



Bringing More Competition to Real Estate Brokerage

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the Residential Real Estate
Brokerage Industry



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Objectives

- Provide industry overview
- State problem and analyze key issues
- Propose reforms
- Present conclusion

Industry Overview

- Revenues roughly doubled since 1990, to \$60b in 2004
- Commissions may have dropped from 6.1% to 5.1% from 1991 to 2004
 - Averages don't address distribution
 - Sampling may not be representative

Problem Statement

- Is current structure of real estate brokerage efficient?
- If not, are there public policies that can help?
- If so, what policies might be appropriate?

Is the Industry Efficient?

- Realtors point to competition among agents
 - True, but this competition can be wasteful
- Critics point to:
 - Entry barriers (MLS)
 - Predominance of traditional model
 - Absence of innovation and consumer choice

Theory and Evidence

- Empirical work and theory are inconclusive
- Good news
 - Some theory justifies current structure
 - Paying % may be a good motivator when effort is unobservable
 - Some empirical studies show commissions are sensitive to local factors

Theory and Evidence: Bad News

- The traditional fee “split” may help brokers but not consumers
- Oversupply of agents in higher priced areas is consistent with lack of price competition
- Not clear that substantially more resources needed to sell high-priced homes

Theory and Evidence: More Bad News

- Evidence from other countries
 - Lower average commissions
 - More home sales per agent
- Boycotting and blacklisting of discounters and innovators
 - Hard to measure empirically but anecdotes
 - History of antitrust suits

Potential Gains in Efficiency: Other Industries

- Large unrealized gains in efficiency
 - Stockbrokers used to be \$1 per share
 - Travel agents around 10%
 - Deregulation and Internet changed things

Potential Gains in Efficiency: New RE Models

- Full service Internet: ZipRealty
 - Lower overhead allows lower fees
- A la carte: Help-U-Sell, FSBO.com
 - Consumers choose services they want and pay accordingly
- Network/referral models: LendingTree
 - Agents compete for referrals, consumer saves via rebate
- Banks

Key Issues

- MLS
- State Regulations
- Banks

Issue: MLS

- Platform enhances efficiency by bringing together buyers and sellers
- But MLS rules for joining and operating may erect competitive barriers:
 - Membership: are network models “sufficiently engaged” in real estate to join?
 - Opt-out rules can be used to hurt certain members, create paper-Internet discrepancy
 - Responses to possible NAR arguments

Issue: State-Level Regulations

- Economists agree on price and entry regulations: bad for economic welfare/consumers
 - Anti-rebate laws: over 10 states restrict ability to compete on price, with no justification
 - Minimum service requirements: restrict range of services available, in the name of “consumer protection”

Issue: Should Banks Be Allowed to Compete?



- Gramm-Leach-Bliley (1999) allows
- Congress prevents
- We support with appropriate safeguards

Policy Solutions

- DOJ is right to look into NAR's MLS rules
- Repeal state level price and entry regulations
- Congress should allow banks to compete with appropriate safeguards

Conclusion

- Better data would help
- Cooperating competitors need oversight
- No economic justification for price or entry regulation
- Judicious government policy could help bring real estate brokerage into the 21st Century



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