



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.