

# A Staff Report to the Federal Trade Commission

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## Consumers' Experiences with Real Estate Brokers.

### A Report on the Consumer Survey of the Federal Trade Commission's Residential Real Estate Brokerage Investigation

by  
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*The Commission has not adopted the report in whole or in part. Hence, all statements and conclusions contained herein are solely those of the author.*



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## I. Introduction

As a part of a larger investigation of the real estate brokerage industry, staff of the Federal Trade Commission in 1979 designed a survey of homebuyers and homesellers to learn about their experiences with real estate brokers when buying and selling their homes. This survey was undertaken for the following reasons: first, the residential real estate brokerage industry is large by any standard, with annual brokerage fees near \$10 billion in recent years. Second, the existing data on real estate brokerage is very sparse. Such basic facts as the level of brokerage commission rates, the proportion of homes that are sold using a broker, and the percentage of homes sold using a cooperating brokerage firm have received very little attention. The only other nationwide study of brokerage rates of which we are aware is a study by Michael Carney <sup>1/</sup>, also sponsored by the Federal Trade Commission. Third, the apparent uniformity of brokerage commission rates in local markets has led observers to question whether they are competitively determined. The data gathered in a survey could be useful in analyzing how commission rates are in fact determined.

The FTC consumer survey was conducted by National Family Opinion and consisted of two stages. The first stage identified by mail a sample of consumers who had recently bought or sold a home and obtained limited information concerning the type of home bought or sold, the use of real estate agents in the transaction, and the brokerage commission rates. In the second stage a smaller number of buyers and sellers who bought or sold a home through a broker were given more extensive telephone interviews concerning their perceptions, experiences and satisfaction with the entire process of buying or selling a house.

Some highlights of the survey are the following:

1. Approximately 80-82% of the buyers and sellers of previously occupied single-family houses in the screener sample reported that the seller used a broker to sell the home. If these figures are representative of nationwide experience, they indicate that nearly 20% of previously occupied single-family houses sold in 1979 were sold by owner, a considerably higher figure than is sometimes conjectured.

2. Of the sellers of single-family homes who reported brokerage fees in response to the screener survey, 96.3% paid fees that were calculated as a percentage of the sales price of the house.

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<sup>1/</sup> This work is reported in Carney, Michael T., "Real Estate Brokerage Commission Rates: Price Fixing in Home Brokerage," unpublished Ph.D. dissertation, University of California at Los Angeles, 1981.

3. Of those sellers of single-family houses who reported commission rates stated as a percentage of the sales price of the house, 52.8% reported paying a commission of 6%, 32.8% reported paying a commission of 7%, and 9.4% reported paying a commission of 5%. Thus, the data confirm the belief that most commission rates nationwide are 6% or 7% of the sales price of the house. The dispersion in commission rates appears to be mostly due to the fact that different local markets have different prevailing rates, as opposed to the alternative that each local market has a wide range of commission rates.

4. Of those sellers who used brokers, 11.5% reported contacting a discount broker, and 2.3% sold through a discount broker. In addition, 15.2% of the sellers reported that they received gifts or reductions in the commission worth \$100 or more. Thus, 82.5% of the sales in total were subject neither to a discount rate to begin with nor a significant subsequent reduction.

5. Reductions in commission in the form of gifts or rebates worth \$100 or more were reported by 6.0% of the buyers.

6. Both buyers and sellers of homes were highly satisfied with the services they obtained from their brokers. On a scale of zero to ten, the most frequent rating given to brokers was a perfect 10, and the mean rating was 7.95. At least on the sellers side, part of this satisfaction can be attributed to the substantial capital gains nearly all sellers realized on the sale of their home.

7. In response to the sellers survey, 52.3-53.6% of the sellers reported that the buyer used a broker from a different firm than the seller's broker. Correspondingly, 50.9-52.4% of the buyers in the buyers survey reported that they used a broker from a different firm than the listing broker.

The remainder of this report is organized in the following sections: Section II describes the survey methods used. Section III reports on various tests made to check whether the samples used were representative of the entire population of homebuyers and homesellers in the United States. Section 4 describes the results of the first-stage (screener) survey. Section 5 describes the results of the sellers and buyers survey. The exact questions asked and a tabulation of the answers are provided in the appendices.

Since the questionnaires provided data on several hundred variables, it is not possible to present an exhaustive statistical analysis of the results of the surveys. Readers of this report who are interested in doing further statistical analysis of the survey data are invited to write to the Federal Trade Commission, Bureau of Economics, Washington, D.C., 20580 to obtain copies of the computer tapes containing the appropriate data.

## II. Survey Methodology

To obtain a sample of consumers to survey, the Federal Trade Commission contracted with a survey research firm, National Family Opinion, Inc. (NFO). At the time of the survey, NFO maintained nationwide consumer "panels" containing a total of approximately 130,000 households and an additional "pool" of approximately 100,000 households. Households are eligible for NFO's pool if members of the household agree to participate in consumer market research surveys on a recurring basis. The NFO panels are composed of households selected at periodic intervals from the pool.

NFO does not attempt to select the members of its panels and pool so as to provide a random sample of the United States population. In particular, the panels and pool include no military personnel on base and contain a disproportionately large number of family households. Indeed, even if the households asked to join the pool were randomly selected, the actual pool would not be a truly random sample because most consumers who are asked to join NFO's pool decline to do so.

However, NFO records demographic data for each member of its panels and pool, so it is possible to control for at least some of the major possible sources of sample selection bias. In particular, NFO selects the members of its panels (but not its pool) so as to be representative of the national population in regard to geographical location, resident metropolitan area population, age of homemaker, size of household, and household income. More specifically, NFO selects members of its panels in nine geographical regions of the continental United States in numbers proportional to the population of these regions according to the latest available census data. Within each region, the panel members are chosen to be representative of the population of that region in terms of the other four variables listed above.

Even with these potential controls, there still remains a bias of unknown magnitude in all survey results using the NFO panel or pool. The FTC survey was conducted using the NFO sample rather than a truly random sample for reasons of economy.

Using the NFO panels and pool, the survey consisted of two stages. In the first stage, a short "screener" questionnaire was used to identify a sample of panel and pool members who had recently bought or sold a home using a broker. In the second stage, these panel and pool members were interviewed by telephone concerning their experiences in selling or buying their home.

## A. Selection of the Screener Sample

The screener questionnaire, exhibited in Appendix A, was mailed on December 14, 1979 to a sample of 4200 NFO panel and pool members. Of the 4200 questionnaires mailed, 3470, or 82.6% were returned. The sample was selected according to a four-stage process. First, eligibility was restricted to those panel and pool members who had reported an address change in the four months prior to August 10, 1979 and who had previously agreed to be available for telephone interviews. Second, this "universe" was divided into two groups, according to whether the address changes were "major" or "minor" (a major address change was defined as a change in city or county), and members of each group were removed so as to make each group have the same demographic characteristics (in terms of the five variables listed above) as the original universe. Third, all households containing a real estate broker or salesman were eliminated. Fourth, as in step two, the new "universe" of households was again divided into two groups according to the type of address change, and further deletions were made for the purpose of giving each group the same demographic characteristics as the new universe. <sup>2/</sup>

## B. Selection of the Buyers and Sellers Samples

The sample of consumers who responded to the screener questionnaire was culled in three steps to select samples of homesellers and homebuyers for the final interviews. First, those respondents who had not used a broker to buy or sell a home in the previous twelve months were eliminated. Second, only a representative sample of the remaining homebuyers and homeseller were chosen to be telephoned. Third, attempts to interview these individuals were continued only until a quota of 350 buyers and 350 sellers was reached.

Tables 1, 2, and 3 below describe in more detail how the sample was winnowed down to the final interviews. Of the 3470 respondents who returned questionnaires 1414 consumers had neither bought nor sold a home in the past twelve months. Table 1 categorizes the remaining 2056 consumers according to their use of real estate brokers and their purchase or sale of a home. The 393 consumers who indicated that they did not use a broker to buy or sell a home were eliminated from the sample, as were the 114

<sup>2/</sup> This selection process raises a number of questions. First, the four-step procedure could just as well have been telescoped into two steps by combining steps 1 and 3 and then making only one correction for demographic balance. Second, it is not obvious that any correction for demographic balance should be made, because the population of "major movers" may well have different demographic characteristics than the population of "minor movers." Indeed, it would have been perfectly reasonable simply to have eliminated all real estate brokers and salesmen without making any adjustments for type of move or demographics.



consumers (see columns 5 and 6 of Table 1) who omitted answers to the questions concerning their use of real estate agents or made a variety of indeterminate responses, leaving 1549 consumers who were eligible to be interviewed.

Table 2 shows how the final sample of buyers was chosen from the pool of buyers who indicated on the screener questionnaire that they had used a broker. The first column of the table divides this pool of buyers into different groups according to whether they had sold a home in the twelve months prior to receiving the screener questionnaire and whether they had used a broker in that sale. The composition of the final sample of 349 buyers is exhibited in column 4. Column 2 shows the pool of buyers NFO used in choosing buyers for the final sample. It differs from the pool in column 1 in two respects: first, NFO inexplicably left out 28 buyers who bought a home through an agent but who sold a home themselves after hiring an agent; and second, NFO left out 27 buyers who used an agent to buy a home but who did not indicate clearly whether or not they had used an agent in selling a home. NFO then chose approximately 45% of each category of buyers shown in column 2 to be eligible for telephoning. Buyers in this pool were telephoned repeatedly (up to four times each) until the desired sample sizes (shown in column 4) were reached.

Since the numbers in column 4 are each almost exactly 30% of the corresponding values in column 2, it is clear that NFO intended to select buyers with different experiences in selling a home in proportion to the number of buyers in each category. However, due to the discrepancy between columns 1 and 2, two classes of buyers were not represented in the final pool. Fortunately, since the number of buyers omitted (55) was only 4.5% of the total pool of buyers (1226) any induced bias in the results of the survey is likely to be quite small.

Table 3 shows how the final sample of home sellers was chosen. Column 1 divides the total pool of sellers who used a broker into categories according to their experiences as a home buyer. Column 2 shows the pool of sellers used by NFO in selecting the final sample of sellers. It differs from column 1 in that it excludes 46 (4.7% of the pool of column 1) sellers who did not indicate clearly whether they used a broker in the purchase of a home. Approximately 56% of each category of sellers was selected for the telephone pool shown in column 3. These sellers were telephoned repeatedly until the quotas shown in column 4 were filled. As in the case of the buyers sample, the sellers sample is representative of the pool of sellers who used a broker except for the relatively small number of sellers who were omitted in going from column 1 to column 2.

### III. Representativeness of the Samples

Since there is no guarantee that the NFO survey samples are representative of the national population of homebuyers and homesellers, several checks were made using Bureau of Census data for 1979 from the Annual Housing Survey. In general, discrepancies between the demographic characteristics of the NFO samples and comparable census figures may be due to one or more of the following three reasons: (1) NFO did not have enough non-family households in its panels and pool to represent them adequately, (2) NFO's multi-stage sample selection process may have introduced biases in the demographic composition of the final samples, and (3) NFO did not have 1979 census data available at the time it determined the composition of its samples.

#### A. Geographical Distribution

The geographical distribution of the NFO samples was in line with the appropriate census data for the screener sample but not for the buyers and sellers samples. The breakdown of the screener sample into the four main census regions (Northeast, North Central, South, and West) differed by at most two percentage points from the figures given in the 1979 Annual Housing Survey for recent movers. However, the breakdown of the buyers sample differed substantially from the Annual Housing Survey data on recent movers who were homeowners. As shown in Table 4, the South was underrepresented by about 8 percentage points and the Northeast overrepresented by about 7 percentage points. The source of this discrepancy is somewhat of a mystery. It may have occurred in part because a greater proportion of movers in the South buy a home than in the Northeast. However, census figures show that an equally large percentage of movers in the North Central States buy homes, and this region is not underrepresented. Furthermore, if the proportion of movers who buy homes varies across regions, then one would expect this fact to show up in the responses to the screener questionnaire. However, the geographical distribution of those respondents to the screener questionnaire who bought houses is not significantly different from the geographical distribution of the entire screener sample, which consists of households who changed address.

The Census publications do not give demographic breakdowns for recent movers who owned their previous home, so it is not possible to make the same check on the geographical distribution of the sellers sample. However, it is reasonable to assume that the population of homesellers is fairly similar to the population of recent movers who own their own homes. (It would differ because buyers of their first home are not homesellers, and because some homesellers, such as widows, divorcees, and estate sellers, may not wish to buy a new home. Homesellers on average are older than homebuyers, and therefore more likely to have greater incomes and to have sold a house in a less rapidly growing area of the country.) In terms of geographical

distribution, it would seem that the sellers sample overestimates the Northeast and underestimates the South, but not by as much as the buyers sample, since more of the sales of homes in a rapidly growing area such as the South are new home sales, which are not included in the sellers survey.

#### B. Distribution by Metropolitan Area

The distribution of the buyers and sellers sample by population density is also somewhat at variance with the comparable census figures. The screener sample contains 26.7% of its members from non-metropolitan areas, a figure very close to the percentage of the national population living in non-metropolitan areas. However, the 1979 Annual Housing Survey indicates that 29.2% of households occupied by recent movers were in non-metropolitan areas, and 35.6% of owner-occupied households occupied by recent movers (the population comparable to the buyers sample) were from non-metropolitan areas. <sup>3/</sup> In contrast, only 19.5% of the buyers sample bought homes in non-metropolitan areas.

Although NFO balances its panels by Census region and by SMSA population, it does not assure that each city or metropolitan area is represented precisely in proportion to its population. Thus, some metropolitan areas were somewhat over- or under-represented in all three samples. For example, the New York City metropolitan area, with over 4% of the U.S. population, was sent only 1.5% of the screener questionnaires, whereas the Tampa, Florida metropolitan area, with .6% of the population, was sent 1.3% of the questionnaires. However, these examples are the most extreme deviations from proportional representation for the 25 largest SMSAs, which in general were sampled in numbers not greatly divergent from their share of the U.S. population.

#### C. Household Composition

The largest discrepancy between the demographic characteristics of the NFO samples and the census estimates for recent movers is the over-representation of family households in the NFO samples. Married couple households (with or without other members) comprised 79.2% of the screener sample, as compared to only 50.9% of the census population of recent movers. Similarly, married couple households comprised 90.3% of the buyers sample and 94.5% of the sellers sample, as compared to only 75.5% of the census population of recent movers who were

<sup>3/</sup> These figures indicate that those movers who buy a home are more likely to move to non-metropolitan areas than the overall population of movers. Therefore, one would expect that the homebuyers in the screener sample should have been more likely to move into non-metropolitan areas than non-homebuyers. However, to the contrary, an approximately equal percentage of the homebuyers and non-homebuyers who responded to the screener sample moved into non-metropolitan areas.

homeowners. In particular, the NFO samples were almost completely devoid of households with an unmarried male head of household, which comprise 22.2% of the census population of recent movers and 12.8% of the population of recent movers who were homeowners. These discrepancies are due to the original composition of the NFO panels and pool.

#### D. Household Income

All three NFO samples appear to under-represent households from the lowest income groups. Only 22.0% of the screener sample reported incomes under \$10,000, as opposed to 37.2% of the census sample of recent movers. Similarly, only 9.5% of the buyers and sellers samples reported incomes under \$10,000, as opposed to 15.1% of the census sample of recent movers who were homeowners. However, NFO's income figures are taken from a single question on a written questionnaire, whereas the census figures are computed by adding up thirteen itemized components of income obtained through a personal interview with a U.S. government employee, so they are not readily comparable.

#### E. Race

The NFO samples under-represent racial and ethnic minority groups. The sellers sample contained only one "Black or Negro" respondent and only two "Mexican American or other Spanish" respondents. The buyers sample contained only one black respondent and no Spanish origin respondents. In contrast, 5.2% of the census sample of recent movers who were homeowners had a black head of household, and another 4.2% had a head of household of Spanish origin.

#### F. Proportion of New Homes

The representativeness of the screener sample was also checked by comparing the proportion of respondents who bought new homes with comparable data from other sources. Of the screener respondents who bought a single family house, 29% bought new houses. Although this figure appears high, it appears to reflect a peak in the construction of new homes rather than a problem with the sample. According to the Bureau of the Census Construction Reports, series C25, Characteristics of New Housing, there were approximately 1,301,000 new privately owned one-family houses completed in 1979. In the same year the sales of existing one-family homes was 3,701,000, as estimated by the National Association of Realtors using data reported by participating real estate multiple listing services (from National Home Sales, a monthly publication of the National Association of Realtors, as reported in the U.S. Bureau of the Census, Statistical Abstract of the United States: 1980). Depending upon whether newly-constructed homes are included as "existing" homes, these figures imply that somewhere between 25.9% and 35.1% of total home sales are sales of newly constructed homes. Thus the screener responses concerning new home purchases are in line with other available data.

## G. Conclusion

Although the demographic characteristics of the NFO samples were not perfectly in line with available Census data, the discrepancies were for the most part minor. Moreover, exploratory cross-tabulations and regression analysis indicated that demographic variables did not have much explanatory power in predicting the answers to the key survey questions (e.g., those concerning commission rates and discounts). Thus, the sample selection biases due to the use of a demographically non-representative sample are probably not very serious.

#### IV. Results of the Screener Survey

This section reports on the results of the screener survey. The responses to each question are tabulated in Appendix A. Here we present crosstabulations concerning three topics: the use of brokers by homebuyers and homesellers, the brokerage commission rates reported by homesellers, and the use of multiple listing services.

Of the 3470 respondents to the questionnaire, 1808 (52.1%) reported that they had bought a home in the past twelve months, and 1333 (38.4%) reported having just sold a home. The groups of buyers and sellers overlapped substantially, with 1085 having both bought and sold homes in the past twelve months.

##### A. Use of Brokers

###### 1. As Reported by Homesellers

The screener results concerning the use of brokers by homesellers are reported in table 5. Of the 1333 sellers, only 966, or 72.5%, reported that they had sold their home through a real estate agent or broker. However, this number is deceptively low, because the sample of homes was not restricted to single family homes. According to the responses to question 9, only 1089 (82.3%) of the homes sold were single family homes. Another 116 (8.8%) were mobile homes, and the remainder included duplexes, condominiums, farms, town houses, cooperatives, and other types of homes. Of the sellers of mobile homes, only 28, or 24.3%, reported selling through a broker.

Restricting the sample to single family houses only, between 852 and 885 (78.2-81.3%) were sold through a broker. The range of uncertainty is due to the 26 responses of "other" and the 7 multiple responses to question 11 (concerning the use of a broker) made by sellers of single family homes. These figures must be adjusted if one wishes to account for those sellers who initially listed with a broker but later sold by owner or those sellers who had a non-exclusive listing with a broker and sold their home themselves (answers 3 and 4 to question 11). Including both of these classes of sellers raises the usage of brokers to 895-928 (82.2-85.2%). In the other direction, if one excludes those sellers who first attempted to sell by themselves but ended up selling through a broker (answer 2), then one is left with only 720-755, or 66.1-68.5% of single-family house sales, in which the seller completely relied upon a broker. Thus, the screener answers indicate that approximately one-third of all sellers of single-family homes make some attempt to sell their own home.

These figures may also be broken down according to whether the homeseller also bought a home in the twelve months prior to receiving the questionnaire. Those sellers who also bought homes used brokers in about the same percentage (78.0-81.0%) as those who did not, the main difference being that more of those sellers

who did not also buy a home first tried to sell by owner (as shown by a 16.2% response rate to answer 2 as opposed to an 11.3% response rate).

## 2. As Reported by Homebuyers

The use of brokers may also be measured by analyzing the responses of homebuyers to the screener questionnaire, as shown in Table 5. Of the 1808 buyers who bought homes, only 1221 (67.5) reported the use of an agent by the seller (answers 1, 2, or 3 to question 5). If all of the 79 missing or "other" responses involved the use of a broker, this percentage would increase to 71.9%. As in the case of the sellers' responses, these figures are deceptively low, due to the inclusion of types of homes, such as mobile homes, that are usually not sold through brokers. According to the responses to question 4, only 1481 (81.9%) of the homes bought were single-family houses. The next largest category was mobile homes, accounting for 7.6% of all homes bought. Of the buyers of mobile homes, only 33 (25.6% of those who responded to the question) reported the use of an agent by the seller.

Of the buyers of single family homes, 1068-1113 (depending on the allocation of the "other" category), or 72.7-75.8% of those who responded to the question, reported that the seller used an agent. These figures are still deceptively low, because, unlike the corresponding figures for homesellers, they include new homes sold by developers and builders. Only 50.6% of buyers of new single-family homes reported that the seller used an agent. (There were also a large number of "other" responses, probably due in part to buyers who could not distinguish between employees and independent agents of a builder or developer.) Of the 1040 buyers of previously occupied single-family homes who answered question 5, 847 reported that the seller used an agent and another 21 gave a response of "other" to question 5. Thus 81.4-83.5% of these buyers reported purchasing a house through an agent. 4/

A small number of buyers of previously-owned single family homes (namely 28, or 2.7% of those answering question 5) responded that they had not used an agent but that the seller had. For example, these buyers may have bought a house from a neighbor or viewed the house during an open house. Deleting these buyers leaves 819-840, or 78.8-80.8%, who used a broker in helping them purchase a previously owned single-family house.

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4/ These figures are slightly at odds with the earlier stated results that 78.2-81.2% of the sellers of single-family houses reported that the sale of their house was handled by an agent. Two factors help to explain the discrepancy. First, the sampling error in each case is about 1.5%, so the differences could be attributed solely to chance. Second, it is likely that the  
(footnote continued on next page)

The usage of brokers by buyers may also be broken down according to whether the buyers also sold a home. For both new and old single-family homes, buyers who sold a home were more likely to use a broker in buying a home. Of new single-family home buyers, 56.9% (157/276) of those who also sold a home used a broker, as opposed to 46.4% (52/112) of those who did not sell a home (not including "other" responses). Of old single-family home buyers, 84.5% (501/593) of those who also sold a home used a broker in the purchase of their "new" home, as opposed to 81.2% (342/421) of those who did not also sell a home. A plausible explanation for this pattern is that the opportunity to save time by using a broker in buying a home was more attractive to buyers who also had the burden of selling a home.

#### B. Brokerage Commission Rates

The screener data were also used to obtain a distribution of the commission rates charged by real estate brokers and the degree to which reductions in stated commission were made.

The distribution of commission rates initially stated for all homes sold and for each type of home sold is displayed in table 7. The data are consistent with the general belief that most brokers charge a 6 or 7 percent commission. The table also shows that percentage commission rates for mobile homes (with a mean rate of 7.76%) tend to be higher than commission rates for single family homes (with a mean rate of 6.34%), but otherwise there is not enough data to establish any significant differences in commission rates according to type of home sold.

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allocation of "other" responses is different for sellers and buyers. Question 5 (concerning the buyers use of a broker) does not include any category for buyers who use a broker to shop around but who end up buying a house directly from a seller who sells "by owner." These buyers may account for most of the "other" responses for previously occupied single family houses. In contrast, question 11 for sellers includes all major possibilities concerning the use of a broker, so it seems likely that responses of "other" were made by sellers who wished to provide more detailed responses than than the categories allowed (such as specifying whether listings were open listings, exclusive agency, or exclusive right-to-sell listings). Many of these cases probably involved an eventual sale made through a broker. Similarly, sellers who listed with an agent, subsequently found a buyer, and by prior agreement paid only part of the normal commission might well give answer 3,4, or "other" rather than 5. On the basis of this discussion, a reasonable estimate of the proportion of sales of previously owned single-family homes handled by a broker in this survey is about 80-82%.



These percentage rates are not entirely accurate measures of the brokerage fees actually paid by sellers in the screener sample, for three reasons. First, they do not include sellers who reported brokerage fees paid as a flat fee or some basis other than a fixed percentage of the sales price of the home. Second, they do not account for possible response biases. Third, the actual commission rates paid are sometimes lower than the rates initially stated by broker. Some of these problems can be resolved through a more detailed analysis of the responses to questions 11 and 12 of the screener questionnaire, presented here for sellers of single family houses only.

We have data on brokerage commissions in percentage terms for about 90% (829/921) of the sellers in the screener sample who at some time dealt with a broker. These figures are derived as follows: of the 1082 sellers of single family houses <sup>5/</sup> 161 sellers who never used a broker (answer 1 to question 11), leaving 921 sellers. Of these sellers, 21 did not answer question 12a regarding the type of fee charged by the broker. Of the remaining 900 sellers, 867 (96.3%) reported that the commission was stated as a percent of the selling price (7 of these sellers reported the fee in both percentage and dollar terms), 24 (2.7%) reported that the commission was stated only as a flat fee, and 9 reported that the commission was stated in another form. Of the 867 sellers who checked the box indicating a fee in percentage terms, only 829 actually reported how large the fee was.

Those sellers who reported brokerage fees in flat terms appeared to have lower fees than those sellers who reported fees in percentage terms. Of the 24 sellers who reported commissions stated in flat terms only, 22 reported the amount of the fee, ranging from \$100 to \$6000 and averaging \$1908. Using an estimated average sales price of \$57,000 (the mean sales price reported on the sellers questionnaire), the flat fees average only about 3.4% of the sales price of the house. However, there are so few brokers who state their fees in flat terms that the inclusion of these lower percentage fees lowers the mean initially stated commission rate only .07% from 6.34% to 6.27%. This latter figure may still be biased due to the omission of the larger group of sellers who were quoted percentage fees but who did not report the amount of these fees, but there is no way to estimate the degree or sign of the bias.

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<sup>5/</sup> This figure of 1082 sellers differs from the figure of 1089 given earlier because in our own calculations made with a data tape supplied by NFO, we could not duplicate exactly their results. These differences are accounted for by 4 missing subjects in the data we received and some isolated differences in recoding contradictory responses. However, in nearly every instance the reported results were affected by .1% or less.

Of course, the initially stated commission rate is not always the same as the rate actually paid. Of the 921 single family home sellers who at some point worked through an agent, 79, or 8.6%, reported in response to question 12c that they and the broker agreed upon a reduction in the initially stated brokerage fee. Except in a single case, these reductions were made from fees had initially been quoted in percentage terms. 6/

The 79 reported reductions in fees were split exactly evenly between reductions reported in percentage terms (32) and dollar terms (32), with an additional 11 reported in both percentage and dollar terms (four more respondents reported receiving a reduction but did not say what kind of a reduction they received).

The reductions reported in percentage terms are broken down in table 8 according to how the broker was used in the sale of the house. The raw data shown in the top lines of the table must be treated with caution. The highest percentage reductions (of amounts 4% and above) are most likely explained as errors in interpreting question 12c. Consumers probably read the question as asking for the percentage to which the commission was reduced rather than the amount of the percentage reduction. Otherwise it is hard to imagine what could induce a broker to lower his fee from, say, 7% to 1%. The 3% reduction made for the non-exclusive listing is also somewhat suspect, as it could well be the result of a prearranged agreement that the owner pays 3% if he finds the buyer and 6% if the broker finds the buyer. If the data are adjusted by replacing every percentage reduction of 4% or more by the difference between the original percentage fee and the reported percentage reduction (e.g. reinterpreting a reported reduction of a 7% commission as a 1% reduction to a fee of 6%), then the distribution of reductions is changed to that presented in the bottom half of table 8. Almost 75% of these revised reductions are 1 or 2 percent of the sales price, and the mean reduction is 1.39%.

The flat dollar reductions for single family homes sold through brokers were as follows (not counting those cases in which percentage reductions were also reported): for sellers who first tried to sell by owner but later sold through a broker (question 11, answer 2), reductions of \$200, \$375, three of \$500, two of \$1000 and one of \$3000 were reported. For sellers who only worked through a broker (question 11, answer 5), reductions of \$125, \$150, \$180, two of \$200, \$250, \$300, \$350, three of \$400, two of \$500, \$560, two of \$1000, \$1500, and \$6000 were

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6/ Those sellers who first attempted to sell by owner but who later sold through a broker were most successful in obtaining fee reductions. Of 132 of these sellers, 24, or 18.2%, reported receiving a reduction. In contrast, of the 713 sellers who sold through a broker and made no attempt to sell by owner, only 48, or 6.7% received a reduction.

reported. The mean amounts of the reductions were \$884 and \$778, respectively. However, these figures are reduced to \$582 and \$470 if the suspiciously high reductions of \$3000 and \$6000 are omitted, so their accuracy is not very reliable.

A measure of the fees actually collected by brokers can be provided by tabulating the fees initially stated to those sellers who sold their house through a broker (i.e., those sellers who gave answers 2 and 5 to question 11) and subtracting any reductions in commission reported in question 12c. Of the sellers whose agents stated fees in percentage terms, the mean initially stated fee was 6.34%. Reductions reported in percentage terms reduce this figure by .07% to 6.27%, and reduce the percentage of sales made at 6% or 7% from 87.9% to 85.0%. Reductions reported in dollar terms reduce the mean commission rate another .03% to 6.24% (the .03% reduction is derived from reductions of approximately 1% of the sales price of the house for approximately 3% of the sample). Finally, combining the commissions initially stated in flat terms with the commissions initially stated in percentage terms, the mean percentage commission rate is reduced by another .07% to 6.17%, as explained above. <sup>7/</sup> It should be noted, however, that this figure does not account for gifts made by brokers, unusual selling expenses paid by the broker, or other ways of effectively reducing the commission. For more analysis of these issues, see section V.

Data concerning fee reductions is also available from the sellers questionnaire. Since the sellers questionnaire was sent to over one-third of the respondents to the screener questionnaire who had used a broker to sell a home, this data can be used to check upon the accuracy of the responses. Unfortunately, there are wide discrepancies in the responses to screener question 13c and sellers question 42. Substantial reductions in commission (of .5% or \$250 or more) were reported by 12.6% of the respondents to sellers question 42, but only 8.0% of these same sellers reported reductions of this magnitude in response to screener question 13c. Furthermore, in those cases in which a seller stated in response to both questionnaires that a reduction in commission was given, the amount of the reduction reported in the two questionnaires differed more frequently than it agreed, and the average reported reduction was somewhat greater in response to the screener question than the sellers question. If the sellers questionnaire is more accurate, than the estimate of fee reductions in the screener sample needs to be increased by about .03%, reducing the mean brokerage fee actually paid to 6.14%.

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<sup>7/</sup> Of the sellers who reported flat fee commissions and who gave answer 2 or 5 to question 11, the mean initially stated fee was \$1835. One of these sellers reported a reduction in fee (from \$3500 to \$3000), thereby reducing the mean flat commission fee to \$1809.

### C. Use of Multiple Listing Services

The survey responses concerning the usage of multiple listing services is presented in table 10. In particular, 89.6% of the sellers of single-family homes who sold their house through a broker reported that their house was listed on an MLS. However, these responses are probably subject to greater error than the responses on commission rates and on the use of brokers. First, the definition of an MLS is not always clear. For example, in a rural market there may be no formal MLS, but brokers may nevertheless systematically show each others' listings and exchange information about which houses are available. More significantly, sellers often do not have direct information as to whether their home is indeed listed on an MLS. If the agent does not explicitly mention whether the home is listed on an MLS, the seller may assume that it is listed or not listed when in fact the opposite is true. Alternatively, the broker might claim that a house is listed when the home is not in fact listed. This could conceivably occur either because the broker is slow in fulfilling his intention to list the home or because the broker deliberately delays listing the home in order to have a better chance to avoid sharing the commission with another real estate firm. In any case, the high figures demonstrate that cooperative brokerage is indeed the predominant form of real estate brokerage practiced in the United States.

## V. The Sellers and Buyers Surveys

The sellers and buyers surveys were designed with two goals in mind: to provide a description of the real estate transaction as perceived by the seller and buyer from beginning to end, and to the extent possible, to provide information relevant to testing certain hypotheses concerning how the real estate brokerage market functions. The survey was structured according to the seller's or buyer's chronological experiences as he or she attempted to sell or buy a home.

In particular, the surveys elicited answers to the following questions:

1. What were the circumstances surrounding the sale or purchase of the home?
  - a. What time flexibility did the consumer have in buying or selling a home?
  - b. Why did the consumer wish to buy or sell the home?
  - c. How familiar were buyers with the neighborhood into which they wished to move.
2. What experiences did consumers have with alternatives to traditional brokers?
  - a. Did sellers attempt to sell by owner, and if so, what experiences did they have? Did buyers view any homes sold by owners?
  - b. Did buyers have any knowledge, contact with, or business dealings with discount brokers?
3. How did consumers select and evaluate brokers?
  - a. Why did buyers and sellers choose a real estate agent to help them buy or sell their home?
  - b. Which attributes did they consider important in an agent, and to what degree did agents have these attributes?
  - c. How was the offering or asking price determined, and what role did the broker play in this process?
4. How were brokerage commission rates set?
  - a. How did consumers believe commission rates were determined?
  - b. Did the broker give any reductions in commission, rebates, or gifts?
  - c. Did sellers bargain with the broker over the commission rate?
5. Was the sale of the home accomplished through a single broker, through a single firm, or a cooperative sale?
6. What did buyers and sellers believe or learn about the degree to which brokers act on consumers' behalf?

The specific questions asked in the buyers and sellers surveys, together with a tabulation of the responses, are presented in Appendices B and C. The remainder of this section highlights seven areas of special interest: (1) consumers' satisfaction with brokers, (2) the prevalence and nature of discounting from established fees, (3) consumers' knowledge of the fee-setting process, (4) consumers' perceptions concerning whom brokers represent, (5) brokers' advice concerning listing

and offer prices, (6) brokers' treatment of confidential information, and (7) the incidence of cooperative brokerage.

#### A. Consumers' Satisfaction with Brokers

Both buyers and sellers were in general very satisfied with the services they obtained from brokers. On the sellers survey, question 19 asked for a summary rating of satisfaction on a scale of zero to ten. The most frequent response was a perfect rating of ten, the median rating was 9, and the mean response was 7.96. On the buyers survey, question 16 asked for a similar rating from buyers. Again, the most frequent response was a perfect 10, the median rating was 9, and the mean response was 7.95. The sellers were asked in addition how satisfied they were that the services provided by the broker were worth the sales commission paid. Once again, the modal response was 10, but the median was 8 and the mean was 7.35. Thus, sellers on the whole seem to feel that brokers' services are somewhat expensive, but on the whole well worth the cost.

A number of other questions on both surveys provided indirect measures of consumers' satisfaction with brokers. Sellers and buyers were asked (questions 55 and 45, respectively) if they were to sell (buy) another home, how likely they would be to use the same agent again. They were also asked (questions 60 and 53, respectively) whether they would recommend their agent to a friend. The responses to these questions, reported in Appendices B and C, were highly correlated with the direct ratings of satisfaction, and thus serve to confirm their accuracy.

Cross-tabulations of question 19 on the sellers survey turned up the following results:

1. Sellers who contacted more than one agent (as reported in response to question 23) were less satisfied than sellers who contacted only one agent, giving the highest rating in only 26.6% of the cases as opposed to 44.0%. This probably is because careful shoppers are more critical than shoppers who accept the first agent they consider.
2. Those sellers who thought commission rates were determined by the individual real estate firm or through negotiation (question 36, answers 3 or 5) were less satisfied than those sellers who thought commission rates were fixed (answers 1 or 2), who in turn were less satisfied than those sellers who said they didn't know how commission rates are determined. The percentages of sellers in each of these groups giving the highest satisfaction rating were 16%, 31%, and 45%, respectively.
3. In general, sellers who gave higher satisfaction ratings also gave higher ratings to the importance of the specific services mentioned in question 20 and rated the broker more highly on his or her performance of these services.

## B. Discounting from Established Fees

### 1. Discounts Obtained by Sellers

One purpose of the survey was to determine the source and frequency of discounts from prevailing commission rates. There are four major ways in which reduced rates can be obtained: (1) through the use of a discount agent, whose regular rates are lower than prevailing rates, (2) by obtaining a lower listing rate from a broker who usually charges the prevailing rate, (3) by getting the broker or brokers to bridge the gap between the seller's asking price and the buyer's offer price for the home, and (4) as a result of spontaneous gifts made by the broker.

Information concerning reductions of each of these types was elicited by questions 24, 41, 42, and 43 of the sellers survey. In particular, sellers answered yes to question 41, "Did your agent give you any reduction in commission, a rebate, or a gift?" are counted below as having received a discount, and the magnitude of the discount is taken from the answer to question 42. In addition, all sellers who said they sold through a discount agent are reported below as having received a discount of at least \$250 or .5% of the sales value of the home.

In total, 53 sellers, or 15.2% of the sample, reported receiving discounts of \$100 or more. About 45% (24) of these discounts were given at the time the listing agreement was signed, and an additional 26% (14) reductions were made to close a deal between the buyer and seller. Only 7 sellers used a discount agent, and only 6 sellers reported gifts of \$100 or more. A more detailed accounting of these reductions, including reductions of under \$100, is reported in the footnote below.<sup>8/</sup>

<sup>8/</sup> The 7 sellers who reported listing with a discount agent were initially asked to pay commission rates of 3%, 4%, 5%, 5%, 5%, 6.5%, and 7%, and did not report any additional reduction in commission (except for the seller with a 6.5% commission who reported a .05% commission reduction). Of the 27 sellers who received a lower commission rate at the time the listing agreement was signed, most (15 sellers) obtained reductions of 1% in the commission rate. In addition, 4 sellers obtained reductions of 2% and other sellers reported reductions of .05%, 1.05%, \$10, \$100, \$250, \$300, \$300, and one of unreported amount. Of the 16 sellers who obtained a reduction to help close a deal between buyer and seller, most reported reductions in dollar terms, in amounts of \$10, \$100, \$250, \$500, \$500, \$1000, \$2000, \$7000, and one unreported amount. The two largest amounts are probably erroneous, because they are extremely high reductions in commission on the reported sales of a \$10,500 mobile home and a \$149,000 single family home, respectively. There were also commission reductions in percentage terms reported here of 3%, 1.8%, 1.25%, and four of 1%. Of the 38 sellers reporting spontaneous gifts, 32 reported gifts of under \$100 (averaging  
(footnote continued on next page)

It is of interest to determine whether these reductions were associated with bargaining on the part of the seller or whether they were offered freely by the broker. In fact, 18 of the 27 reductions in the listing commission were negotiated by the seller, as reported in questions 38 and 39. Of the 16 sellers who were given reductions to close a deal, four sellers had explicitly bargained to get the broker to bridge the gap (i.e. answered yes to question 38 and gave answer 2 or 3 to question 39), and four sellers had bargained only at the time of the listing agreement. Of the 38 sellers reporting gifts, only 9 had bargained for a reduction. Two of these sellers reported "gifts" of 1% and 2% of the sales price of the house, respectively. The other seven sellers received gifts of modest dollar value.

In sum, most significant reductions are associated with bargaining by the seller. This is especially true for large reductions (of \$250 or .5% of the sales price of the house, or more). Of these 42 reductions, 26 (62%) were obtained after bargaining.

Conversely, one can ask how successful those sellers who attempted to bargain about the commission were at obtaining reductions in the commission, in comparison to those sellers who did not bargain. Of the 348 sellers in the sample, 86 attempted to bargain and 75 of these sellers bargained prior to signing the listing agreement. Of these 75 sellers, 18, or 24%, succeeded in getting a reduction in commission at the time the listing was signed. In contrast, of the 273 sellers who did not bargain at this time, only 9 (about 3%) reported receiving a reduction in the commission at the time the listing was signed. In addition, 14 sellers attempted to bargain over the sales commission after the listing agreement was signed. Of these sellers, 4, or about 29%, were successful in obtaining a reduction in commission "in order to help close the deal" with the buyer. In contrast, only 6% of the sellers who bargained earlier and only 3% of the sellers who never bargained received a reduction "to close the deal." Thus bargaining, although far from certain to produce results, does seem to significantly enhance the opportunity to receive a reduced commission. However, the survey results do not show unequivocally that commissions would fall significantly if more sellers bargained, because those sellers who currently bargain might be those who were encouraged to do so by the agent or those who are more skilled in bargaining techniques.

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(footnote continued from previous page)  
about \$30) or of indeterminable value. There were also 2 gifts of \$150 and 4 gifts in percentage terms (two at 1% of the sales price of the house, and two at 2%). Finally, two additional sellers reported reductions of \$600 and 1% at the time they renewed their listing agreement with the broker.



## 2. Discounts Obtained by Buyers

Although buyers do not directly pay for real estate brokerage services, they do pay for these services indirectly through the price of the home they buy. The opportunity to show a buyer homes is of considerable value to a broker, because even if the buyer buys a home listed by a different agent, the broker will receive a substantial commission. Thus some brokers make gifts to buyers or are willing to give buyers rebates on the commission they earn through the buyers' purchases. As in the case of discounts received by sellers, these rebates and gifts may be classified into the following types: (1) rebates received from a discount broker who has a systematic policy of rebating part of his or her commission, (2) rebates agreed to on an individual basis, prior to the time the broker showed the house eventually purchased by the buyer, (3) rebates or gifts agreed to in order to help close a deal between the buyer and seller, and (4) spontaneous gifts made by the broker, usually after the closing. However, the survey did not measure all of these categories, nor did it determine whether buyers made any attempt to negotiate a rebate with the broker.

Buyers questions 41 and 42 did ascertain whether buyers in the sample had received any rebate or gift from their broker. In addition, buyers survey question 43 asked whether a rebate or gift was (1) agreed to at the time the offer was made, (2) agreed to in order to help close the deal between the buyer and the seller, or (3) a spontaneous gift or gesture of goodwill. Of the 91 buyers who received some gift or rebate, only 7 buyers reported rebates in category (1), in amounts of \$300, three of \$500, \$1000, 2% (of a \$130,000 purchase), and one unreported amount. Nine more buyers reported rebates in category (2), in amounts of \$50, \$50, \$60, \$75, \$100, \$365, \$600, \$725, and 2% of a \$70,000 purchase. The remaining 75 buyers received spontaneous gifts, mostly of token amounts, but including rebates and gifts of \$150, \$150, \$200, \$250, \$500, \$3000, 1% of a \$145,000 purchase, and 2% of a \$50,300 purchase.

In sum, 26.9% of the buyers received some sort of rebate or gift from the broker, as opposed to only 23.9% of the sellers. However, only 6% of the buyers received discounts of \$100 or more, in comparison to 15.2% of the sellers. The total dollar value of the rebates and gifts averaged \$49 across the entire buyers sample, which is less than one-tenth of 1% of the mean purchase price of the home, or about 1.3% of the brokerage fees earned by all brokers in the transaction.

### C. Knowledge of How Commission Rates are Set

Another purpose of the survey was to ascertain what consumers know or believe about how commission rates are set. In particular, do consumers believe that commission rates are determined by law or by a real estate board? How do these beliefs affect the consumers' success at obtaining discounts in commission rates? Information relevant to these questions is

findings in questions 36, 37, 38, 40, and 60 of the sellers questionnaire and questions 39, 40, 44, and 53 of the buyers questionnaire.

In response to question 60, 20.1% of the sellers agreed to the statement that commission percentage rates are fixed by law, and an additional 4.0% strongly agreed. Similarly, 17.8% of the buyers agreed with this statement, and another 3.4% strongly agreed. However, the conviction and significance of these beliefs is brought into question by the responses to some of the other questions. In response to the open-ended question 36, "How do you think real estate percentage commissions are determined?", only 6.3% of the sellers volunteered that commission rates were determined by law. In addition, another 11.8% volunteered that commissions are set by a Real Estate Board or Commission. The majority of the sellers, however, expressed their uncertainty regarding either the intent of the question or its proper answer by answering that they didn't know how commission rates were determined. Similarly, in response to buyers' question 39, only 6.1% of the buyers volunteered that they believed that commission rates were determined by law, and another 10.6% volunteered that commissions are set by a Real Estate Board of Commission.

The significance of sellers' beliefs concerning how commission rates are set may also be tested by seeing how these beliefs are related to sellers' experience with discount agents and sellers' attempts to obtain a lower commission rate. In response to question 22, 35.1% of the sellers reported that they were aware of a discount agent, i.e., an agent whose normal commission is lower than that of most agents. Those sellers who disagreed or strongly disagreed with the statement that commission rates are set by law were aware of discount agents in significantly greater numbers (49.2%) than those who did not disagree (27.7%). This correlation could have at least two explanations: (1) those sellers who were aware of discount agents assumed that they were not breaking the law, and therefore that commission rates are not set by law, or (2) those sellers who believed that commission rates are not fixed by law were more likely to search out discount agents.

The relationship between knowledge of discount agents and perceptions of how commission rates are set was also measured by cross-tabulating questions 22 and 36. Those sellers who thought they knew how commission rates were determined (answers 1,2,3, or 5 to question 36) were aware of discount agents in somewhat greater numbers (44%) than those who said they didn't know (29.6%). Among those who thought they knew how rates were determined, their awareness of discount agents did not depend significantly upon how they thought rates were fixed (by law, by the real estate board, by the individual firm, or through negotiation). In addition, of the sellers who were aware of a discount agent, the percentage who contacted the agent or listed with the agent did not depend significantly upon how they thought rates were determined.

There was a significant correlation between beliefs about commission rates and attempts to bargain over brokerage fees. Of the 122 sellers who disagreed or strongly disagreed with the statement (question 60) that brokerage rates were fixed by law, 33.6% attempted to bargain over commission rates (gave answer 1 to question 38), as opposed to only 16.7% of the 84 sellers who agreed or strongly agreed that brokerage rates were fixed by law. This relationship shows up less clearly in the cross-tabulations of questions 38 and 22. Although those sellers who believed that rates were determined by the individual firm or through negotiations (answers 3 or 5 to question 22) bargained in greater numbers (16/43 = 37.2%) than than those sellers who believed that rates were determined by law or the real estate board (16/58 = 27.6%), both groups were more likely to bargain than those sellers who said they didn't know how commission rates were determined (33/179 = 18.4%). This pattern of responses suggests that the correlation between beliefs about how commissions are determined and the willingness to bargain may be due in part to the greater willingness of aggressive, self-confident persons both to take a position in response to a survey question and to attempt to bargain with a broker.

The key question is whether those sellers who believed commission rates were determined by law actually obtained fewer reductions in commission than those sellers who did not so believe. Of the 84 sellers who agreed or strongly agreed that commission rates are fixed by law, 9, or 10.7%, obtained reductions in commission of \$100 or more; of the 122 sellers who disagreed or strongly disagreed that commission rates are fixed by law, 21, or 17.2%, obtained such reductions. The null hypothesis that the number of large reductions in commission is independent of beliefs regarding whether commission rates are fixed by law can be rejected at a .20 significance level using a chi-square test. However, part or all of the difference may be due to reverse causation: success in obtaining a reduction may dispose sellers to believe that it is legal to give reductions.

In sum, the survey results do not provide strong evidence regarding the question of whether improved information regarding the negotiability of commission rates would significantly change consumers' bargaining behavior and thereby lead to more discounts and lower commission rates. The statistics cited above indicate that most consumers who believe that it is legal to reduce commission rates either do not bargain or are not successful in negotiating a reduction in commission. However, these results do not rule out the possibility that better information would improve the bargaining position of all consumers, including those who currently attempt unsuccessfully to obtain reductions in commission.

#### D. Consumer Perceptions of Whom Brokers Represent

Since real estate brokers often deal with both the buyer and seller in a transaction, it is not always clear whom they are legally representing. In particular, when a buyer is found by a cooperating broker (a broker from a different firm than the listing broker), there is a question as to whom the cooperating broker (who usually deals predominantly with the buyer) represents. Most real estate brokers hold that the listing broker is the agent of the seller, and that the cooperating broker acts as a subagent of the seller and therefore in a legal sense represents the seller rather than the buyer. It is of interest to know whether consumers are aware of such legal distinctions and whether they make any practical difference.

The sellers survey did not include any questions that directly tested consumers perceptions of the legal duties of brokers. Instead, questions 53 and 50 simply asked, "Who did you think your agent was representing?" and, in cases where the buyer used a different agent, "Who did you think the other agent was representing?" When there were two different brokers involved (either from the same or from different brokerage firms), the sellers predominately (76.5%) believed that the listing broker represented the seller and (in 74.4% of the cases) that the "other agent" represented the buyer. Only 4.4% of the sellers believed that the listing broker represented the buyer, and only 1.8% believed that the "other agent" represented the seller.<sup>9/</sup>

When there was only one broker involved in the transaction, both questions 50 and 53 referred to the same broker, but the answers to these two questions sometimes differed. The most frequent belief was that the broker represented both buyer and seller, although a significant number of sellers answered that the broker represented only the buyer, only the seller, or the broker.

The buyers sample was also asked whom brokers represent. Specifically, in question 31, buyers were asked, "Who do you think the agent who handled the purchase of your house was representing?" When there were two brokers involved, the buyer was not asked separate questions to distinguish between the listing broker and the broker who showed the house to the buyer, but it is reasonable to assume that most buyers interpreted question 31 as referring to the broker they worked with. Under this interpretation, when there were two different agents involved, most of the buyers of previously occupied homes (74.2%) said that the agent who handled the

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<sup>9/</sup> In response to question 53, the other sellers either stated that the broker represented himself (10.9%), or gave a variety of miscellaneous responses. In response to question 50, the other sellers mostly said that the broker represented himself (11.6%) or that they did not know whom the broker represented (9.7%).

purchase represented the buyer only. Only 8.2% said that the agent represented the seller, and only 2.2% said that the agent represented both buyer and seller. The remainder of the buyers (15.4%) thought the broker represented himself.

When there was only one agent involved, there was no clear consensus among buyers concerning whom the broker represents. A plurality (34.1%) of the buyers of previously occupied homes <sup>10/</sup> said that the broker represented the buyer alone, but 30.6% said the broker represented both the buyer and seller, 18.8% thought the broker represented only the seller, and 16.5% thought the broker represented himself.

Buyers were also asked whether brokers provided them a statement of their legal responsibilities and whether such a statement was provided in writing (question 52). In response, 31.1% of the buyers said that the broker had provided such a statement, and 90.6% of these statements were in writing. To test whether buyers' perception of whom the broker represents was affected by whether brokers provided such a statement, cross-tabulations were performed for questions 31 and 52. There was no significant correlation between the answers of these questions. Thus, either the statements were not effective in informing buyers that brokers legally represent the seller, or else the buyers did not read question 31 as referring to legal representation. The most likely explanation, according to Paul Roark, one of the designers of this survey, is that consumers who responded positively to question 52 were reacting to disclosures of closing costs required under the Real Estate Settlement Practices Act (RESPA) or to general brochures distributed by brokers, not to disclosures of the broker's agency status.

To summarize, sellers and buyers generally assumed that the broker represents whomever he is working with, with some uncertainty in the case in which only one broker is involved, and with the exception of those cynics who believed that the broker is looking out mainly for his or her own interests. In explaining their answers, only two sellers said that the listing agent has a legal duty to represent them, and no sellers or buyers made any comments about the legal duties of cooperating agents. <sup>11/</sup> Thus, consumers either do not know much about the legal duties of brokers, or else they do not consider them important enough to discuss in response to open-ended survey

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<sup>10/</sup> Buyers of new homes were more disposed to think that the agent they worked with represented the seller. When more than one agent was involved, 5 of the 29 buyers of new homes thought the agent represented the seller. When only one agent was involved, 14 of 22 buyers believed the agent represented the seller.

<sup>11/</sup> These conclusion are based upon the NFO coded responses, not upon an examination of the raw responses.

questions. It is not possible to determine from the survey whether consumers would be better off if the legal duties of brokers were either more fully revealed or changed.

#### E. Brokers' Advice Concerning Listing and Offer Prices

Brokers are sometimes accused of recommending listing prices for the purposes of their personal gain rather than in the interests of the seller. They are accused either of "highballing," i.e., recommending an inflated listing price in order to attract listings, or "lowballing," recommending listing prices that are too low in order to guarantee a quick sale. One rough means of testing whether these practices occur is to compare brokers' suggested listing prices to sellers' suggested listing prices (question 33). In those cases in which the seller had a price in mind and the broker suggested a price, 78.1% of the time the two prices were the same or differed by less than \$2500. In only 8.3% of the time the prices differed by more than \$5000. In most of these cases (16 of 21) the broker suggested a higher listing price than the seller had in mind, and in these cases the home was quickly sold (within three months in most cases) at or near the full listing price (the average sales price of these homes was approximately 4% below the listing price, the same as for the entire sample of homes). Thus, in these cases it appears for the most part that the brokers' advice to set a higher listing price than the buyer had in mind was good.

Similarly, one can ask whether brokers give good advice to buyers regarding their offer prices. It is in the broker's short-term interest, as well as the seller's, to persuade the buyer to make as high an offer as possible, for the broker is paid only when the offer is accepted. It is thus of interest to compare the offer prices suggested by brokers with the offer prices that buyers had in mind. In fact, only slightly more than half of the buyers in the sample reported (in response to question 35) that the broker suggested an offer price to them. In 79.4% of those cases in which the broker did suggest an offer price and in addition the buyer had an offer price in mind, the buyer's and the broker's offer prices were the same or differed by less than \$2500. When differences did occur, the broker's suggested price was greater than the price the buyer had in mind 57.4% of the time, whereas the buyer's price was higher in only 9.4% of the time.

It is not clear that the brokers gave bad advice when they encouraged buyers to bid higher. In the late 1970's housing prices rose rapidly, and many buyers may not have aware of the current market values. Indeed, given the number of homes that sold at full price or even above full price, even listing brokers may have underestimated market values. Furthermore, in those cases in which the broker's suggested listing price was more than \$2500 in excess of the price that the buyer had in mind, both the buyer's initial offer and the purchase price were a slightly smaller percentage of the asking price than for the entire

sample. Thus, it may well be that in these cases the buyers had unreasonably low prices in mind, or else, if the brokers' advice was indeed bad, that the buyers were not fooled by it.

#### F. Treatment of Confidential Information

Brokers are also sometimes accused of revealing the negotiating position of buyers or sellers stated to them in confidence. The survey shows that brokers do have an opportunity to disclose such information. In response to question 53 of the buyers survey, 73% of the buyers agreed or strongly agreed that they told their agent the highest price they would pay, and 82.5% of the buyers agreed or strongly agreed that they felt whatever they told the agent about how high they were willing to go would remain confidential. Moreover, in response to question 60 of the sellers questionnaire, 66.2% of the sellers agreed or strongly agreed that their broker told them how high he or she thought the buyer would go. Of course, these statistics do not prove that any breach of confidentiality actually took place, because opinions expressed by brokers may equally well have been signals deliberately relayed from the buyer or, when more than one agent was involved, simply educated guesses.

Restricting attention to those cases in which only one agent dealt with both buyer and seller, a somewhat lower percentage (65.2%) of the buyers agreed or strongly agreed that they revealed the highest price they would pay. Removing the buyers who did not expect their revelations to remain confidential, only 51.8% of the buyers revealed their limit price confidentially. These percentages were changed to 68.6% and 52.3%, respectively, when the sample was restricted to buyers of previously occupied homes for the sake of comparability with the sellers' sample. When only one agent was involved in the transaction, 67.6% of the sellers agreed or strongly agreed that the agent told them how high he thought the buyer would go. Equivalently, in 32.4% of the cases, the agent did not say how high he thought the buyer would go. The difference between 52.3% and 32.4%, or 19.9%, represents the estimated number of brokers who reportedly said how high the buyer would go when that information had been conveyed with the expectation that it would remain confidential.

Such conclusions should be interpreted with great caution, however, because of the limitations of survey evidence. Memories are imperfect, answers can be biased depending upon whether a question is phrased positively or negatively, and subtle distinctions can not be reported. For example, if a buyer wished a broker to convey that his initial offer had room for improvement, but did not wish the broker to convey the highest price he would pay, there is no telling how these events would be remembered or reported.

In the other direction, 78.7% of the sellers agreed or strongly agreed that they told the agent the lowest price they would accept, and 62% of the buyers agreed or strongly agreed

that their broker told them how low they thought the seller would go. There was no question regarding the confidentiality of the seller's reservation price. These statistics also demonstrate the potential for breaches of confidentiality, but fall short of hard evidence.

If brokers do betray confidences, then one would expect more experienced sellers and buyers to become aware of this fact, whether through gossip or through the past willingness of brokers to convey information to them that appeared to breach confidences of the other party. However there was no statistically significant correlation between experience in selling homes and the disclosure of the lowest price that would be accepted. Thus, either brokers' betrayals of confidence are too few and minor to be widely noticed, or else each individual broker is adept at convincing consumers that the source of betrayed confidences is somebody other than himself.

#### F. The Incidence of Cooperative Brokerage

According to both the buyers and sellers surveys, in slightly over one half of all sales made through brokerage firms, the buyer used a real estate agent from a firm other than the listing brokerage firm. In nearly two-thirds of all sales made through brokerage firms, the buyer used an agent other than the listing agent (but possibly from the same firm.) The evidence for these statements appears below.

Of the 348 sellers answering the sellers questionnaire, 183, or 52.6% reported that the buyer used an agent different from the seller's agent (i.e. answered yes to question 49, "Did the buyer use an agent," and answered "different" to question 52a, "Was the agent the buyer used from the same firm as your agent or a different firm"). Including answers of "don't know" to question 52a, the incidence of cooperative sales between different brokerage firms as a percentage of total sales made by brokerage firms ranges from 52.6% to 53.7% in the sellers sample. The true figure might be somewhat higher, because some of the 43 (12.4% of 348) buyers who did not use an agent according to the seller's response to question 49 might have actually found the home through an agent without the seller ever knowing.

Even when both the buyer and seller used the same brokerage firm, they may have dealt with different brokers in that firm. Of the 348 sellers, 43 fell into this category (i.e. answered yes to question 49, "same" to question 52a, and "no" to question 52b, "Did you and the buyer use the same agent"). Including these additional cases, the incidence of sales involving different agents as a percentage of total sales made through brokerage firms is raised to 64.9-66.1% in the sellers sample.

The evidence concerning cooperative brokerage from the buyers sample generally corroborates the results of the sellers sample. Of 349 buyers, 177, or 50.7% reported that they used an agent from a different brokerage firm than the firm used by the



seller (i.e., answered "different" to question 46a). Including answers of "don't know" to this question, the incidence of cooperative sales involving a different brokerage firm as a percentage of total sales made through brokerage firms ranges from 50.7-52.2% according in the buyers sample. The 12 buyers who did not answer question 46a are included in the denominator in calculating these percentages because they all indicated in response to question 10 that they did not work with a real estate agent in finding a home, and thus they were very unlikely to have used an agent from a firm other than the listing firm at any stage of the transaction. Similarly, the 3 buyers who were not asked the question are included in the denominator because they indicated in response to questions 10, 12, 13, and 14 that although they used an agent or agents to help find a home, these agents did not work with them when they were purchasing the home they actually bought; rather, a different agent was involved in the purchase of their home, and that agent was working with the seller.

An additional 39 buyers reported that the agent they used was from the same brokerage firm as the agent used by the seller, but was nevertheless a different agent (i.e., they answered "different" to question 46a and "no" to question 46b, "Did you and the seller use the same agent?"). Including these buyers, the incidence of sales involving different agents as a percentage of all sales made through brokerage firms is raised to 61.9-63.3% in the buyers sample. The true figure may be somewhat higher, because in cases where the first agent seen by the buyer referred the buyer to a second agent within the same firm, and where the second agent was the listing agent for the home purchased, the buyer may have had only the second agent in mind in answering question 46. Similarly, some of the 12 buyers mentioned above who did not answer question 46 might have also fit into this category.

TABLE 1: USAGE OF AGENTS BY HOME BUYERS AND SELLERS  
IN SCREENER SURVEY

	Used Agent in both Transactions	Used Agent only to sell	Used Agent only to buy	Did not use agent	" other	No Response or multiple responses	Totals
Bought and Sold (Yes to questions 1, 8)	586 <sup>b</sup>	174	141 <sup>c</sup>	109	55 <sup>e</sup>	20 <sup>f</sup>	1085
Sold Only (Yes to question 1; no to 8)	-	176	-	64	7	1	248
Bought Only (No to question 1; yes to 8)	-	-	472 <sup>d</sup>	220	22	9	723
Totals	586	350	613	393	84	30	2055

- Respondents who gave answers 1, 2, or 3 to question 5 were classified as "using an agent to buy." Note that this includes buyers who stated that they did not use an agent, but the seller of the home did (answer 3). Respondents who gave answers 2 or 5 to question 11 were classified as "using an agent to sell." This does not include sellers who at some time hired an agent but ended up selling the home themselves (answers 3 or 4).
- 16 of these 586 respondents gave answer 3 to question 5.
- 18 of these 141 respondents gave answer 3 to question 5.
- 29 of these 472 respondents gave answer 3 to question 5.
- Column 5 indicates how many respondents answered "other" to questions 5 or 11 regarding the use of agents. The 55 respondents in row 1, column 5 include 32 respondents who answered "other" to question 5, 21 respondents who answered "other" to question 11, and 2 respondents who answered "other" to both questions.
- Column 6 indicates how many respondents gave either no answer or multiple answers to questions 5 or 11. The 20 respondents in row 1, column 6 include 14 indeterminate answers to question 5 and 6 indeterminate answers to question 11.