

# **The Tragedy of the Commission**

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## Why Are Real Estate Brokerage Services So Expensive?

\$36,000 (3% of 1.2 million)

- \$ 2,000 costs (marketing materials, overhead)

= \$34,000

20 hours (5 hours open house, two weeks fielding phone calls)

**Wage: 1,700 \$/hour**

## **Boston and Minneapolis in 1990**

Cost of housing:

Boston: \$200,000

Minneapolis: \$100,000

But don't go rushing out to become a real estate agent in Boston!

## **Boston and Minneapolis in 1990**

Twice as many real estate agents in Boston...

Productivity of average real-estate agent:

Boston: 3.3 houses/agent

Minneapolis: 6.6 houses/agent

## **Boston and Minneapolis in 1980**

Productivity of average real-estate agent:

Boston: 6 houses/agent

Minneapolis: 7 houses/agent

Cost of housing

Boston: \$100,000

Minneapolis: \$100,000

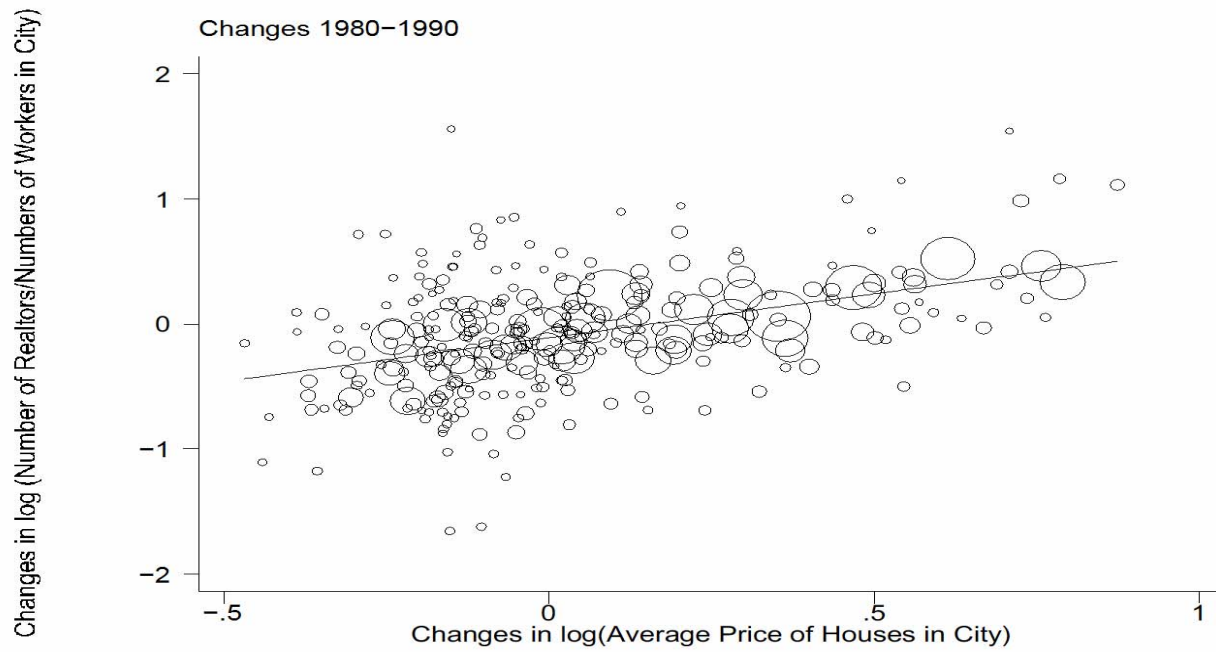
The tragedy of the commission

Real-estate agents in Boston are no better off

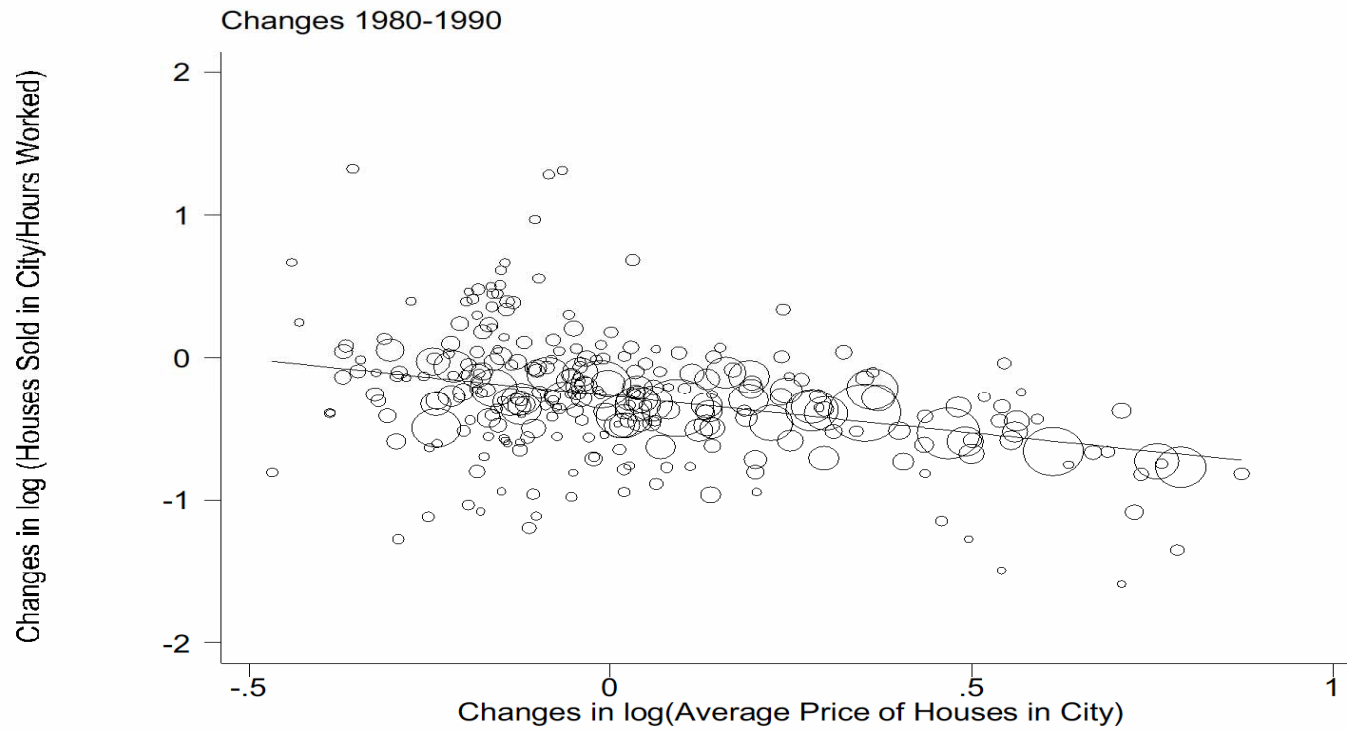
## Empirical Evidence

- 282 Metropolitan Areas
- In cities with high housing prices, or where housing prices have increased:
  - 1) More real-estate brokers
  - 2) Lower productivity
  - 3) Real wages are the same

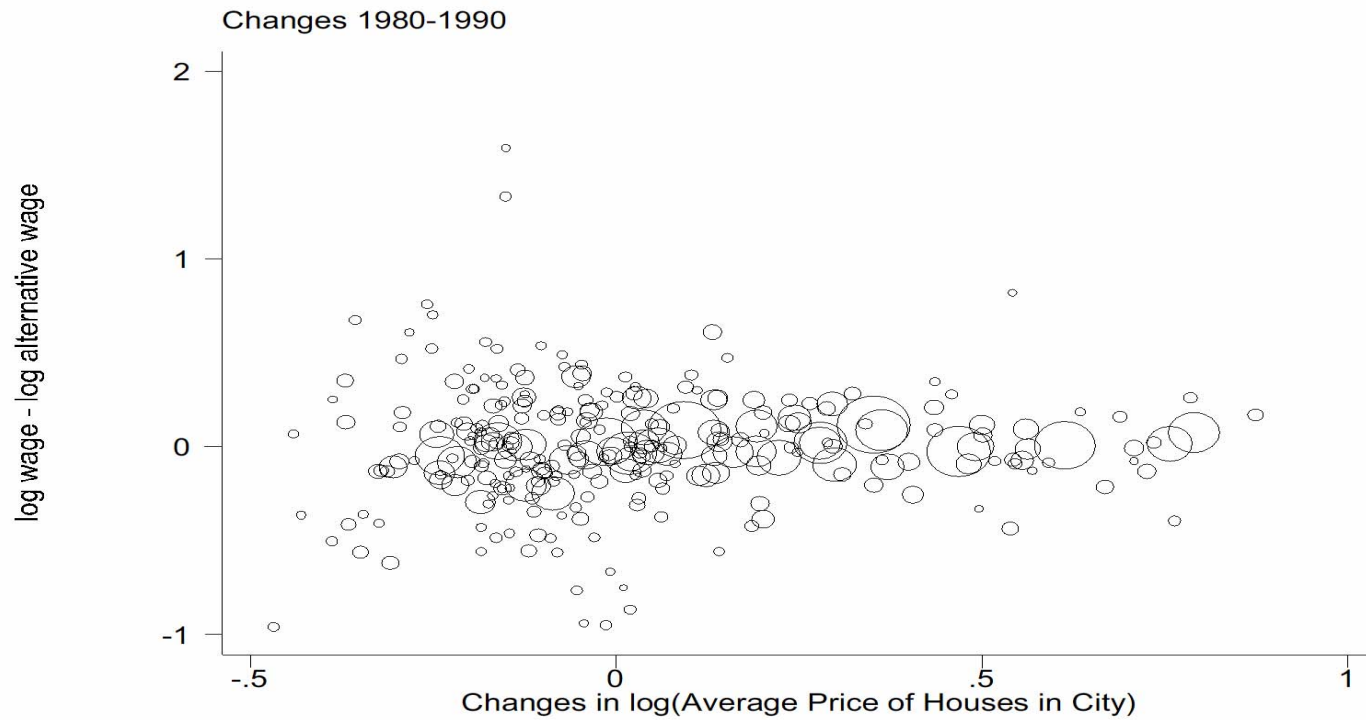
# ...More Agents



# ...Less Sales per Agent



# ...Agents Have Exactly the Same Earnings



## Higher Quality Services?

We Compare Same Cities Over Time

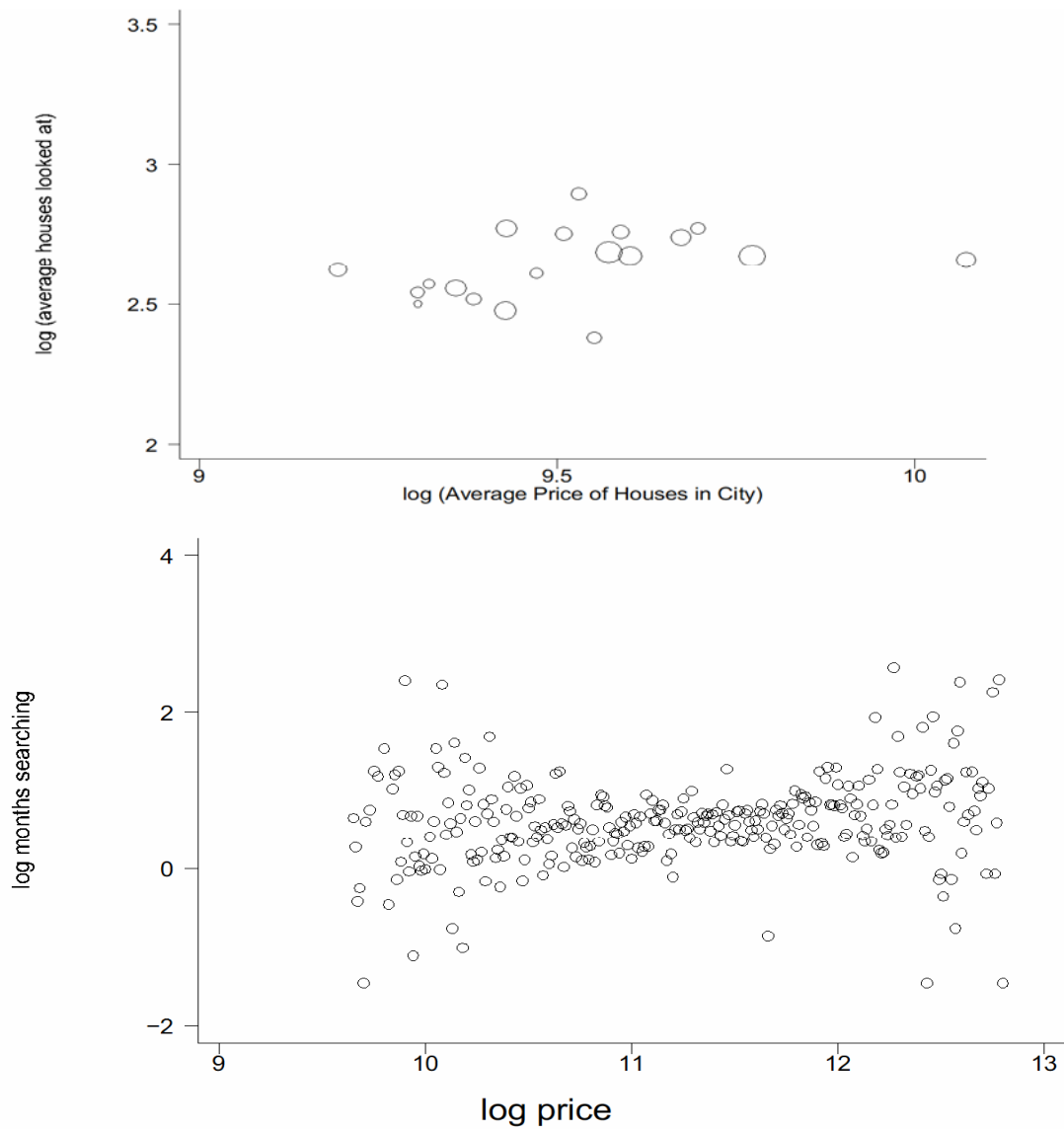
Use Only Differences in Housing Costs Due to Price of Land

Direct Measures of Time Spent by Realtors on “Useful” Activities.

# ...Houses Sell Faster



# ...Buyers Do Not Spend More Time Searching



## What do real-estate agents do?

- Matching buyers and sellers
- Prospecting
  - service “farm”, notepads with realtor's picture, calling on FSBOs
- Prospecting is of marginal social value
- Fraction of time spent on prospecting increases with number of other real-estate agents.

## How Much is the Social Waste?

Total Realtor Earnings in 1990: \$16 Billion

Take Athens, GA as “efficient” benchmark city

Waste is \$8.2 billion

# **The Tragedy of the Commission**

Rising Prices

Falling Productivity

Price Protection Does Not Benefit Price Protectors

# Why is the Industry So Inefficient?

Lack of Information

High Stakes

Inefficiency pervasive (think of title insurance)

# **Will Discount Brokers Make the Industry More Efficient?**

Not Addressing the Achilles Heel of the Industry

Justice Department 1981/1982 Consent Decree with the NAR

## **Need for New Business Model**

Key: Break Information Grip of the MLS

Sellers buy a “Credit Check” (perhaps serious buyers can also pay a fee)

Professional Realtors Paid on an Hourly Basis