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REAL ESTATE BROKERAGE

Various Factors May Affect Price Competition

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Highlights

Highlights of GAO-06-1005T, a testimony before the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Consumers paid an estimated $65.7 billion in residential real estate brokerage fees in 2005. Observing that 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. Furthermore, 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. This has raised concerns about potential barriers to greater use of the Internet in real estate brokerage.

In this testimony, which is based on a report issued in August 2005, GAO discusses (1) factors affecting price competition in the residential real estate brokerage industry and (2) the status of the use of the Internet in residential real estate brokerage and potential barriers to its increased use.

www.gao.gov/cgi-bin/getrpt?GAO-06-1005T.

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.

What GAO Found

The residential real estate brokerage industry has competitive attributes, but its competition appears to be based more on nonprice factors, such as reputation or level of service, than on brokerage fees, according to a review of the academic literature and interviews with industry analysts and participants. Although comprehensive data on brokerage fees are lacking, past analyses and anecdotal information suggest that commission rates have persisted in the same range over long periods, regardless of local market conditions, housing prices, or the cost or the effort required to sell a home. One potential cause of limited price variation in the industry 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. In addition, some state laws and regulations may also affect price competition, such as those prohibiting brokers from giving clients rebates on commissions and those requiring brokers to provide consumers with a minimum level of service. Although such provisions can protect consumers, the Department of Justice and the Federal Trade Commission have argued that they may prevent price competition or reduce consumers' choice of brokerage services.

The Internet has changed the way consumers look for real estate and has facilitated the growth 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 potential 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 that prohibit or restrict commission rebates to consumers.