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## ECONOMIC VIEW

## Why a Real Estate Agent May Skip the Extra Mile

By DANIEL GROSS

**A**S housing prices keep rising year after year, real estate has become a national obsession - and a more powerful economic engine. Sales of homes and condominiums totaled an estimated \$2.17 trillion in 2004, said Lawrence Yun, senior economist at the National Association of Realtors.

The industry couldn't function without the armies of agents who help buyers and sellers reach mutually agreeable terms on those four-bedroom, center-hall colonials, and who generally collect hefty 6 percent commissions for their trouble. But a recent study by two University of Chicago economists suggests that home sellers should regard agents with some caution. The study does not suggest that agents are inherently untrustworthy. Rather, it says, the housing market remains inefficient, and the incentives for agents to maximize profits for their clients aren't powerful enough.

The study was instigated by Steven D. Levitt, a self-described "rogue economist" who has applied the analytical tools of his trade to everything from sumo wrestlers to drug-dealing gangs; his work is cataloged in the forthcoming book "Freakonomics," written with Stephen J. Dubner.

Professor Levitt had fixed up and sold several houses in Oak Park, Ill., a suburb of Chicago. When working with real estate agents, he said, "I got the impression they weren't working solely in their clients' best interest."

Along with a colleague, Chad Syverson, Professor Levitt set out to prove it by comparing data on homes that agents sold on behalf of others with those that they owned and sold for themselves. They analyzed sales from 1992 to 2002 of 98,000 homes in suburban Chicago, of which 3,300 were owned by real estate agents. When the economists constructed an analysis that controlled for amenities, location and the adjectives used to describe the houses, they found that agent-owned homes, on average, stayed on the market 9.5 days longer and commanded median prices that were 3.7 percent higher than comparable homes owned by clients.

Of course, agents may just know how to position homes for sale better than other people do. It's their job, after all. And, being human, they may work harder selling their own homes, the way a dentist may take extra care cleaning her own child's teeth. But these explanations don't square with the data. "If that were the case, you'd expect the clients' homes to stay on the market longer than the brokers' homes," Professor Levitt said.

The two professors conclude that poorly designed incentives bear some of the blame. "You have to keep in mind that the agent's incentives don't line up perfectly with your own," Professor Syverson said.

Real estate agents have a better sense than others of the best price a home can command. But when they work for others, they don't have the financial incentive to pursue it. Most home sales generate a 6 percent commission, split between the brokerage firms representing the buyer and seller. The agent generally receives half of the firm's draw, or 1.5 percent of the sale. So if a home sells for \$500,000, the agent personally receives \$7,500. Not bad for what may be just a few days of work. If the agent works for an additional week and urges the seller to hold out for \$515,000, that's an extra \$15,000 for the seller, but only an extra \$225 for the agent.

Because every additional dollar throws only a penny and a half into the pocket of the agent, the economists reason, the agent may push clients to accept lowball offers.

Of course, price is just one factor motivating sellers to accept offers. Many are in a hurry, maybe because they are relocating for new jobs, or want to be in their new city by the time the next school year starts. So they may feel compelled to accept the first offer. Most agents who sell their own homes, by contrast, aren't leaving the area. "The brokers may be in a situation where they can be more patient," said Mr. Yun of the National Association of Realtors.

Armed with this knowledge, what should home sellers do? "You cannot completely trust the advice your broker gives you," said Christopher J. Mayer, a professor of real estate at Columbia Business School. "You have to become more educated as a buyer."

In fact, the economists concluded that sellers, empowered by the Internet, are already eroding agents' advantage. Sites like Realtor.com and [domania.com](http://domania.com) allow anyone to survey the market and check out neighborhood price histories. From 1992 to 1995, in the days before such sites existed, agents' homes commanded prices that were 4.9 percent higher and stayed on the market more than 14 days longer than equivalent other homes. But from 2000 to 2002, a period when such sites came into popular use, the margins shrank to 2.9 percent and 2.5 days.

"As consumers become more comfortable with the idea that they can price their own properties, times will get tougher and tougher for real estate agents," Professor Levitt said.

*Daniel Gross writes the "Moneybox" column for Slate.com.*