

# Real Estate Brokerage Industry: Structure-Conduct-Performance

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# Consumer Choice

- For-Sale-By-Owner
- Discount brokerage
- “Traditional” brokerage
- Internet browsing free of charge

# Perfectly Competitive Industry?

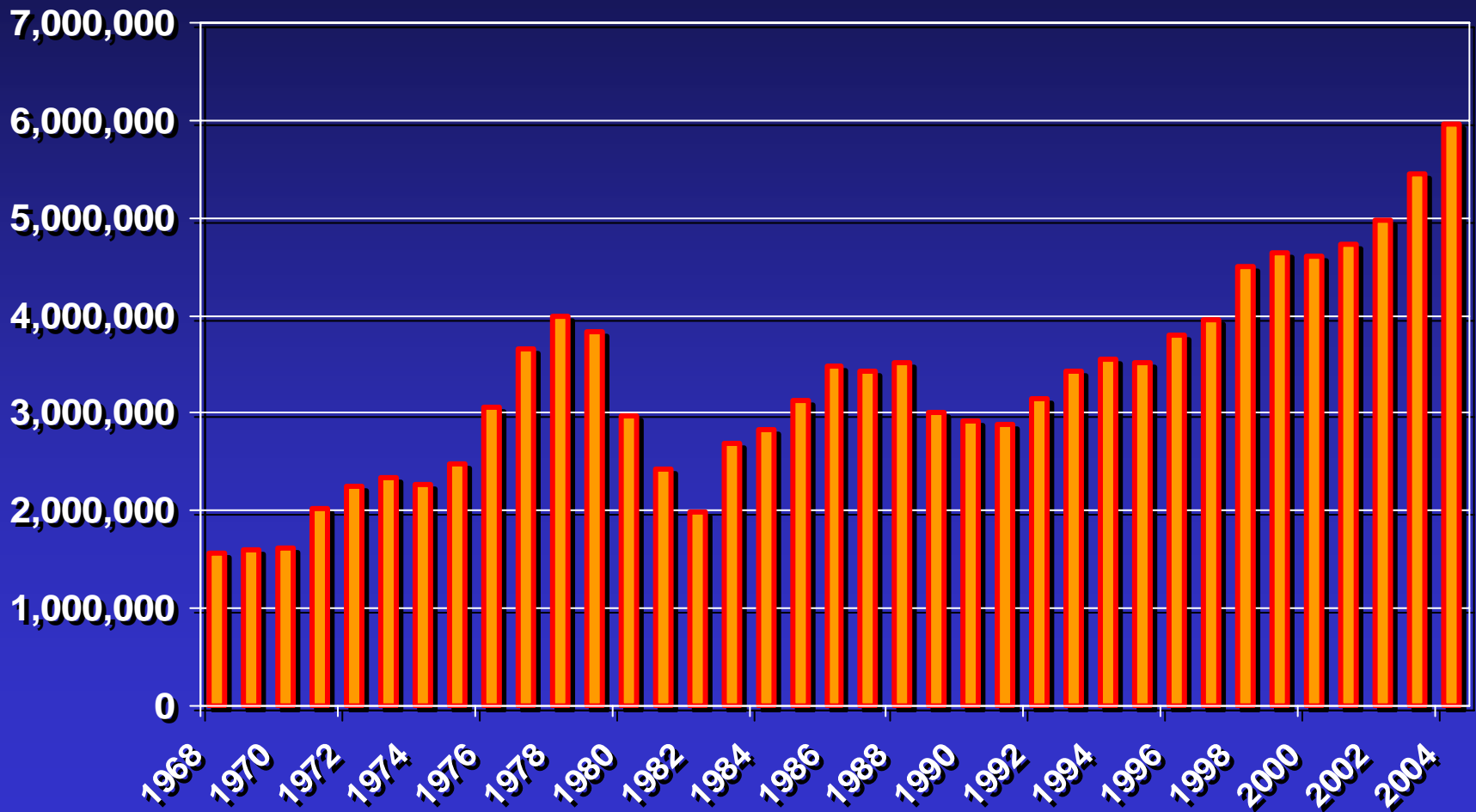
- Many service providers
  - 1.25 million REALTOR® members
  - 2.53 million real estate licensees
  - 98,000 active firms, 236,000 local offices
  - 1 million for-sale-by-owner sales
- Low barriers to entry and exit into the profession
  - 253,167 became new Realtor members, while 127,877 dropped Realtor membership in 2004
- Widely accessible information
  - Web browsing, newspaper, yellow pages, mailings

# Past Cycles

- Recession in 1980s
  - Home sales declined by 50% from 1979 to 1983
  - REALTOR membership declined by 18% from 1981 to 1983
- Recession in 1990s
  - Home sales declined by 14% from 1988 to 1991
  - Membership declined by 12% from 1990 to 1995
- Recession in 2001 and 2002 – Different
  - 45-year low mortgage rates
  - Record home sales
  - Strong price increases
  - Record membership

# Existing-Home Sales

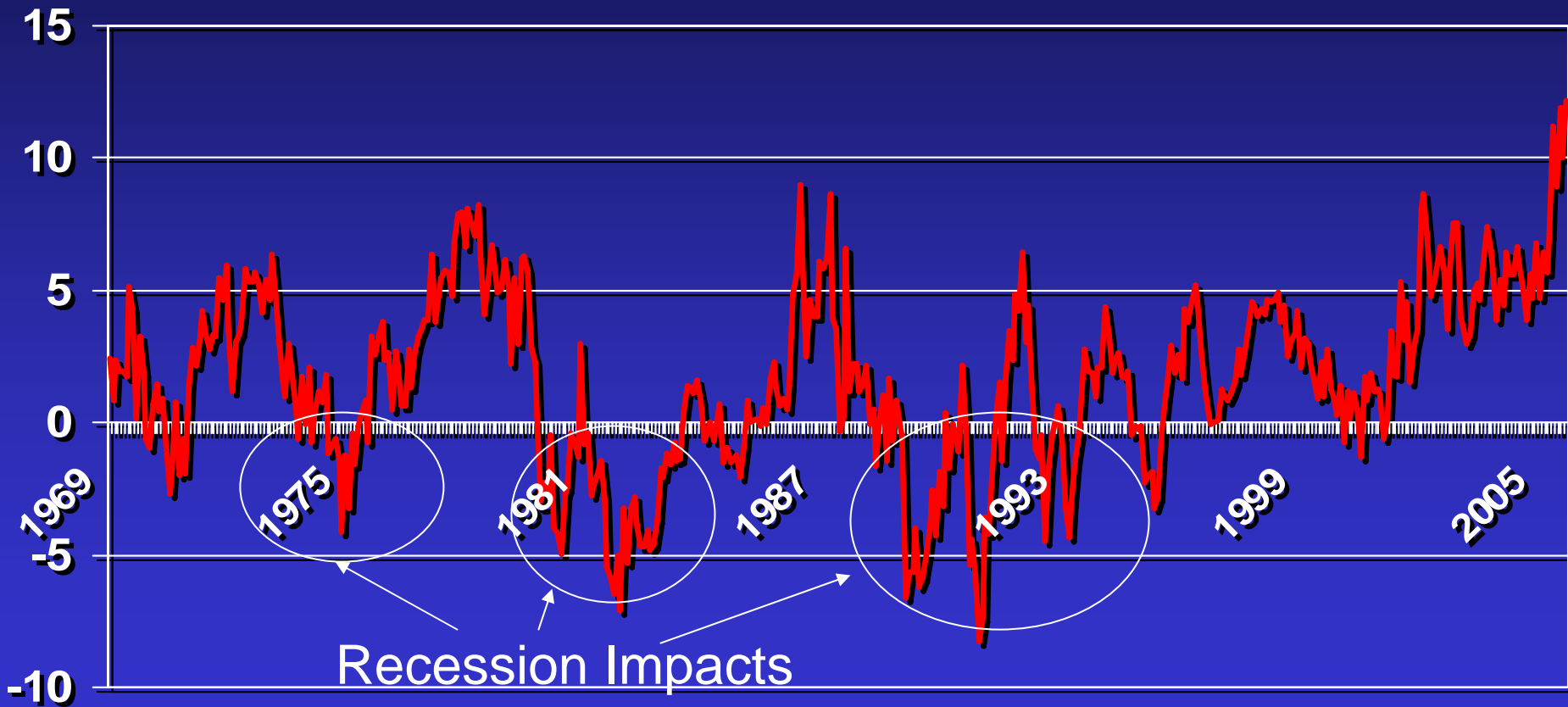
■ Total existing single-family home sales



Source: NAR

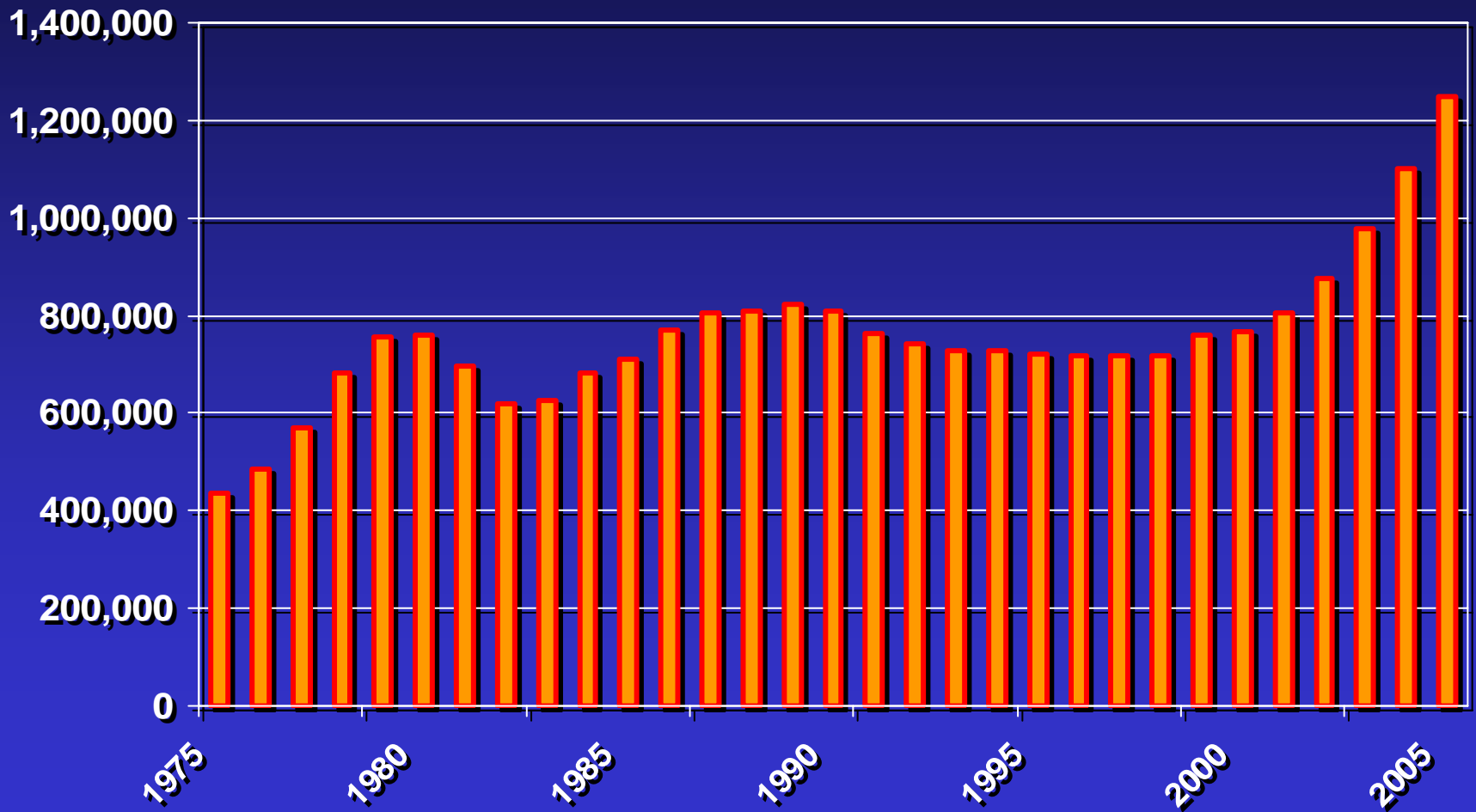
# Real Home Price Growth

— Home price growth minus CPI inflation



# NAR Membership

members



Source: NAR

# Concentration Ratio

- Top 10 firms had 9.1% market share
- Top 20 firms had 10.9%
- Top 100 ... 17.0%
- Top 500 ... 26.6%
  
- Competition for clients
- Competition for agents

Source: Real Trends, 2004



# Market Flexibility

Sales Force	1983	1990	1996	1999
1 to 5	51	55	51	60
6 -10	23	23	18	17
11 - 20	13	13	14	11
21 - 50	6	9	9	8
50 +	3	4	4	4

- 2004: 96% of office had 10 or fewer agents
- Constant economies of scale
  - Zumpano (2002)
  - Stigler Survivor Test

# How can small firms survive?

- MLS access puts everyone on equal footing
- Agents are independent contractors
- Person-to-person and case-by-case service requiring the highest level trust
  - Legal advice
  - Estate planning advice
  - Tax advice

# Perfectly Competitive Outcome?

- Median REALTOR Income
  - \$52,000 in 2002
  - \$49,300 in 2004, working 45 hours per week
  - Is \$52,000 or \$49,300 excessive or normal income?
- Falling commission rates with more members
  - 5.5% in 1998 to 5.1% in 2003 (REAL Trends)
  - Xyz% in 2005
    - Free moving truck
    - Closing cost assistance
    - Commission rebates

# Desirable Performance Measures

- Economic mobility (proxied by home sales) – one of the most dynamic in the world
- Historical experience of seeking a government bailout – none – bad times were self-correcting through exits
- Taxpayer risk – none
- Social promotion of entrepreneurship and self-reliance – yes
- Social promotion of women entrepreneurs – yes
- Flexible work hours – yes
- Work stoppage through labor strike – none
- Data mining to price discriminate - none
- Subject to international regulatory jurisdiction - none

# Multiple Listing Service

- Purpose of MLS
  - Facilitate home sales transaction
  - Available to all REALTOR members
  - \$500 million investment to show homes 24/7 on Realtor.com
  - Not set up to solicit clients at the expense of existing brokers/agents
- Public Utility? Consider to incentives to
  - Stadium vendors
  - Shopping mall vendors
  - Pharmaceutical retail

# When In Doubt, Trust ...

- Market outcomes wrought from free entry and exit
- Market not subjected to “Profits in the Long Run”
  - Robin Marris and Dennis Mueller’s managerial theories of the firm
- Private ownership (of MLS)
- Democratic process (for consumer protection)