

# The US Residential Real Estate Brokerage Industry's Resistance to Commission Rate Competition with some Speculating on the Future of the Industry

A \$70 Billion Dollar Industry  
A Powerful NAR RPAC

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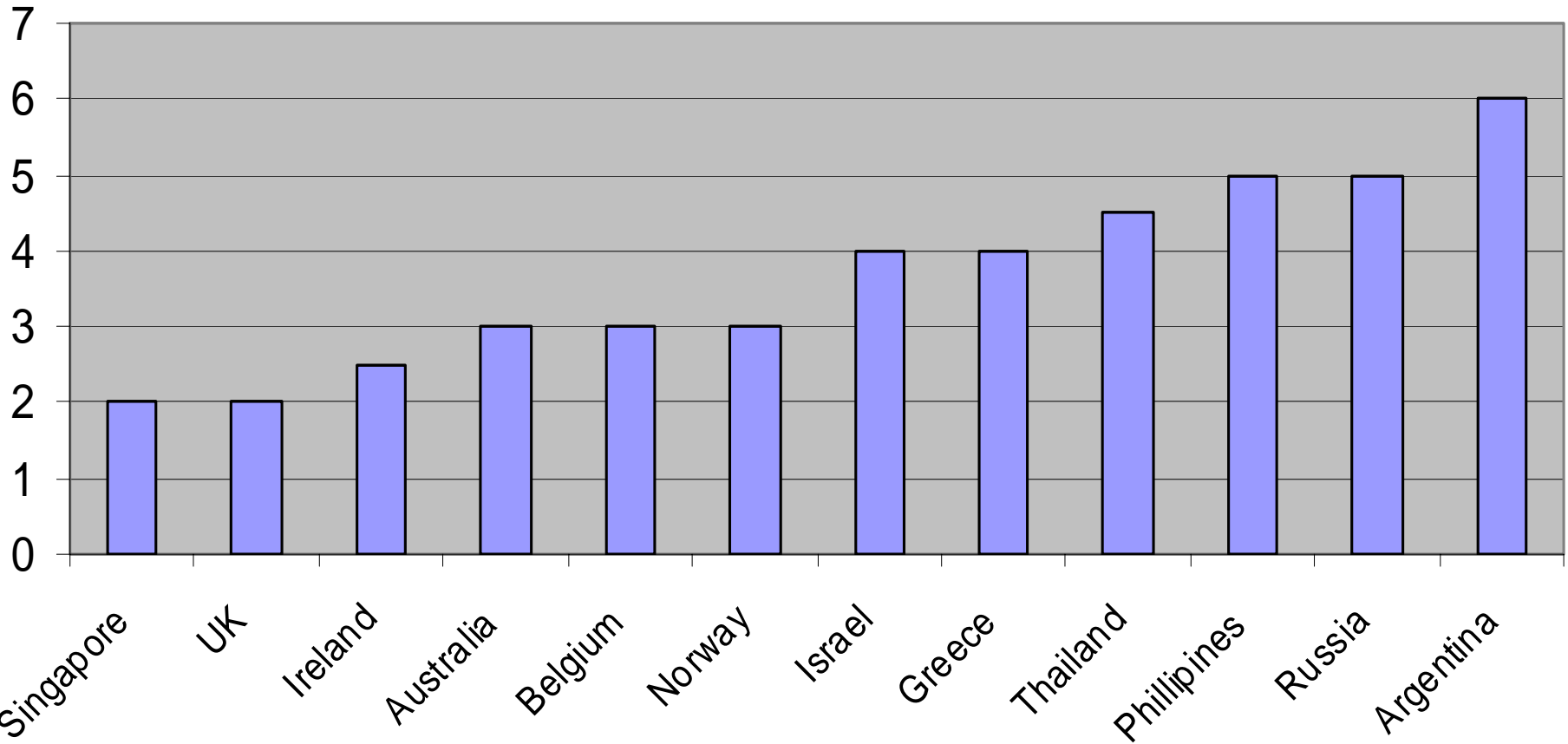
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# Fees Around the World Vary

- Generally the more industrialized and efficient the economy the lower the fees as a percentage of price.
- One would have expected that the internet has reduced search costs and would have made the industry more efficient.
- Stock broker and travel agency fees have plummeted but these are industries without an interdependency among agents that results in resistance to price competition.

# % Brokerage Fees Vary

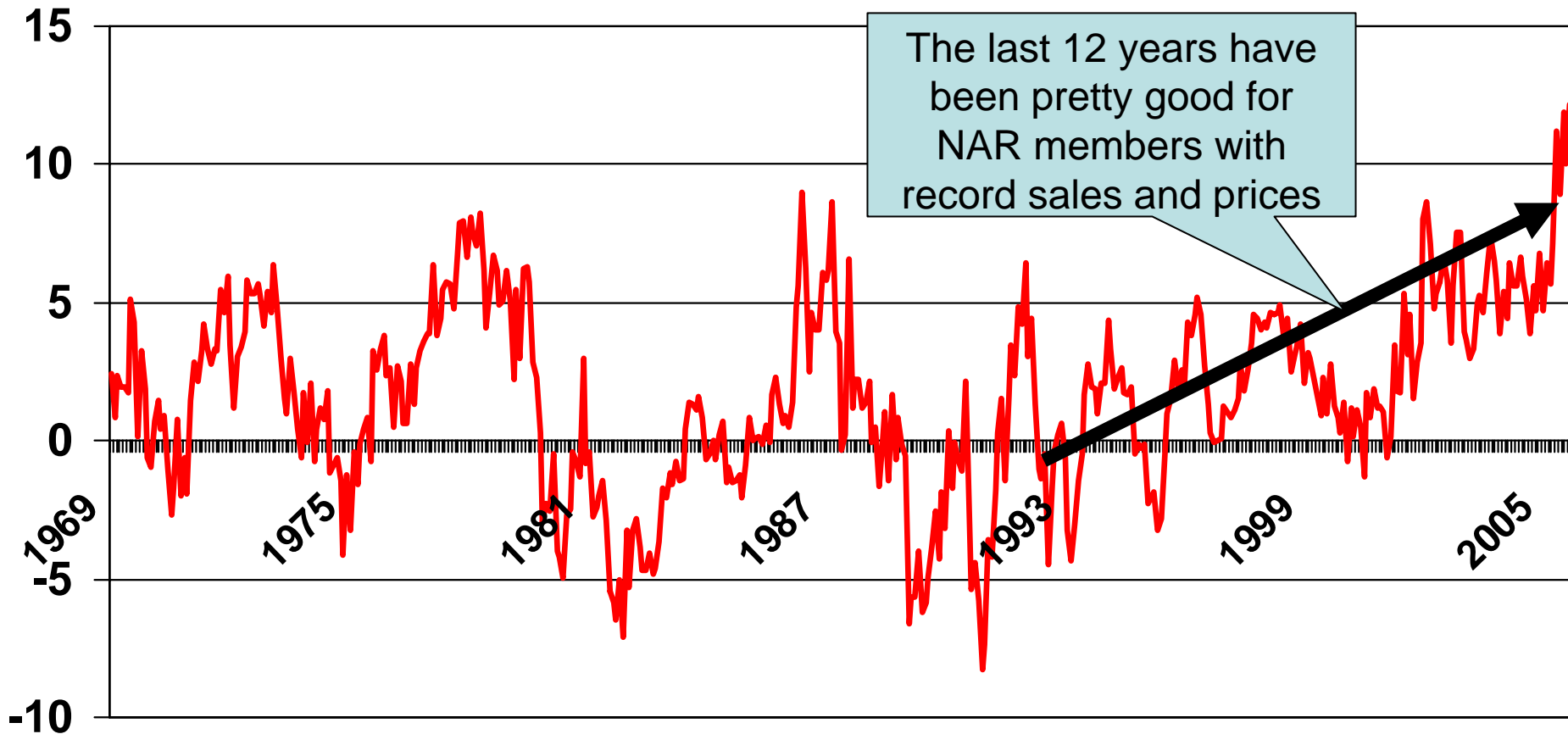


# Proof of a lack of Fee Competition

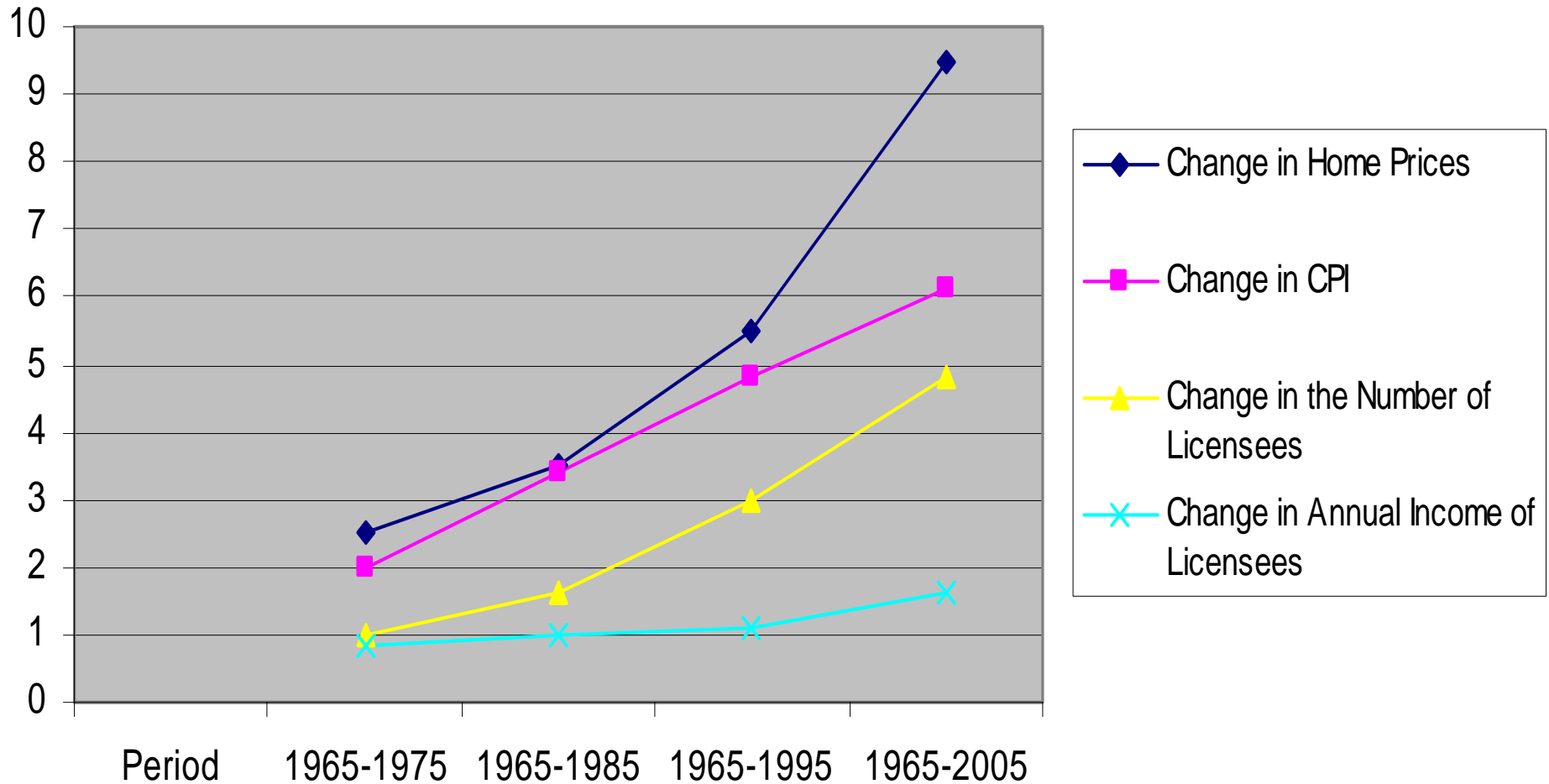
- When homes appreciate faster than inflation the 'real' price of brokerage services increases, effectively increasing brokerage costs to consumers for the same "full" service as before.
- If home prices or sales rates decline we might expect the reverse.
- In those markets with faster appreciation we should see lower fees over time.
- We should also see lower fees for higher priced homes and higher fees for lower priced homes.

We should see fees going up and down if this NAR chart is correct. (Source: L. Yun NAR)

— Home price growth minus CPI inflation



# Higher Home Prices Primarily Bring in More Agents Who Split Up the Pie



# Stylized Facts About the Industry

- Becoming a licensed agent is relatively easy
- Once you have a license you force all your relatives and friend to list with you when they sell.
- The industry is fraught with marginal part timers who barely know what they are doing except how to search the MLS and drive a car, fill out a form and show up at a closing to get their check.
- At the same time the industry has a low profit margins for Brokers who must pay out significant splits to the top agents. (viewed as a cost by some studies)

# Stylized Facts About the Industry

- Top professional competent agents work hard
- Top agents tend to specialize in “listing” rather than selling
- Yet the average agent works only 28 hours per week
- The average earnings were \$30,930 in 2002 (\$22/hr) and probably around \$25/hr in 2005.
- The average # Sales Per year Per Agent in the USA < 7
- In the past four years NAR membership had soared from 770,000 to 1.1 Million, an increase of 43% far faster than inflation and increases in business costs (brokers may count split cost as a cost which is circular reasoning)
- Note: If you count commission splits as fixed cost then brokers could say their costs have increased faster than the CPI. (Zumpano).



# What is full service?

- Pricing the home fairly based on market comps
- List the property and enter into the MLS.
- Advertise and promote the property via colleagues and media.
- Open houses (sometimes)
- Attend showings (sometimes)
- Negotiate the contract.
- Eliminate contingencies and assist with pre-closing issues.
- Attend the closing (sometimes)

# What do sellers really need?

- Pricing the home based on market comps (available on-line or via new AVMs or self research at property tax auditor's web site)
- List the property and **enter into the MLS.**
- **Advertise** the property.
- Open houses (sometimes)
- Attend showings (sometimes)
- **Negotiate the contract.**
- **Eliminate contingencies** and assist with pre-closing issues.
- Attend the closing (sometimes)

# What do most sellers and buyers really need?

## Sellers

- Access to the MLS
- Some need negotiating assistance
- Some need other services, i.e., advice on fixing up the property.

## Buyers

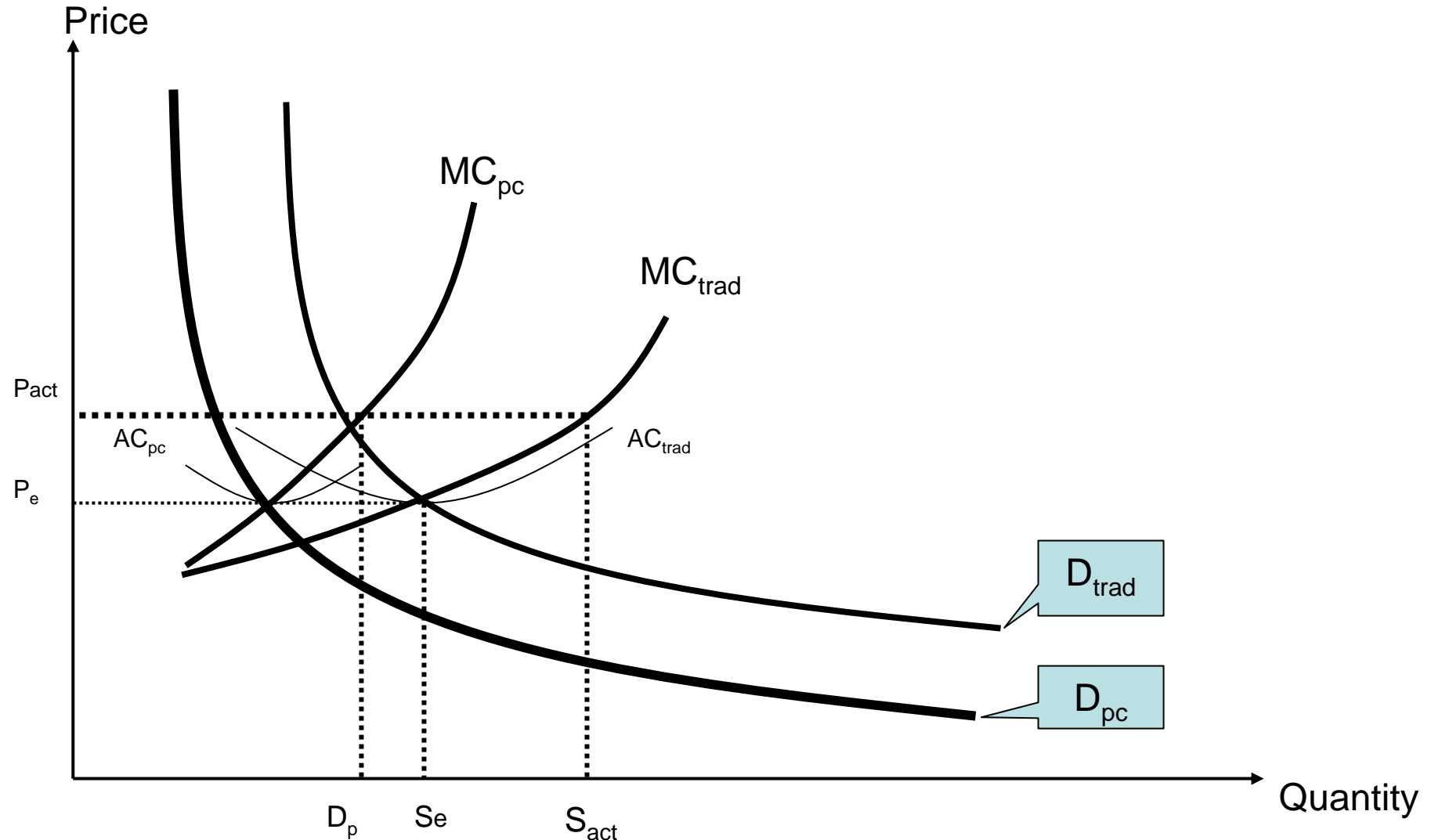
- Access to the MLS
- A chauffer
- Market advice on fair prices and values
- Negotiating assistance
- Closing details (inspections) and possibly financing assistance.

**It is interesting to note that some agents will tell buyers that sellers are paying the commission and sellers that buyers are paying the commission and many believe it is the other party while economically we know the burden is on both.**

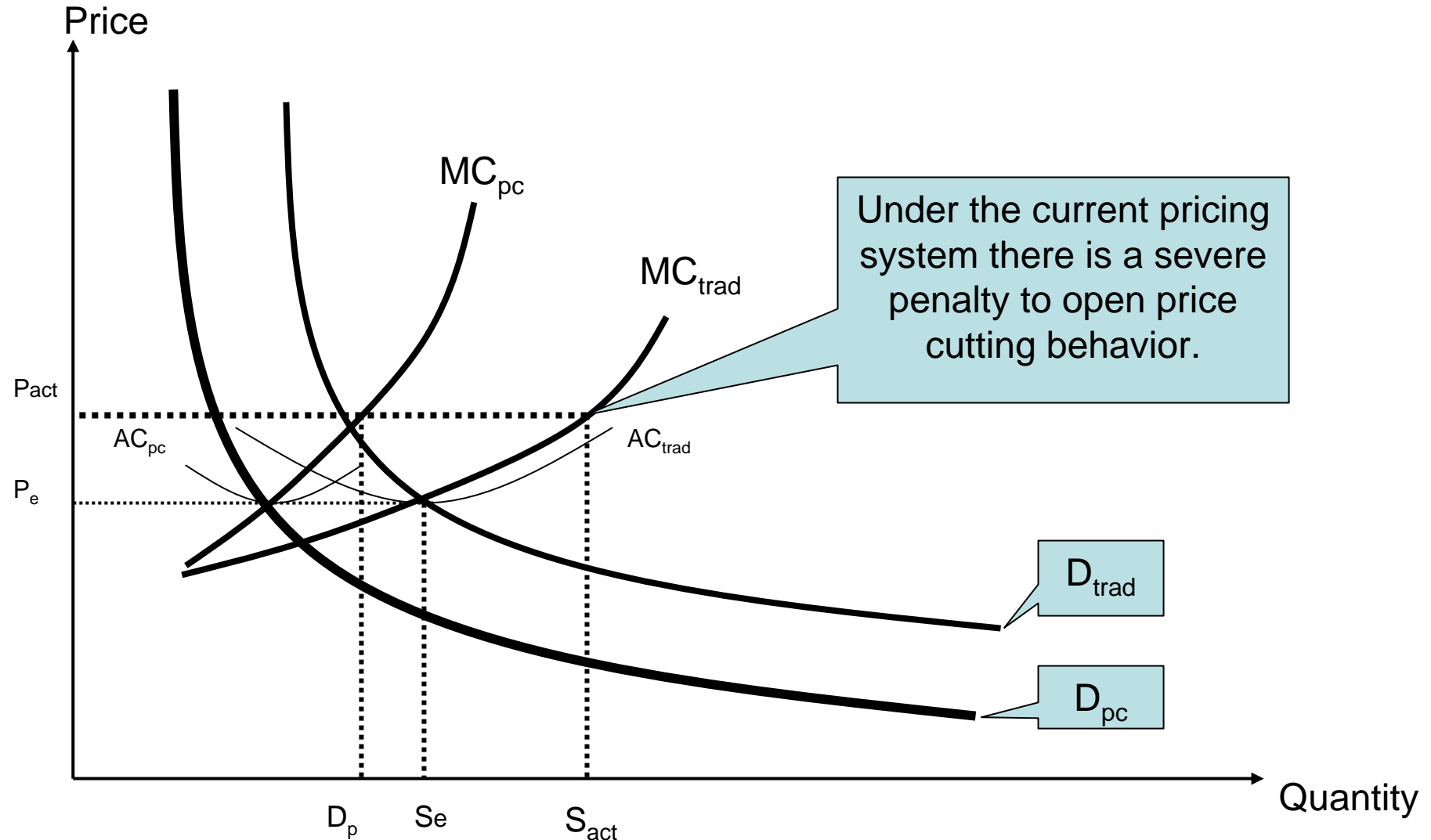
# The claim of higher prices.

- There is no academic evidence using scientific method that has shown agents secure higher prices for sellers than FSBOs, yet there is some evidence that agents do achieve higher selling prices when selling their own homes (FSBO).
- There is little evidence about Time on the Market (TOM) differences and this is hard to compare. Some FSBOs are lucky, but most end up listing the property after a rather short time period on the market. (Many panic after a month or less)

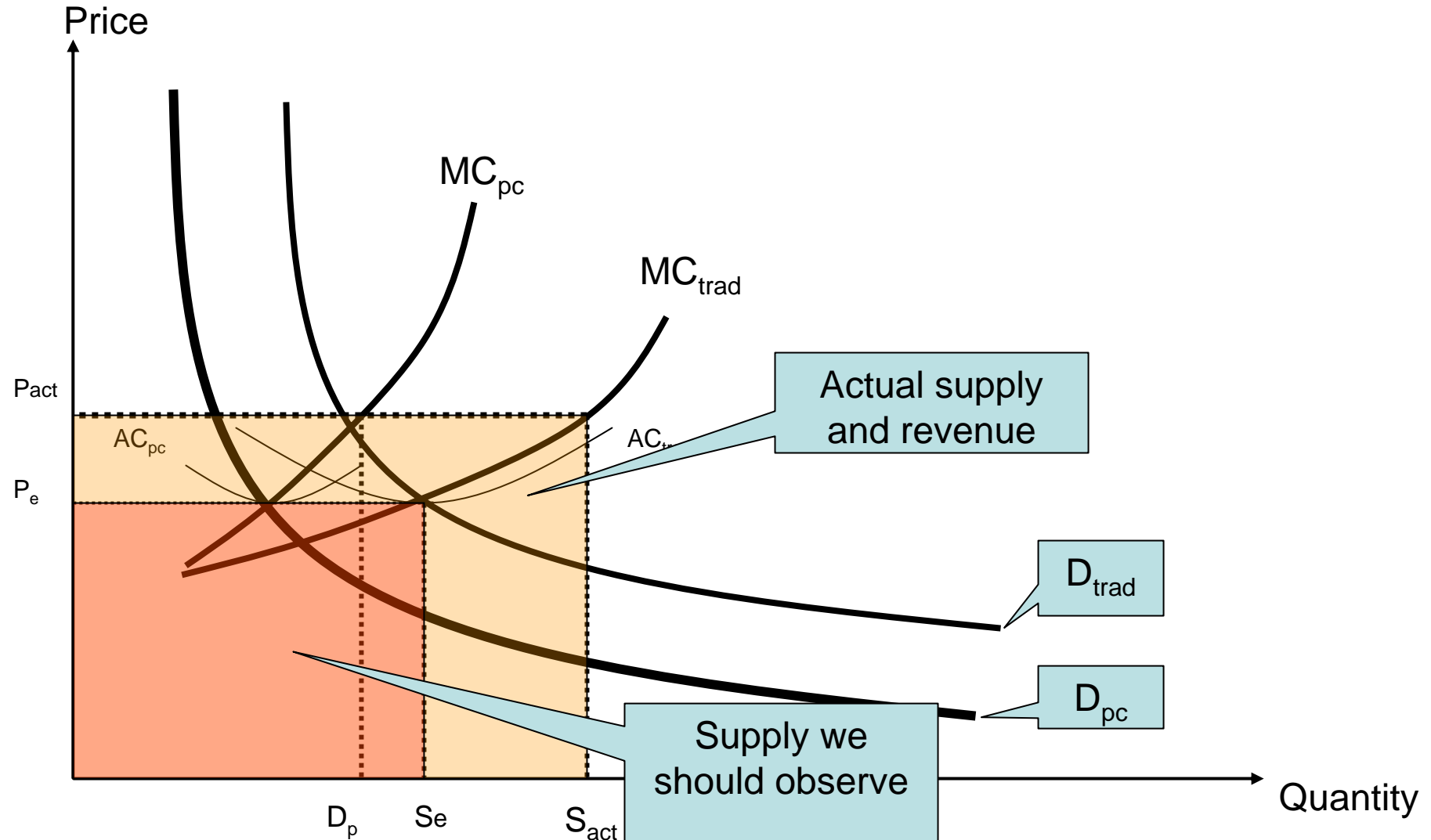
# Demand and Supply of Brokerage Services Under Traditional US System



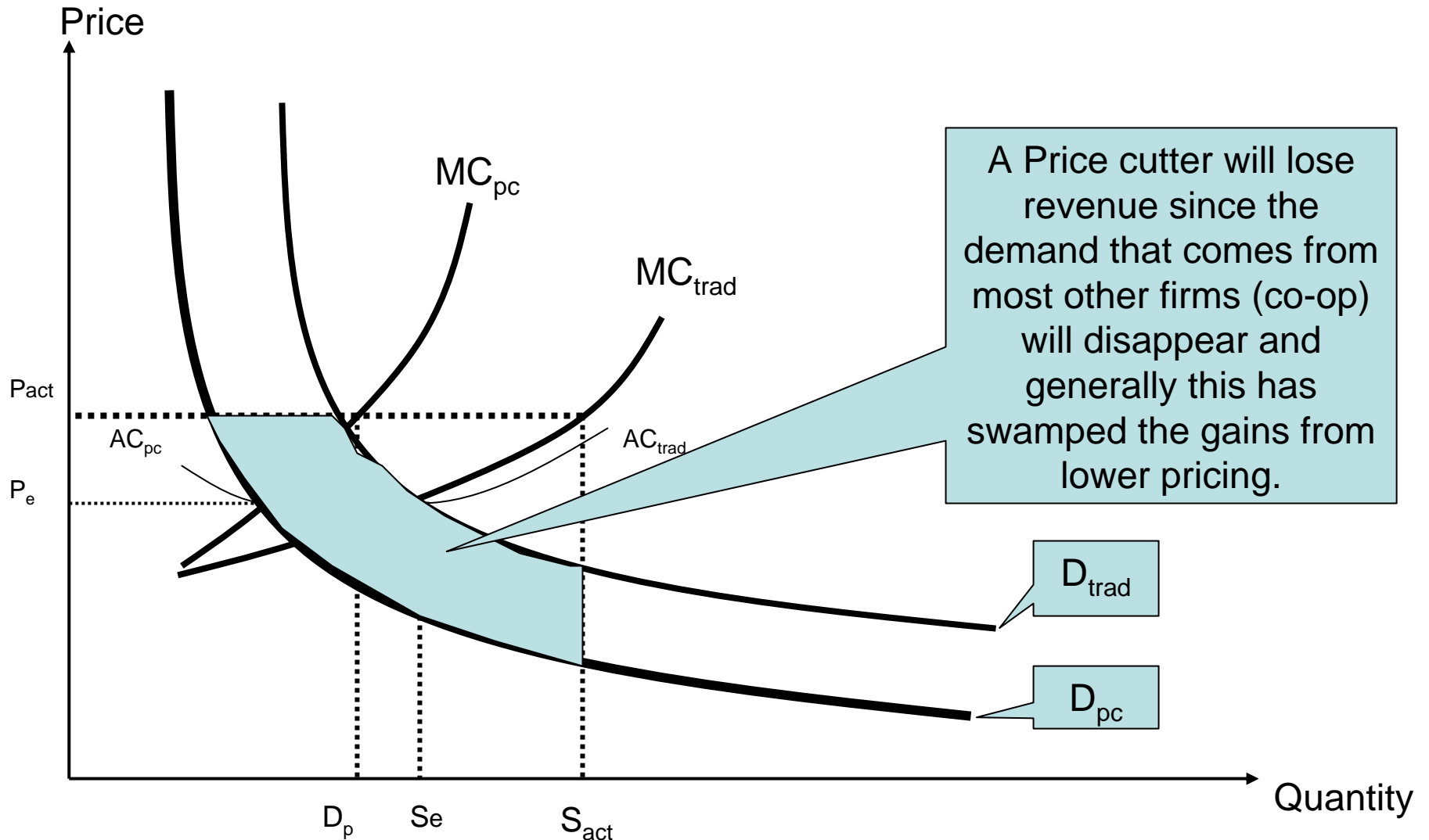
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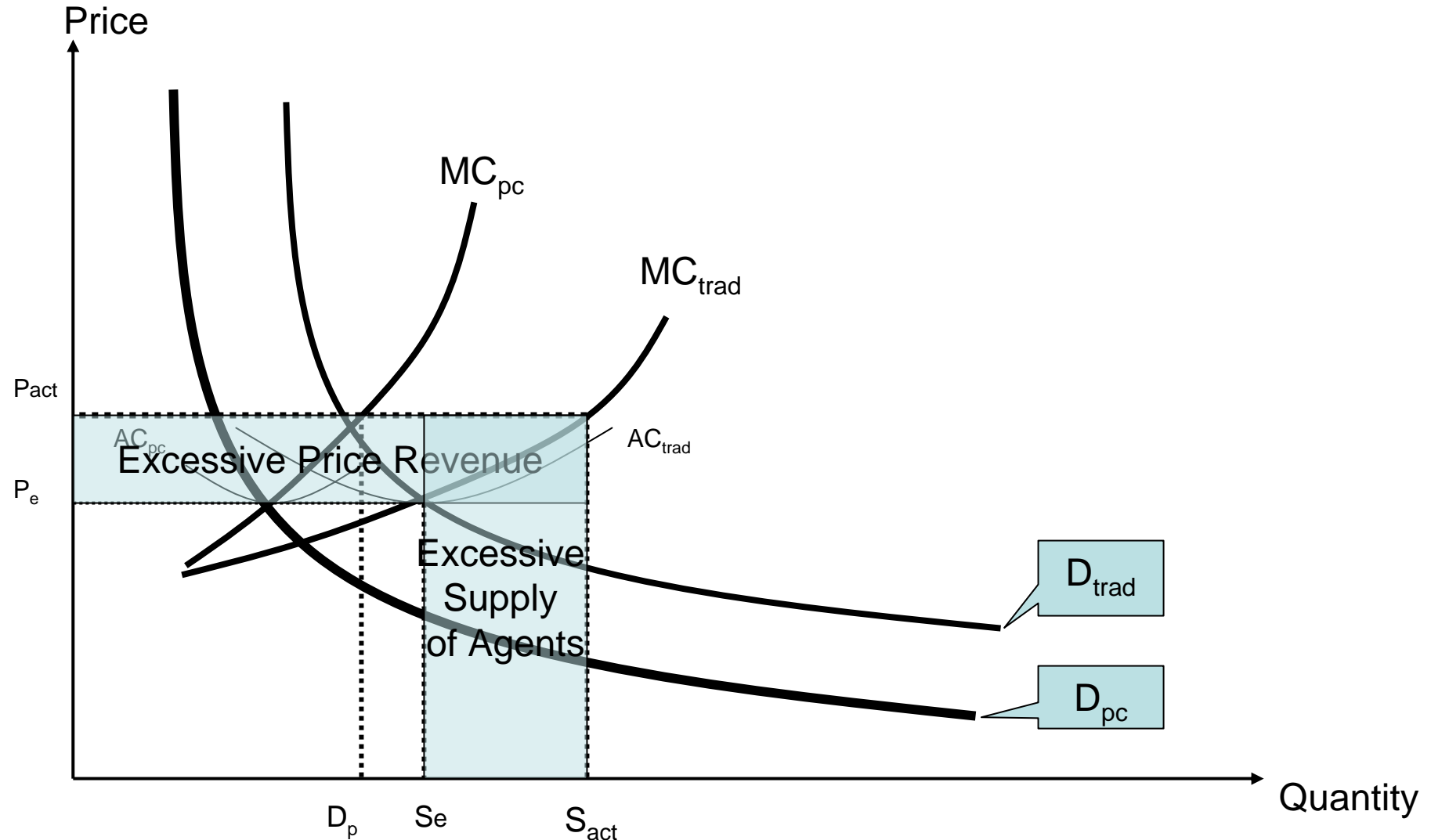


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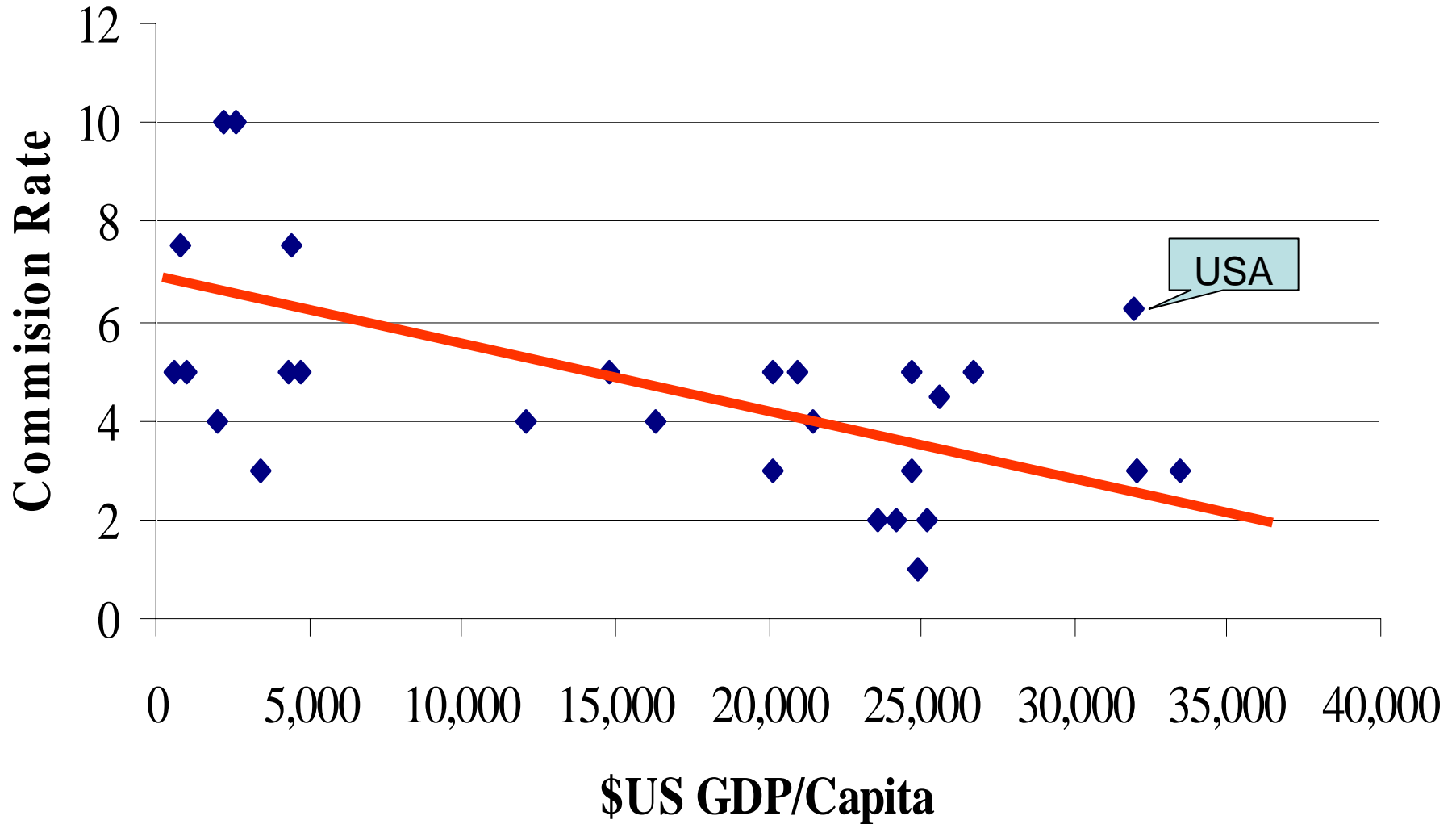




# Demand and Supply of Brokerage Services Under Traditional US System



# Mode Commission Rates Vs. Per Capita GDP



# Rational Fee Variations Around the Globe

- Australia 5% on first \$18,000 then 2.5%
- UK 1-2% in fast sale areas, 2-3% in normal markets, and 3.5% in lower priced markets
- Malaysia 3% on first \$100,000 then 2% on the excess
- Finland: Commission rates decrease with home price range

# Attempts at Changing Fees

- “Home Seller’s Centers” tried in the late 1970’s slightly less than full service for 4 to 5% fees.
- “Homes That Click” tried in the mid 1990’s for about 2% plus a 3% co-op fee if needed.
- ZipRealty has the longest record of success but the least discount.
- FSBO.com
- ForSaleByOwners.com
- Feesreduced.com
- HelpUsell.com
- And others that merely got you into the MLS
- FSBO success remains low, just under 20% but this is higher than 25 years ago when it was 14%.

# States that Prohibit Rebates

- Kansas
- Alaska
- Mississippi
- Oregon
- Oklahoma
- Iowa
- Louisiana
- New Hampshire
- New Jersey
- South Carolina
- Missouri
- Rhode Island
- West Virginia
- New York
- Kentucky
- Tennessee

# 'Minimum Service' Requirement States

- Missouri
- Texas
- Illinois
- Oklahoma
- Iowa
- Utah
- Florida
- Alabama

Consumer Protection Gone Amuck!

# MLS Systems that are no longer public access to all listings

- Cincinnati
- Others?

# When will fee competition take hold?

- It is starting, mostly in the form of rebates and kick backs where allowed. I.e. Preferred corporate or membership rates get 1% back from a 6% commission (where legal).
- This helps deter the otherwise significant avoidance of “discount” brokers.
- More discounters have started in the last several years offering less than full service. (where legal)



# What will it take to trigger price competition?

- A slow down in the market, a transition period when many marginal agents will drop out and brokerage firms will not make much money without bold new strategies.
- Top agents have no incentive to charge lower fees, only new agents trying to build up their business and such agents rely more on friends and relatives (where unofficial rebates may occur)
- A major traditional firm breaking into offering a new menu of services for lower fees or simply lowering the fee charged to list property for sale (even though the costs are likely higher to sell the property in a weaker market).

# Other unlikely triggers to encourage fee competition

- Treating the MLS like a monopoly and developing a national government sponsored system with submarkets that agents were forced to utilize. (Unfair to brokers?)
- Forcing MLS systems to allow FSBO access. (unfair to brokers unless FSBOs pay fees for system development costs?)