

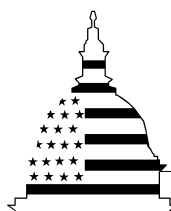
GAO

Report to the Committee on Financial
Services, House of Representatives

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REAL ESTATE BROKERAGE

Factors That May Affect Price Competition



G A O

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Highlights of [GAO-05-947](#), a report to the Committee on Financial Services, House of Representatives

Why GAO Did This Study

Consumers paid an estimated \$61 billion in residential real estate brokerage fees in 2004. Because commission rates have remained relatively uniform—regardless of market conditions, home prices, or the effort required to sell a home—some economists have questioned the extent of price competition in the residential real estate brokerage industry. Further, while the Internet offers time and cost savings to the process of searching for homes, Internet-oriented brokerage firms account for only a small share of the brokerage market. Finally, there has been ongoing debate about the potential competitive effects of bank involvement in real estate brokerage.

GAO was asked to discuss (1) factors affecting price competition in the residential real estate brokerage industry, (2) the status of the use of the Internet in residential real estate brokerage and potential barriers to its increased use, and (3) the effect on competition and consumers of residential real estate brokerage by state-chartered banks in states that permit this practice.

www.gao.gov/cgi-bin/getrpt?GAO-05-947.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or woodd@gao.gov.

REAL ESTATE BROKERAGE

Factors That May Affect Price Competition

What GAO Found

The residential real estate brokerage industry has competitive attributes, but its competition appears to be based more on nonprice variables—such as quality, reputation, or level of service—than on brokerage fees, according to a review of the academic literature and interviews with industry analysts and participants. One potential cause of the industry's apparent lack of price variation is the use of multiple listing services (MLS), which facilitates cooperation among brokers in a way that can benefit consumers but may also discourage participating brokers from deviating from conventional commission rates. For instance, an MLS listing gives brokers information on the commission that will be paid to the broker who brings the buyer to that property. This practice potentially creates a disincentive for home sellers or their brokers to offer less than the prevailing rate, since buyers' brokers may show high-commission properties first. Some state laws and regulations may also affect price competition, such as those prohibiting brokers from giving clients rebates on commissions. Although such laws and regulations can protect consumers, the Department of Justice and the Federal Trade Commission have argued that they may also unnecessarily limit competition and reduce consumers' choices.

The Internet has changed the way consumers look for real estate and has facilitated the creation and expansion of alternatives to traditional brokers. A variety of Web sites allows consumers to access property information that once was available only by contacting brokers directly. The Internet also has fostered the growth of nontraditional residential real estate brokerage models, including discount brokers and broker referral services. However, industry participants and analysts cited several obstacles to more widespread use of the Internet in real estate transactions, including restrictions on listing information on Web sites, some traditional brokers' resistance to cooperating with nontraditional firms, and certain state laws and regulations.

Although about 30 states potentially authorize state-chartered banks or their operating subsidiaries to engage in some form of residential real estate brokerage, few banks in these states appear to have done so. GAO's contacts with seven banks engaged in brokerage in two states found that they were located in small communities with few other brokerage options, and that their brokerage services did not differ significantly from those of other local real estate brokers. In general, because residential real estate brokerage by state-chartered banks appears to be so limited, its effect on competition and consumers has likely been minimal.

from competing with one another on price; resistance from traditional full-service brokers to brokers who offer discounted prices or limited services; limited pressure from consumers for lower prices; and state antirebate and minimum service laws and regulations, which some argue may limit pricing and service options for consumers.

Real Estate Brokerage Is Characterized More by Nonprice Competition Than Price Competition

The real estate brokerage industry has a number of attributes that economists normally associate with active price competition. Most notably, the industry has a large number of brokerage firms and individual licensed brokers and agents—approximately 98,000 active firms and 1.9 million active brokers and agents in 2004, according to the Association of Real Estate License Law Officials.⁸ Although some local markets are dominated by 1 or a few large firms, market share in most localities is divided among many small firms, according to industry analysts. In addition, the industry has no significant barriers to entry, since obtaining a license to engage in real estate brokerage is relatively easy and the capital requirements are relatively small.

While real estate brokerage has competitive attributes, with a large number of players competing for a limited number of home listings, much of the academic literature and some industry participants we interviewed described this competition as being based more on *nonprice* variables,

⁸The Association of Real Estate Law License Officials is a membership organization comprised of governmental agencies that regulate real estate activities and license brokers and agents. According to association officials, its members include regulators from 48 states as well as U.S. territories and other countries. The association compiles data on the number of real estate brokers, agents, and firms from state licensing agencies.

The Internet Allows Consumers More Direct Access to Information

The Internet allows consumers direct access to listing information that has traditionally been available only from brokers. Before the Internet was widely used to advertise and display property listings, MLS data (which comprise a vast majority of all listings) were compiled in an “MLS book” that contained information on the properties listed for sale with MLS-member brokers in a given area. In order to view the listings, buyers generally had to use a broker, who provided copies of listings that met the buyer’s requirements via hard copy or fax. Today, information on properties for sale—either listed on an MLS or independently, such as for-sale-by-owner properties—is routinely posted on Web sites, often with multiple photographs or virtual tours. For example, NAR’s Realtor.com Web site features more than 2 million properties listed with MLSs around the country, and most brokers also maintain their own Web sites with information on properties for sale in their area. Buyers may also search for non-MLS listed properties on the Web sites of companies that help owners market their properties themselves. Thus, the Internet has allowed buyers to perform much of the search and evaluation process independently, before contacting a broker.³⁹

Sellers of properties can also benefit from the Internet because it can give their listings more exposure to buyers. For example, according to NAR, Realtor.com—which provides information on approximately 95 percent of all homes listed with MLSs around the country—had 6.2 million unique visitors in February 2005. Sellers who choose to sell their homes without the assistance of a broker can advertise their properties on a multitude of “for-sale-by-owner” Web sites. Sellers may also use the Internet to research suitable asking prices for their homes by comparing the attributes of their houses with others listed in their area.

³⁹Before the Internet, a buyer could still learn about properties without a broker—for example, through newspaper advertisements or by driving past a property to view it. However, the Internet can provide consumers with far more extensive information, including, in some cases, complete details on the property from the MLS as well as photographs or a virtual tour.

