⁸ The same study pointed out that among average income households 3.5 per cent planned to buy compared to 2.4 per cent in April, 1970; and 1.1 per cent of lower income households [under \$8,000] stated their intention to buy compared to 1.8 per cent in April, 1970.¹⁹ A conclusion is the more disposable income an individual has the more likely he is to become a homeowner.

Construction Costs

Within recent years the costs of construction have risen more rapidly than the costs of other goods and services. With 1961 as a base year, the consumer price index for Alberta increased from 100 in 1961 to 125.1 in 1970, and during the same period, the home ownership index increased to 157.1.²⁰ The components of the home ownership index are property taxes, mortgage interest, repairs, property insurance and cost of new houses. All elements of the index increased at a level higher than the consumer price index, especially interest rates that increased from $6\frac{1}{2}$ per cent in 1962 to $9\frac{1}{4}$ per cent in 1970.²¹ In Table 3 is presented a picture of the rising construction costs in the three Southern Alberta cities.

¹⁸"Buying Outlook," The Financial Post, April 24, 1971, p. 17.

¹⁹Ibid.

²⁰CMHC, Canadian Housing Statistics, p. 87.

²¹Ibid., p. 64.

TABLE 3

ESTIMATED COSTS OF NEW DWELLINGS
(SINGLE FAMILY)

Area	Total cost			Construction cost per sq. ft.			
	1967	1969	1970	1967	1968	1969	1970
Calgary ^a	18,980	21,941	22,590	12.42	13.23	14.42	14.75
Lethbridge ^b	17,530	21,566	22,376	12.87	14.14	15.95	16.23
Medicine Hat ^b	17,629	20,218	21,970	13.25	14.00	14.92	15.35

^aCMHC, Canadian Housing Statistics, p. 71.

^bLetter from C. Henwood, Manager of CMHC, Lethbridge, April 7, 1971.

Labor and material costs have risen rapidly since 1955. Wage rates of all construction workers in Canada rose from an index of 75.4 in 1956 to 197.2 in 1970.²² For example, carpenters wages increased from an index of 75.4 in 1956 to 179.9 in 1970 and bricklayers, electricians, painters, and plumbers showed a similar history of wage increases.²³ Building materials, for residential construction, rose from an index of 100 in 1956 to 138.0 in 1970.²⁴

From February 1970 to February 1971, wage rates in the construction industry in Canada went up by 17.2 per cent; and, during the same period, the price of residential building materials went up 1.7 per cent while nonresidential building materials increased by 1.8 per cent.²⁵ The rise in the residential index was 10.1 per cent over this same

²²CMHC, Canadian Housing Statistics, p. 88.

²³Ibid.

²⁴Ibid.

²⁵"The Good News Begins to Flow," The Financial Post, April 24, 1971, p. 1.

twelve month period.²⁶ The Financial Post of April 24, 1971, stated that "there is, in short, no way that labor can escape the lion's share of the blame."²⁷ The same article concluded that if unions persist in their demands for wage increases in 1971, they would "invite the imposition of wage and price controls which are now in the blueprint stage."²⁸

Despite increased construction costs in Canada, the demand for housing still persists. The Financial Post of April 24, 1971, indicated that, in 1971, capital expenditures for housing would be up 24 per cent from 1970.²⁹

Mortgage Financing

Mortgage financing is another factor affecting the demand for housing. The report of the Central Mortgage and Housing Corporation of Canada to the Royal Commission on Banking and Finance stated that, "the demand of homeowners for dwelling space in the form of owned houses increases as mortgage borrowing terms are improved."³⁰ There are three main elements in the terms of mortgage borrowing that affect the demand for housing: the interest rate, the amortization period, and the amount of the loan in relation to the lending value of the property.

As indicated in the report, "a decline in the mortgage interest rates enables homeowners, without any change in their down payment, to

²⁶"The Good News Begins to Flow," The Financial Post, April 24, 1971, p. 1.

²⁷Ibid.

²⁸Ibid.

²⁹Ibid.

³⁰CMHC, Submission to the Royal Commission on Banking and Finance, Ottawa, Canada, August, 1962, p. 12.

buy housing for a smaller amount of income over a given amortization period."³¹ Conversely, an increase in the interest rates discourages home ownership. Interest rates on National Housing Act (NHA) mortgages increased from $6\frac{1}{4}$ per cent in 1963 to $9\frac{1}{4}$ per cent in 1970. Increasing interest rates mean increasing mortgage payments. The proportion of an NHA borrower's income which goes for principal, interest and taxes in Southern Alberta was 26.2 per cent in 1970 compared to 21.4 per cent in 1963.³² The average monthly gross debt service (covers principal, interest and taxes) was \$236.02 in 1970 compared to \$110.16 in 1963.³³ To purchase a dwelling costing \$22,626 with a down payment of \$3,788 and the balance covered by a twenty-five year NHA mortgage, a borrower would have debt charges for 1971 of \$2,517.³⁴ Therefore to fall within the CMHC yardstick of 20 per cent of income for debt service an individual would have to earn \$14,000.³⁵ A Canadian with an income of \$9,563 a year is therefore required to allocate to debt service approximately 30 per cent of his income.³⁶ Thus, increasing interest rates affect the demand for housing by making it difficult for lower income bracket families to meet the mortgage companies' debt service requirements.

The second element in the terms of mortgages affecting housing demand is the size of the loan to value ratio offered by lenders. As

³¹CMHC, Submission to Royal Commission, p. 13.

³²CMHC, Canadian Housing Statistics, p. 80.

³³Ibid., p. 76.

³⁴Sun Life Assurance Company of Canada, Monthly Amortized Mortgage Payments, Financial Publishing Company, 1970, p. 93.

³⁵Ibid.

³⁶Ibid.

concluded in the Central Mortgage and Housing Corporation report, an increase in this ratio "would widen the opportunity for buyers to substitute income for cash in purchasing housing and there are always potential buyers who would wish to do so."³⁷ In 1967 the ratio of loans to lending value on NHA mortgage loans was increased to 95 per cent on the first \$20,000 of lending value from the previous 90 per cent, thus allowing buyers to become homeowners with fewer initial dollars.

The third element involves the rate at which the mortgage loan has to be repaid. As suggested in the Central Mortgage and Housing report "the demand for owned houses can be increased by an extension of amortization periods and the increased opportunity offered thereby for owners to substitute future income for present income in buying houses."³⁸ The amortization period on NHA loans for both new and existing homes was extended in 1967 to 40 years from 35. This provision increased the demand for housing by allowing families to extend the term of repayment thus partly alleviating the total monthly costs to them created from increasing interest rates.

Political Factors

The importance of housing in Canada was reflected in the federal government's action of establishing a Department of Housing under a Minister responsible for housing, who was designated a member of the Cabinet.

³⁷CMHC, Submission to Royal Commission, p. 13.

³⁸Ibid.

National Housing Act Financing

Much of the government activity in the field of real estate deals with financing. The government body assigned the task of financing direct and insured loans under the National Housing Act is the Central Mortgage and Housing Corporation. This government body has been granted authority to insure National Housing Act loans made by approved lenders in Canada, specifically banks, trust companies, and insurance companies. The Central Mortgage and Housing Corporation has also been employed to make direct government NHA loans in those areas of the country where approved lenders do not make loans. In June of 1969, the National Housing Act was amended to remove the ceiling interest rate for loans by approved lenders. Prior to this date, the rate had been restricted by statute to a maximum $2\frac{1}{4}$ per cent above the long term government bond rate. In 1967, the NHA ceiling rate was established by formula. Under the 1969 change the rate was freed entirely. The rate as of March 1, 1971 was $9\frac{1}{4}$ per cent.³⁹ In March 1971, a borrower could obtain a loan for a maximum of forty years and the ratio of loan to value stood at 95 per cent for the first \$20,000 of lending value and 80 per cent of the balance subject to a \$25,000 maximum loan.⁴⁰

The freeing of the interest rate in 1969 brought more lenders into the market for residential loans. On the other hand, the consumer has been hit hard not only by higher construction costs but by higher financing charges.

The average family income of borrowers in principal Southern

³⁹Personal interview with C. Henwood, Manager of CMHC, Lethbridge, February 25, 1971.

⁴⁰Ibid.

Alberta cities under the National Housing Act is presented in Table 4.

TABLE 4
INCOME OF NHA BORROWERS (1970)

Area	Annual Income
Calgary	\$ 12,417
Lethbridge	12,347
Medicine Hat	12,150

Source: Letter from C. Henwood, Manager of CMHC, Lethbridge
April 7, 1971.

The mean average family income of borrowers in Canada in 1970 under the National Housing Act stood at \$11,833.⁴¹ This compares with the estimated mean annual family income in Canada of \$9,563 in 1970.⁴² Of these families, 5.3 per cent came from the lower income third (0 - \$6,705); 54.2 per cent came from the middle third (\$6,706 - \$11,105); and 40.5 per cent came from the upper third (\$11,106 +).⁴³

Public Housing

The federal and provincial governments cooperate in financing rental housing projects eligible for subsidy under Section 35 A and D of the National Housing Act. The federal-provincial partnership agreements for financing rental housing projects provide for the sharing of operating losses on the basis of 75 per cent by the federal government and

⁴¹CMHC, Canadian Housing Statistics, p. 77.

⁴²Ibid., p. XIV

⁴³Ibid., p. 79.

25 per cent by the provincial partner.⁴⁴ In Calgary, only limited construction had been undertaken as of December 31, 1969; however, during the year 1970, a total of 572 rental units were either completed or under construction, in accordance with the National Housing Act.⁴⁵ The only other construction approved in Southern Alberta, under this section of the Act, as of December 31, 1970, was in Medicine Hat, Raymond, and Taber, where 18, 20 and 20 units respectively were completed.⁴⁶

In 1970 the federal government offered a \$20 million special innovative program that provided direct NHA loans approved by Central Mortgage and Housing Corporation for new and existing housing. Under this public housing plan the federal government paid the interest charges to lenders on that portion of the interest rate above 7 7/8 per cent and the provincial government further subsidized interest payments to the extent of 2 per cent, thus providing the borrower with mortgage monies at a favorable rate of 5 7/8 per cent. This program stipulated that the borrower have an annual income of \$6,000 or less. In Lethbridge, the CMHC office advised that fifty-six semi-detached and sixteen row houses were being constructed under this program as of February 25, 1971.⁴⁷ Of the other two major urban centers in Southern Alberta, there were 924 subsidized housing units either completed or under construction in Calgary as of December 31, 1970; whereas Medicine Hat had not at that time taken any action under the government plan.⁴⁸ Unless the high cost

⁴⁴CMHC, Canadian Housing Statistics, p. 104.

⁴⁵Ibid., p. 49

⁴⁶Personal interview with C. Henwood, Manager of CMHC, Lethbridge, February 25, 1971.

⁴⁷Ibid.

⁴⁸CMHC, Canadian Housing Statistics, p. 46.

of construction and financing are checked, it is possible that an increasing number of low income families will be forced to demand one of the government sponsored public housing schemes.

The Rental Market

The rental market has become increasingly attractive in Southern Alberta partly because many consumers have delayed their purchase of a home until either the cost of housing or financing, or both, reaches a level that will encourage home ownership.⁴⁹ In Table 5 data is provided on rental units in Lethbridge.

TABLE 5
APARTMENTS AND DUPLEXES - STARTS AND
COMPLETIONS (LETHBRIDGE)

Type	1966	1967	1968	1969	1970
<u>Apartments</u>					
Units started	none	39	99	165	340
Units completed	none	10	101	105	232
<u>Duplexes</u>					
Units started	none	6	20	48	86
Units completed	none	6	6	46	40

Source: Oldman River Planning Commission, Lethbridge, Starts and Completions: Lethbridge, pp. 1-4.

A survey by Central Mortgage and Housing Corporation of Lethbridge on apartments and duplexes in the cities of Lethbridge and Medicine Hat showed, as of November 30, 1970, a vacancy factor of 0.5 per cent and

⁴⁹Personal interview with L. Coward, Real Estate Manager, Canada Trust Company, Lethbridge, February 23, 1971.

1 per cent respectively.⁵⁰ In Calgary, an apartment-duplex vacancy factor of 1.8 per cent existed on November 15, 1970.⁵¹ In these three cities the demand apparently had not reached the saturation level for rental structures.

Summary

There are many factors that affect residential real estate in Southern Alberta. The three major demographic and economic factors examined were population, household formations and mobility. The population of Calgary, Lethbridge and Medicine Hat will increase nearly 100 per cent over the next twenty years. Estimated housing requirements in Southern Alberta indicate a decrease in the demand for single family dwellings as a percentage of the total dwelling composition by 1986 with an increase in demand for townhouses and row housing. New household formations will be a result of increasing population in Southern Alberta; and new household formations will create a demand for new residential construction of all types. Mobility of population is a contemporary phenomenon of Canadian society.

There are other economic factors affecting residential real estate in Southern Alberta. Included among these factors are disposable income, construction cost and mortgage financing. Disposable income affects residential real estate in that the more disposable income an individual has the more likely he is to become a homeowner. The cost of construction has risen rapidly since 1967. For example, single family

⁵⁰Personal interview with C. Henwood, Manager of CMHC, Lethbridge, February 25, 1971.

⁵¹Ibid.

residential construction costs per square foot in Calgary in 1967 was \$12.42. In 1970 the cost per square foot of the same type of house was \$14.75. Despite increased construction costs in Canada the March 6, 1971 issue of the Financial Post indicated that, in 1971, capital expenditures for housing would be up 24 per cent from 1970. There are three elements in the terms of mortgage financing that affect the demand for housing: the interest rate, the amortization period, and the amount of the loan in relation to the lending value of the property. Decreasing the interest rate, lengthening the amortization period over which the loan is to be repaid and increasing the percentage of loan to lending value of the property are changes in mortgage terms that would likely encourage home ownership.

Political factors also affect residential real estate. The Central Mortgage and Housing Corporation is a corporate body administered by the government of Canada to provide financing under the National Housing Act. Government activity in the field of real estate also deals with public housing. The federal and provincial governments cooperate in financing housing projects under sections 35A and D of the National Housing Act. In order to help alleviate the problem of low cost housing, the Federal Government in 1970 offered a \$20 million special innovative program that provided direct National Housing Act loans approved by Central Mortgage and Housing Corporation for new and existing housing.

The rental market affects residential real estate. Apartments, townhouses and other rental housing are experiencing high occupancy levels in Southern Alberta. Many consumers have found the rental market a preferable option to home ownership because of the high cost of housing construction and financing.

CHAPTER III

THE ROLE OF THE REAL ESTATE AGENT IN THE MARKETING OF REAL ESTATE IN SOUTHERN ALBERTA

The primary institution involved in the negotiation and transfer of residential real estate in Southern Alberta is the real estate agent. The real estate agent does not work in a vacuum. He must possess a workable knowledge of the factors affecting residential real estate in Southern Alberta. Also, he must have an understanding of the particular characteristics of the real estate business and possess the skills required to price and promote residential real estate. It is the purpose of this chapter to examine the licensing requirements of real estate agents, their membership on real estate boards, and some of the characteristics of the real estate agency peculiar to Southern Alberta. Special attention is given to the agency functions of personal selling, advertising, and pricing.

Definition of the Real Estate Agent

In the province of Alberta, Canada, the governing legislation affecting institutions transacting in real estate is the Real Estate Agents' Licensing Act, consisting of Chapter 279 of the Revised Statutes of Alberta, 1955. Under the Act, it is stated that no person shall trade in real estate unless he is licensed as an agent or as a salesman

of a licensed agent.⁵² An agent is interpreted as a real estate agent and includes "a person who, for another or others, for compensation, gain or reward, or hope or promise thereof, either alone or through one or more officials or salesman, trades in real estate and holds himself out as a real estate agent."⁵³

Licensing of Real Estate Agents and Salesmen
And Membership on Real Estate Boards

To establish a real estate agency an individual must first be licensed as a real estate agent by the province. Also the salesmen who are employees of real estate agents must be provincially licensed. Furthermore, as most of the real estate agents and salesmen within a city belong to the real estate board of that city, the newly licensed agents and salesmen usually seek membership on the board.

Licensing Requirements of Agents and Salesmen

Alberta does not permit a person to take an agent's examination without prior experience. An individual must be employed as a salesman until he has acquired adequate experience to become an agent. In Alberta, the period necessary to acquire adequate experience is two years. An application for a license or a renewal of a license must be made in writing on a prescribed form provided by the Superintendent of Insurance and accompanied by a prescribed fee and a bond in the amount of \$5,000. After fulfilling these requirements and passing the agent's examination the individual is permitted to trade in real estate as a duly licensed

⁵²Calgary Real Estate Board, Constitution and By-laws, (Calgary: Humphries Printing Ltd., 1970), p. 30.

⁵³Ibid.

agent.

To become a salesman for a real estate agent, an individual must pass a provincial exam, submit an application fee and agree to be bonded in the amount of \$1,000.

The secretary-treasurer of the Alberta Real Estate Association indicated that the Alberta Real Estate Licensing Act needs to be revised. Some of the changes suggested were: an increase in the amount of the agent's and salesman's bond, an upgrading of provincial licensing exams and a thorough inspection by a government body of the prospective agent's financial resources and character.⁵⁴

Membership on the Real Estate Board

Membership on the Real Estate Board offers several advantages to real estate agents and salesmen. The Calgary Real Estate Board in its memorandum of association lists the following as its objectives:⁵⁵

1. To unite the Realtors of Calgary for better public service.
2. To enable its members to transact their business connected with the buying, selling, renting, caring for, and financing of real estate business to better advantage than heretofore, by the adoption of such by-laws as they may deem proper.
3. To promote the highest public relations by maintaining high standards of conduct in the transaction of the real estate business and to be expressed in a Code of Ethics and to enforce that Code among its members in their dealings with one another and with the public.
4. To advance the civic development and economic growth of this community.
5. To promote better acquaintance, understanding, and cooperation among those engaged in the real estate business.

⁵⁴Personal interview with C. W. Carr, Secretary-Treasurer, Alberta Real Estate Association, Calgary, April 20, 1971.

⁵⁵Calgary Real Estate Board, Constitution and By-Laws, (Calgary: Humphries Printing Ltd., 1970), p. 2.

6. To facilitate the marketing of real estate and generally to provide a better real estate service for the economical benefit of the seller and the buyer.
7. To advance the cooperative system of business having service for its motive.

To become a member of the real estate boards in Calgary, Lethbridge and Medicine Hat the individual agent must first pass a written board examination. He is then investigated by the Real Estate Board. This investigation includes the obtaining of a credit report on the candidate, a check of his trust accounts, and an inspection of his office. If he has satisfied these requirements, the new member signs documents agreeing to uphold the by-laws of the Board. The final step is an interview with the Real Estate Board of Directors, and if he passes this final test, he becomes a member of the Real Estate Board. One hundred per cent of the real estate agents in Lethbridge and Medicine Hat are members of the Real Estate Board in their city.⁵⁶ Eighty-five per cent of the real estate agents in Calgary are members of the Board. The remaining agents represent the large real estate developers and realtors dealing strictly in commercial real estate.⁵⁷

The salesmen of the real estate agents are also granted membership on the board. To become a member of the Real Estate Board in Calgary, Lethbridge and Medicine Hat, the salesman must take a three-week course consisting of 15 lectures on such topics as real estate law and financing and pass an examination of 2½ hours duration at the end of the course. If he passes the exam he becomes a member of the Board. Included among the advantages of membership is the right to act for a seller of property under a multiple listing contract.

⁵⁶Personal interview with L. Coward, Real Estate Manager, Canada Trust, April 22, 1971.

⁵⁷Personal interview with R. K. Montgomery, Assistant Secretary, Calgary Real Estate Board, April 20, 1971.

Some Characteristics of the Real Estate
Agent's Business

In order to understand the role of the real estate agent in Southern Alberta it was necessary to examine the type and size of real estate agencies in the Southern Alberta cities of Calgary, Lethbridge and Medicine Hat, the functions normally performed by real estate agents and the contracts executed and commissions charged by real estate agents in these cities.

Type of Business

The three main forms of business organization are recognized as the proprietorship, the partnership and the corporation. In the United States the majority of real estate agencies have operated under the proprietorship or partnership forms of organization.⁵⁸ However, in Alberta the corporate form of organization has been preferred mainly because of existing favorable taxation legislation.⁵⁹ In Alberta "the word 'Limited' must follow the company name and be used whenever the name is used, so that the public will know there is limited liability of shareholders."⁶⁰ In Calgary, in 1971, there were 143 real estate agencies operating under the limited company form of organization and 65 under other forms of ownership.⁶¹ There were 20 real estate agencies in Lethbridge and 11 in Medicine Hat under the corporate form compared to 10 agencies in Lethbridge

⁵⁸ Frederick E. Case, Real Estate, (Boston: Allyn and Bacon, Inc., 1966), p. 361.

⁵⁹ Personal interview with R. K. Montgomery, Assistant Secretary, Calgary Real Estate Board, April 20, 1971.

⁶⁰ William H. Anger, Summary of Canadian Commercial Law, (Toronto: Sir Isaac Pitman (Canada) Ltd., 1962), p. 410.

⁶¹ Calgary and District Telephone Directory, 1970.

and 7 in Medicine Hat under the other forms of organization.⁶²

Size of Business

As presented below, in Table 6, the majority of real estate agencies in Calgary, Lethbridge and Medicine Hat, were small in size and employed less than 10 salesmen.

TABLE 6
SALESMEN EMPLOYED BY REAL ESTATE AGENCIES

Number of Salesmen per Agency	Calgary	Lethbridge	Medicine Hat
1 - 2	-	-	-
3 - 5	10	6	4
6 - 8	21	1	1
9 - 11	15	1	-
More than 11	6	-	-
Total	52	8	5

Source: Survey of 65 real estate agents by C. E. Greene, April, 1971.

Schwartz Agencies Ltd., the largest realtor in the city of Lethbridge employed only 10 salesmen; whereas, in Calgary the largest realtor, Melton Real Estate Ltd., employed 57 salesmen from several branch offices, and 5 other agencies surveyed employed more than 11 salesmen.⁶³ However, most agencies employed between 3 and 11 salesmen.

Functions Performed by Real Estate Agents

A real estate agent is engaged primarily in the marketing of one

⁶²Lethbridge and Medicine Hat, Telephone Directory, 1970.

⁶³Survey of 65 real estate agents by C. E. Greene, April, 1971.

of the various rights that form a part of real property. The agent's business consists of selling or leasing property, placing a mortgage on a property, collecting rent, appraising a property or performing other services on a commission basis for some principal. Approximately 80 per cent of the agents interviewed in Calgary, Lethbridge and Medicine Hat reported spending between 70 and 95 per cent of their time on those activities involved in finding listings of and customers for single family residential properties.⁶⁴ The remaining percentage of their time in most cases was evenly divided between the following activities: selling of multiple family residential property, property management, appraisal of property, and transaction of mortgages.

Approximately 80 per cent of all firms interviewed reported that commission revenue from the sale of single family residential property represented between 70 and 100 per cent of total revenues. For those agents not specializing in commercial real estate, the success or failure of their agency depends on the agent's ability to bring together a buyer and a seller of single family residential properties who are ready, willing and able to enter a contract.

Contracts and Commissions

In Southern Alberta the contract between an agent and his client must be in writing. The contract, termed a listing contract, specifies the date when possession of the property will be given the purchaser, the price for which the property is to be listed, and any mortgages or other encumbrances against the property. The contract also describes the

⁶⁴Survey of 65 real estate agents by C. E. Greene, April, 1971.

property, the method by which the property is to be conveyed, the commission that is to be paid the agent and the expiration date of the listing.

The survey indicated that exclusive and multiple listings were used by all agents, open listings by most and net listings by none. A net listing is a contract that permits the agent to retain as commission that portion of the final selling price over and above the asking price quoted by the seller. Net listings are prohibited by law in Alberta. The open or general listing is offered to more than one agent but not to all agents. The open listing is not as commonly used as the exclusive or the multiple listing. The exclusive listing gives one agent the sole responsibility for finding a customer for the property. A multiple listing contract is an agreement whereby each member of the real estate board agrees to give every other member of the board an opportunity to find a buyer for properties listed with his agency. If a sale results the commission is divided among the listing agent, the selling agent and the real estate board.

The Real Estate Boards stipulate that the minimum commission to be charged by members is 5 per cent.⁶⁵ In Medicine Hat, agents work on the minimum 5 per cent commission on both open and exclusive listings, whereas in Lethbridge agents charge a 6 per cent commission on these two classes of listings. Of the 52 firms surveyed in Calgary, all stipulated 6 per cent as the commission rate on exclusive listings, whereas on open listings 15 agents charged a 5 per cent commission and 37 agents operated with a 6 per cent commission. In all three cities, the multiple listing commission on sales up to \$50,000 is 7 per cent and the minimum

⁶⁵Calgary Real Estate Board, Constitution and By-laws, (Calgary: Humphries Printing Ltd., 1970), p. 30.

commission is \$100. On sales in excess of \$50,000 the commission is 7 per cent on the first \$50,000 and 5 per cent on that portion of the sale price in excess of \$50,000.⁶⁶

In Table 7 is shown the division of the 7 per cent commission in the three Alberta cities.

TABLE 7
DIVISION OF THE MULTIPLE LISTING COMMISSION

Party to Contract	Calgary	Lethbridge	Medicine Hat
Listing Agent	2.25%	2.0%	2.0%
Selling Agent	4.5 %	4.5%	4.5%
Real Estate Board	.25%	.5%	.5%

Source: Survey of 65 real estate agents by C. E. Greene, April, 1971.

Promotion of Residential Real Estate

Frederick E. Case indicates that the success of the real estate agency in terms of the number of listing contracts in its possession at any one time and the total commissions earned over a period of time is mainly dependent on the effectiveness of the agent's overall promotion.⁶⁷ Promotion involves those activities of personal selling and advertising employed by a business establishment to create a demand for its product.

Personal Selling

It is suggested by Frederick E. Case that "selling is the most

⁶⁶Calgary Real Estate Board, Constitution and By-Laws, (Calgary: Humphries Printing Ltd., 1970), p. 30.

⁶⁷Frederick E. Case, Real Estate, (Boston: Allyn and Bacon, Inc., 1966), p. 365-6.

important activity in which the majority of real estate offices engage."⁶⁸ The survey indicated that personal selling, including commissions, represented between 50 and 80 per cent of operating expenses, depending on the size of the firm.

Contracts and Commissions

The survey suggested that the median average salary per annum of all salesmen was \$8,500 in Calgary, \$8,000 in Lethbridge, and \$7,000 in Medicine Hat. The amount of the sales commissions that salesmen received depended on the type of listing he sold, the size of the real estate agency, and whether or not he secured the listing. There is no uniform practice for splitting the salesman's commissions in any of the three cities. All agencies regardless of size, paid the highest commission for the exclusive listing. In Calgary, a predetermined 50-50 split of the commission, from an exclusive listing, between the salesman and the agency was most common although salesmen received as high as a 70 per cent share of the split from a few agencies. Of the 8 agencies surveyed in Lethbridge, 4 offered their salesmen a 50 per cent split of the commission on an exclusive listing, 2 gave 55 per cent to the salesmen and 2 others paid the salesmen 60 per cent. In Medicine Hat 3 agencies paid salesmen 60 per cent of the 5 per cent commission from the sale of an exclusive listing and 2 others paid 55 per cent. A salesman received 50 per cent to 60 per cent of the commission on an open listing sale depending upon the policy of the real estate agent. On a multiple listing the practice of agencies surveyed was as presented in Table 8.

⁶⁸Ibid., p. 365.

TABLE 8
 PERCENTAGE OF THE MULTIPLE LISTING COMMISSION
 PAID TO SALESMAN

Percentage Paid	Number of Real Estate Agencies Surveyed		
	Calgary	Lethbridge	Medicine Hat
50	30	4	3
55	14	2	2
60	8	2	-
Total firms	52	8	5

Source: Survey of 65 real estate agents by C. E. Greene, April, 1971.

In addition to the practices mentioned above, some realtors gave a larger share of the commission to an experienced salesman than to a new salesman. A standard practice was to allot 10 per cent of the commission to an out-of-town agent on a referral sale.

Sources of Listing

The agents interviewed were given a card that listed various methods used by real estate salesmen to find new prospects. The agents were requested to indicate how frequently each of these methods was used by their salesmen. That is, the following four point rating scale was used to measure the response: use regularly, use occasionally, might use, and probably would never use. Those responses from agents who used each of the methods either regularly or occasionally are included in Table 9.

Former Customers

The survey indicated that approximately 40 per cent of all sales

TABLE 9
SOURCES OF LISTINGS

Source	Number of Real Estate Agencies Surveyed					
	Calgary		Lethbridge		Medicine Hat	
	Regularly	Occasionally	Regularly	Occasionally	Regularly	Occasionally
Former customers	41	11	8	-	5	-
Newspapers	40	12	7	1	5	-
Club membership contacts	12	23	1	4	1	2
Tenants	7	15	-	3	-	2
Open house	10	23	1	4	1	2
Door-to-door canvassing	10	18	2	2	1	3
All other personal contacts	35	12	4	4	3	1
Total agencies surveyed	52		8		5	

Source: Survey of 65 real estate agents by C. E. Greene, April, 1971.

and listings of successful agencies originated from referrals made by satisfied customers. All agents stated that former customers were the number one source of listings.

Newspaper Advertising

As indicated in Table 9, most real estate agents or salesmen seek listings through newspaper advertising.

Personal Contacts

Most agents emphasized the importance of a salesman's personal contacts. They suggested that salesmen must continuously search for new contacts and participate in civic affairs if the salesmen are to continue

to generate new business.

Door-to-door Canvassing

As indicated in Table 9, only ten agencies surveyed in Calgary, two in Lethbridge and one in Medicine Hat used door-to-door canvassing regularly to reach new prospects. Eighty per cent of the agents surveyed that used this method regularly, responded to sales listings placed in the daily newspaper by the owner of a home; that is, they visited the home and encouraged the owner to place the listing with their agency.

Open House

The open house promotion is used occasionally to find listings. As indicated in Chapter II, housing is affected by the population mobility factor within a city. Although a visitor to an open house may not show an interest in that particular house he may become a prospect for listing his own home for sale.

Other Sources

Nine agents in Calgary, two in Lethbridge, and one in Medicine Hat mentioned office drop-ins as a source of listings. These agents believed their location encouraged individual sellers to call at their office. Seven realtors in Calgary and none in the other two cities contacted tenants of homes or apartments for leads on prospective sellers. Other sources mentioned were telephone calls, personalized letters, lot signs and television and radio advertising. These were indirect sources that occasionally became leads for a listing.

Methods Used by Salesmen to Find Buyers

The past president of the Alberta Real Estate Association suggested that salesmen used various methods to find buyers.⁶⁹ He related that the most common source of prospective buyers for listings were the salesmen's former customers, friends and neighbors. If the former customers had been satisfied with the service provided by the salesmen they would usually recommend him to a friend who was in the market for a home.

The past president also pointed out that recent sellers, the open house, newspaper advertising and lot signs were other means used by salesmen to find buyers. Recent sellers usually become new buyers. An up-to-date list of sellers was made from the classified ad section of the daily newspaper(s) in the agent's city by most salesmen employed by the real estate agents surveyed. Many visitors to an open house are in the market for a home, although not necessarily for that particular home. Therefore salesmen are assigned by their agents to be available at the open house during the hours when it is open to the public, to discover the housing needs of these visitors. Salesmen regularly placed personal name signs under the agency sign of a house for sale and this occasionally brought a response from individuals shopping for a home.

Advertising

The American Marketing Association defines advertising as a "paid form of nonpersonal presentation or promotion of ideas, goods or services by an identified sponsor."⁷⁰ Real estate advertising is classified as

⁶⁹Personal interview with L. Coward, Real Estate Manager, Canada Trust, June 16, 1971.

⁷⁰American Marketing Association, Marketing Definitions, 1961.

either institutional or property advertising. The primary purpose of institutional advertising is to build goodwill for the agency in the community. For example, if an advertisement is inserted in a school yearbook, it is generally done to present the agency's name to the public and support the publication but not to sell a specific piece of real estate. The most commonly used advertisement is the one designed to sell a particular property. The survey indicated that advertising represented between 10 and 20 per cent of an agency's operating expenses. The percentage of a real estate agency's advertising budget which is allotted to institutional advertising is shown in Table 10. The remaining percentage of the advertising budget represents expenditures for property advertising.

TABLE 10

INSTITUTIONAL ADVERTISING EXPENDITURE AS A PERCENTAGE
OF TOTAL ADVERTISING BUDGET

Per cent of Advertising Budget	Number of Agencies Surveyed		
	Calgary	Lethbridge	Medicine Hat
1 - 5 per cent	2	2	1
6 - 10 per cent	7	1	1
11 - 20 per cent	35	5	3
21 and over per cent	8	-	-

Source: Survey of 65 real estate agents by C. E. Greene, April, 1971.

Advertising Methods

In Table 11 is indicated the frequency of use by agencies of various forms of advertising.

Newspapers

As indicated in Table 11 the most important medium for the real

TABLE 11
 FREQUENCY OF USE BY AGENCIES OF ADVERTISING MEDIA

Media	Number of Agencies Surveyed								
	Calgary			Lethbridge			Medicine Hat		
	Regularly	Occasionally	Never	Regularly	Occasionally	Never	Regularly	Occasionally	Never
Classified ad	51	1	-	8	-	-	5	-	-
Display newspaper ad	10	25	17	-	2	6	-	-	5
Lot or house signs	48	4	-	8	-	-	5	-	-
Television	1	6	45	-	2	6	-	1	4
Radio	2	10	40	1	2	5	-	2	3
Magazines	-	5	47	-	-	8	-	-	5
Billboards	2	-	50	-	-	8	-	-	5
Personal letters	14	21	17	3	3	2	1	3	1
Form letters	5	25	22	-	5	3	1	3	1
Brochures	7	10	35	-	3	5	1	3	1
Souvenirs and gifts	9	20	23	2	2	4	-	1	4

Source: Survey of 65 real estate agents by G. E. Greene, April, 1971.

estate agency was the newspaper. The results of the survey in the three cities indicated that about 80 per cent of the agency's advertising budget was spent on this medium. Other media advertisements were usually employed to support newspaper advertisements. It was revealed from the survey that approximately 40 per cent of a real estate agency's sales came from newspaper advertisement responses. The classified ad was used regularly by 51 of the 52 real estate agencies surveyed in Calgary, and by all the firms surveyed in Lethbridge and Medicine Hat.

A display ad differs from a classified ad in that the former makes use of illustrations of the property and is more detailed in description. It was discovered from the survey that display ads were used principally

by agencies with 10 or more salesmen, and by Calgary real estate agencies. The high cost of this form of advertising limited its use. The advertising staffs of the two Calgary newspapers, The Calgary Herald and The Albertan, aggressively promoted the value of display advertising to real estate agencies in Calgary. These newspapers have wide circulation in Southern Alberta. As indicated in Table 11, thirty-five of the fifty-two agencies surveyed in Calgary used display advertising either regularly or occasionally; whereas only two of the eight agencies surveyed in Lethbridge and none of the agencies surveyed in Medicine Hat used this form of advertising. The advertising manager of The Lethbridge Herald indicated that the limited use of display ads in his newspaper was partly because of its limited circulation, partly because of the high cost of this form of newspaper advertising and partly because of the small scale operations of real estate agencies in Lethbridge as compared to Calgary.⁷¹

Lot Signs

As shown in Table 11 lot signs are a popular form of advertising. Almost all of the real estate agencies used lot signs. As indicated from the survey, lot signs produced approximately 30 per cent of their total sales. Real estate agents suggested that per dollar spent, lot signs were their most effective form of advertising.

Other Methods of Advertising

It was revealed from the survey that souvenirs, brochures, calendars and personal or form letters were used mainly for institutional advertising. One agency, for example, experimented with sending special

⁷¹Personal interview with R. F. Miles, Advertising Manager, The Lethbridge Herald, Lethbridge, June 17, 1971.

occasion cards to former clients, hopefully to create favorable word-of-mouth advertising and future business. The survey indicated that real estate agencies in Southern Alberta rarely used radio, television, magazine or billboard advertising. The principal reason given for the limited or non-use of these methods of advertising was their high cost.

Real Estate Pricing

The real estate agent must not only be skilled at promoting real estate, he must also be competent in pricing real estate.

The seller lists a property with an agent. This price will be in excess of, below, or the same as the appraised value of the property suggested by the real estate agent. As indicated in the survey, an agent may refuse to sell a property if it is excessively priced by the seller. He may encourage a customer to increase his selling price if he is asking less than its appraised value. The survey disclosed three main bases for determining the single family residential property valuation: valuation based on current construction cost, valuation based on current market value, and valuation by the gross multiplier method.

A valuation based on current construction cost generally sets the upper limit of appraised value. Prospective buyers will not usually pay more for a property than it will cost them to build an equally desirable property, providing they are familiar with market conditions. The survey revealed that the market approach was the most frequently used method for determining value because of the ease with which it could be developed and explained to buyers and sellers. The real estate agents using the gross rental multiplier method are generally estimating value

for selling purposes for clients. However, even though it is unlikely that the property is rented or will be rented in the near future, the agent needs to arrive at an estimate of the gross monthly rental for the property in order to arrive at an appraised value by the multiplier method. A gross rental multiplier varies depending upon the type of property and the location of that property. The multiplier can be calculated by determining the ratio between selling prices and gross rental of properties comparable to the one being valued. This ratio is then multiplied by the estimated gross rental of the subject property to produce an estimate of value.

Multiple family residential property is appraised by the income capitalization method and by cost. The income capitalization method bases the value on the present value of a stream of income the property is assumed to be able to earn over a period of ownership. The cost approach is based on current construction cost and this value generally sets the upper limit of appraised value.

As indicated by the survey many factors affect the value of residential real estate. For single family residential properties the main factors, in the judgement of the real estate agents, affecting value were nearness to good schools and playgrounds, visual aspects and topographical features of the property, and quality of and convenience to service establishments.

For multiple family residential properties the main factors affecting value according to the survey were convenience to public transportation, quality of and convenience to service establishments, availability and quality of services, visual aspects and topographical features of the property and nearness to place of work.

Summary

The purpose of this chapter was to define the real estate agent, to outline the procedure required to become licensed as an agent or salesman and to examine the reasons for agents and salesmen becoming members of the board. Some of the characteristics of the real estate agency were examined with special attention given to the agency functions of personal selling, advertising and pricing.

In Alberta, an individual must be provincially licensed as an agent or salesman before he can deal in real estate. According to the secretary-treasurer of the Alberta Real Estate Association, Alberta licensing laws need revision. Most real estate agents found it to their advantage to become members of the real estate board after receiving their provincial license. Membership in the board gave the agent and the salesman the right of finding buyers for listings placed with the board by other agents.

Agency practices were similar in Calgary, Lethbridge and Medicine Hat. The real estate agency was usually formed as a corporate organization, employing from 3 to 11 salesmen and its principal function was that of acting for clients in the sale of residential property. The agent entered a contract to list a client's property at a price specified by the client. There were three types of listing contracts executed in Southern Alberta: exclusive, open and multiple listings. The commission rate on multiple listing sales in the three cities was 7 per cent. The commission rate on an exclusive listing was 6 per cent in Calgary and Lethbridge and 5 per cent in Medicine Hat. The open listing commission rate was 5 per cent in Medicine Hat, 6 per cent in Lethbridge and the rate varied by firm in Calgary from 5 to 6 per cent.

Promotional practices were similar in the 3 cities according to the survey. Personal selling was the number one ingredient in the promotional budget. The two main sources of new listings were former customers and newspapers. Advertising is a paid form of non-personal communication by an identified sponsor. There were two main types of advertising used by real estate agencies: institutional advertising and property advertising. The latter type accounted for approximately 80 per cent of the advertising budget. The main media used in advertising were the classified ad section of the daily newspaper and lot signs. Television, radio and magazines were seldom used as advertising media by real estate agents.

Pricing practices were similar in the 3 cities. The selling price of a listed property was established by the seller after consultation with the real estate agent. The agent was guided in his valuation of the property by the real estate appraisal. He relied on the market approach in his valuation of a single family residential property and mainly on the capitalization of income approach in his valuation of a multiple family residential property.

CHAPTER IV

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

The purpose of this thesis was to analyze and describe some of the factors that affect the marketing of residential real estate in Southern Alberta.

This was a descriptive study that used both primary and secondary data. Secondary sources formed the main basis for the analysis in Chapter II of economic, demographic and political factors affecting residential real estate in Southern Alberta. The analysis of the real estate agency in Chapter III was compiled mainly from primary sources of data. In this study of the real estate agency the population consisted of agents or managers of real estate firms in the cities of Calgary, Lethbridge and Medicine Hat. The method for drawing the sample was the quota sample. This nonprobability sampling technique was used to discover information on the real estate agency relevant to real estate practices in the three cities. Twenty-five per cent of the real estate agents or real estate managers of real estate agencies in each of the three cities were personally interviewed between January and April 1971. That is, 52 agencies were selected to be interviewed from a list containing the names of 208 real estate agencies in Calgary. A total of 8 agencies were chosen from a list of 30 real estate agencies in Lethbridge, and 5 agencies were chosen from a list of 18 real estate establishments in

Medicine Hat. The data were collected by means of a personal interview questionnaire. Both the secondary and primary data that formed the basis of this report were analyzed and interpreted and the following conclusions were drawn after a thorough analysis of this assembled data.

Conclusions

The initial premise on which Chapter II is built is that economic, demographic and political factors affect residential real estate in Southern Alberta. The following conclusions may be drawn from this premise:

1. Population and household formations are factors that affect the need for residential real estate. Calgary, Lethbridge and Medicine Hat are experiencing substantial population increases. This increasing population is bringing about new household formations and is affecting positively the demand for housing of all types in Southern Alberta.
2. Disposable income is a factor affecting the demand for residential real estate. The more disposable income an individual has the more likely he is to become a homeowner. Since 1961 disposable income per capita has been increasing. This increasing income is contributing to the expansion of the demand for residential real estate in Southern Alberta.
3. Construction cost is an economic factor affecting the demand for residential real estate. Construction cost has steadily increased since 1961. This increasing construction cost is affecting negatively the demand for residential real estate in Southern Alberta.

4. Mortgage financing is a factor affecting residential real estate in Southern Alberta. Mortgage interest rates have steadily increased since 1961. This has had a negative influence on the demand for residential real estate. For low income groups the increase in disposable income has not kept pace with increasing construction cost and mortgage debt charges. As a consequence the low income consumer has had to consider low cost housing or rental accommodation. On the other hand, the extension of the amortization period has had a positive effect on the demand for residential real estate. This extension of the term over which the loan has to be repaid lowers the monthly mortgage payments, therefore making home ownership more possible, although increasing the long term cost of ownership. The increase in the loan to value ratio generally has a positive effect on the demand for residential real estate in that the consumer now requires fewer initial dollars to become a homeowner; however, the lower the down payment the higher the debt charges on the mortgage and the greater the financial burden on the mortgage holders.
5. Political factors affect the demand for residential real estate. The crown corporation, the Central Mortgage and Housing Corporation, is the largest lender of residential mortgage financing in Canada; therefore CMHC through its powers under the National Housing Act influences the demand for residential real estate.

The objective of Chapter III was to examine the characteristics of the real estate agency in the cities of Calgary, Lethbridge and

Medicine Hat, the primary institution involved in the negotiation and transfer of residential real estate in Southern Alberta. This examination indicates that:

1. The corporation was the most common type of organization.
2. Real estate agencies were generally small in size and employed fewer than ten salesmen.
3. The principal function of real estate agents involved the selling of residential real estate and this activity accounted for 70 to 100 per cent of total revenues.
4. The principal contract dealt with by agencies was the multiple listing. Other contracts used by agencies were the open and exclusive listings. Commission rates were identical for multiple listing contracts in the three cities (7 per cent) and varied by no more than 1 per cent on open and exclusive listings.
5. Personal selling was the most important tool of promotion used by real estate agents.
6. Salesmen received a 50 to 60 per cent split of the commission on all types of listings depending on the policy of the particular agency.
7. On the average, property advertising accounted for approximately 80 per cent of an agent's promotional budget. Classified ads and lot signs were the main media used in advertising and these two forms of advertising accounted for approximately 70 per cent of an agent's sales volume.
8. Agents and salesmen relied on the market approach in arriving at their valuation of a property for sale and on the income

capitalization approach in pricing multiple family residential property.

9. The main factors affecting the value of single family residential real estate were nearness to grade schools and playgrounds, visual aspects and topographical features of the property, and quality of and convenience to service establishments.

Recommendations

Licensing laws in Alberta need revision. A more rigorous system of licensing real estate agents and salesmen is needed in order to establish barriers to applicants who lack either the experience, education and/or financial resources to be an asset to the industry. More specifically it is suggested that:

- a) The agent's bond be increased from \$5,000 to \$10,000. Two recent cases of embezzlement by real estate agents in Southern Alberta indicate a need for an increase in the bond to protect the consumer.
- b) The candidates for agent be required to satisfy the provincial government as to their knowledge of the principles and practices of real estate, including a sound understanding of real estate law, appraisal, finance and office management. To accomplish this, the provincial examinations must be comprehensive enough in scope in order that the provincial examiner may confidently assess the applicant's understanding of the above.
- c) Future provincial salesmen examinations be made more comprehensive in scope and that licensing requirements be more rigidly

enforced. The existing salesmen's examination is an inadequate device for assessing an individual's knowledge of real estate principles and practices.

In summary, the study has attempted to explain and identify some of the factors affecting the marketing of residential real estate in Southern Alberta and to specifically examine some of the characteristics of the real estate agency. There is a need for additional research in this area of study in Southern Alberta. The additional research, combined with this study, may provide real estate businessmen with a better knowledge of their industry so that they can employ their marketing strategies more effectively.

APPENDIX A

QUESTIONNAIRE

A This survey is being conducted to discover information relative to the marketing of residential real estate. The data will be kept in strictest confidence.

1. This card (hand respondent Card A) lists various functions that agencies normally perform involving residential property. Approximately what percentage of your agency's time is devoted to each of the following:

- | | |
|--|-------|
| 01 Sale of single family residential real estate | _____ |
| 02 Sale of multiple residential real estate | _____ |
| 03 Single family residential property management | _____ |
| 04 Multiple family residential property management | _____ |
| 05 Transaction of residential mortgages | _____ |
| 06 The appraisal of real estate | _____ |
| 07 Rental of residential property | _____ |

2. This card (hand respondent Card B) lists residential real property services normally performed by an agency. Approximately what percentage of your revenue is generated from each activity?

- | | |
|---|-------|
| 01 Single family residential sales | _____ |
| 02 Multiple family residential sales | _____ |
| 03 Single family residential management | _____ |
| 04 Multiple family residential management | _____ |
| 05 Residential construction | _____ |
| 06 Appraisal of real estate | _____ |
| 07 Rental of residential property | _____ |

3. How many salesmen are employed by your agency?

- | | | | |
|----------|-------|---------------------|-------|
| 01 One | _____ | 07 Seven | _____ |
| 02 Two | _____ | 08 Eight | _____ |
| 03 Three | _____ | 09 Nine | _____ |
| 04 Four | _____ | 10 Ten | _____ |
| 05 Five | _____ | 11 Eleven | _____ |
| 06 Six | _____ | 12 More than eleven | _____ |

4. What educational qualifications are required of prospective salesmen?

- | | |
|--|-------|
| 01 Matriculation or diploma | _____ |
| 02 One or two years of college or university | _____ |
| 03 University graduate | _____ |

5. What types of contracts of employment are used in real estate sales?

- 01 Open listing _____
- 02 Exclusive listing _____
- 03 Multiple listing _____
- 04 Net listing _____

6. What percentage commission does the agency receive on the following type of listings?

- 01 Open listing _____
- 02 Exclusive listing _____
- 03 Multiple listing _____
- 04 Net listing _____

7. What percentage of the agency's percentage commission does the salesman receive on the following type of listings?

- 01 Open listing _____
- 02 Exclusive listings _____
- 03 Multiple listing _____
- 04 Net listing _____

8. What portion (percentage) of your total operating expenses go toward the following?

- 01 Advertising _____
- 02 Personal selling _____
- 03 Sales promotion _____

9. What approximate median average salary per annum is earned by the salesmen in your agency? _____

10. This card (hand respondent Card C) lists various methods used by real estate salesmen to find new prospects. Using a four point rating scale, please tell me how important each of the following methods are to your agency in finding prospects.

	Use Regularly 1	Use Occasionally 2	Might Use 3	Probably Would Never Use 4
Former customers				
Newspapers				
Tenants				
Club membership contacts				
The open-house				
Door-to-door canvassing				
Other personal contacts				
Other sources (please specify)				

11. What percentage of your advertising budget is placed on the following types of advertising?

- 01 Institutional (promoting the firm) advertising _____
- 02 Specific property advertising _____

12. This card (hand respondent Card D) lists the methods used by many agencies in advertising. What methods does your agency use to reach prospective customers?

<u>Type of Advertising</u>	<u>Regularly</u>	<u>Occasionally</u>	<u>Never</u>
01 Classified ads	_____	_____	_____
02 Display newspaper ads	_____	_____	_____
03 Personal letters	_____	_____	_____
04 Form letters	_____	_____	_____
05 Brochures	_____	_____	_____
06 Lot signs	_____	_____	_____
07 Television	_____	_____	_____
08 Radio	_____	_____	_____
09 Souvenirs and gifts	_____	_____	_____
10 Billboards	_____	_____	_____
11 Magazines	_____	_____	_____
12 Others (please specify)	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

13. How effective were newspaper and lot sign advertising in producing sales for your agency? That is, approximately what per cent of your total annual residential sales volume can be attributed to these forms of advertising?

- 01 Newspapers _____
- 02 Lot signs _____

14. What method(s) does your agency use in pricing residential real estate? Use a check mark (✓) for the appropriate method(s) used in pricing single family residential property and an (x) mark for the method(s) used in pricing multiple residential property.

- 01 Valuation based on current construction cost _____
- 02 Valuation based on current market value _____
- 03 Valuation based on capitalization of property income _____
- 04 Other (please specify) _____
- _____
- _____
- _____

15. This card (hand respondent Card E) lists the various factors that affect the value of residential real estate. Using a four point rating scale, please tell me how important each of the following is in affecting the value placed on this type of real estate. Use a check mark (✓) to indicate your rating of the factor(s) listed below that appear most appropriate to single family residential property and use an (x) mark for your rating of multiple family residential property.

	Most Important Factor on Value	Frequently Affects Value	Sometimes Affects Value	Seldom or Never Affects Value
	(1)	(2)	(3)	(4)
01 Nearness to good schools and playgrounds	_____	_____	_____	_____
02 Nearness to churches	_____	_____	_____	_____
03 Social class or occupation of neighbors	_____	_____	_____	_____
04 Prestige in terms of social standing	_____	_____	_____	_____
05 Quality of and convenience to stores and service establishments	_____	_____	_____	_____
06 Availability and quality of services	_____	_____	_____	_____
07 Convenience to public transportation	_____	_____	_____	_____
08 Street patterns and width of streets	_____	_____	_____	_____
09 Family sizes and age groups	_____	_____	_____	_____
10 Property taxes	_____	_____	_____	_____
11 Visual aspects and topographical features of property	_____	_____	_____	_____
12 Nearness to place of work	_____	_____	_____	_____

16. NAME OF YOUR AGENCY _____

ADDRESS _____

TELEPHONE NUMBER _____

DATE _____

COMMENTS _____

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