

The Tragedy of the Commission

Chang-Tai Hsieh
University of California, Berkeley

- Fixed 5-6 percent commission
 - ⇒ Commission increases one-to-one with price of house.
 - ⇒ Highly unlikely that time spent on selling houses increases one-to-one with price.

Boston and Minneapolis in 1990

- Cost of housing:
 - Boston: \$200,000
 - Minneapolis: \$100,000
- 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 where housing prices have increased:
 - 1) More real-estate agents
 - 2) Lower productivity (sales per agent)
 - 3) Real wages are the same

What do real-estate agents do?

- Matching buyers and sellers
- Prospecting
 - door to door canvassing
 - cold calling
 - notepads with realtor's picture
 - calling on FSBOs
 - servicing a "farm"
 - free pumpkins
- Prospecting is of marginal social value
- Fraction of time spent on prospecting increases with number of other real-estate agents.

Do realtors in high cost cities
provide higher "quality" service?

- We compare the same cities over time.

- Use only differences in housing costs due to price of *land*.

- Direct measures of time spent by agents on “useful” activities.

1) Time spent by realtors
selling houses

2) Time spent by realtors
assisting *buyers*

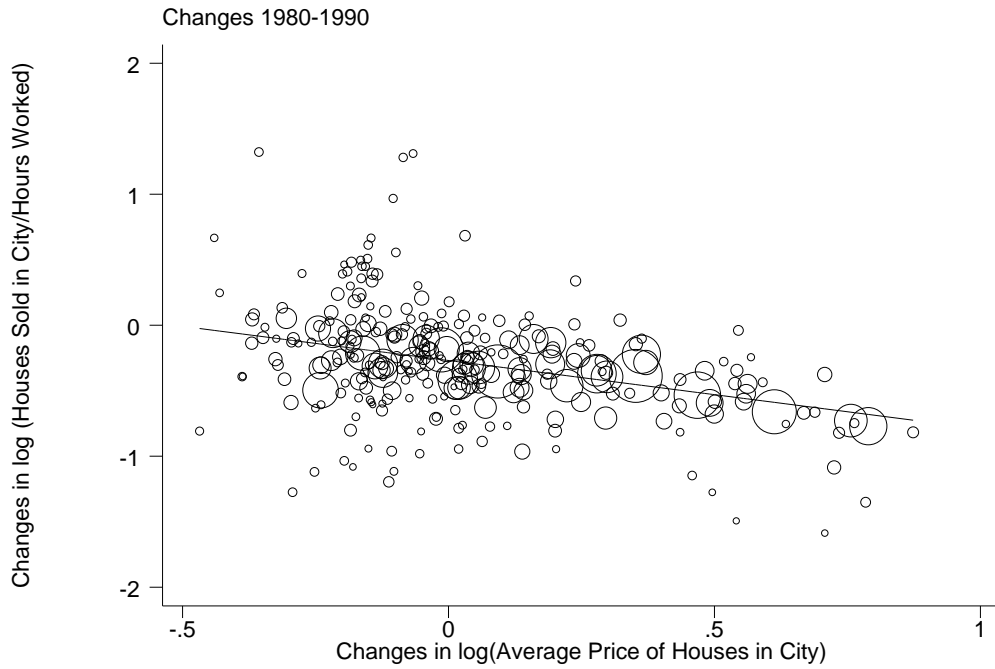
How Much is the Social Waste?

- Total Earnings in 1990: \$16 billion
- Benchmark City is Athens, GA
- Waste is \$8.2 billion

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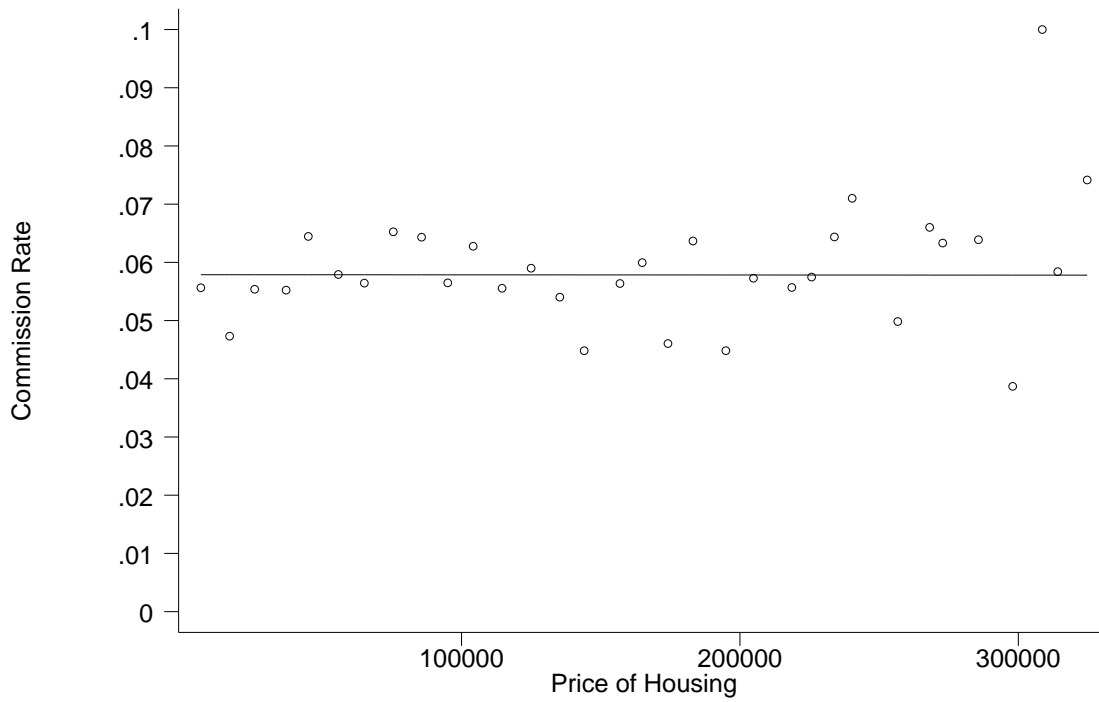
- Price protection ultimately does not benefit price protectors.

Figure 1: 1980-1990 Changes in Productivity of Real Estate Agents (Houses Sold in the City / Hours Worked) and Changes in Cost of Housing



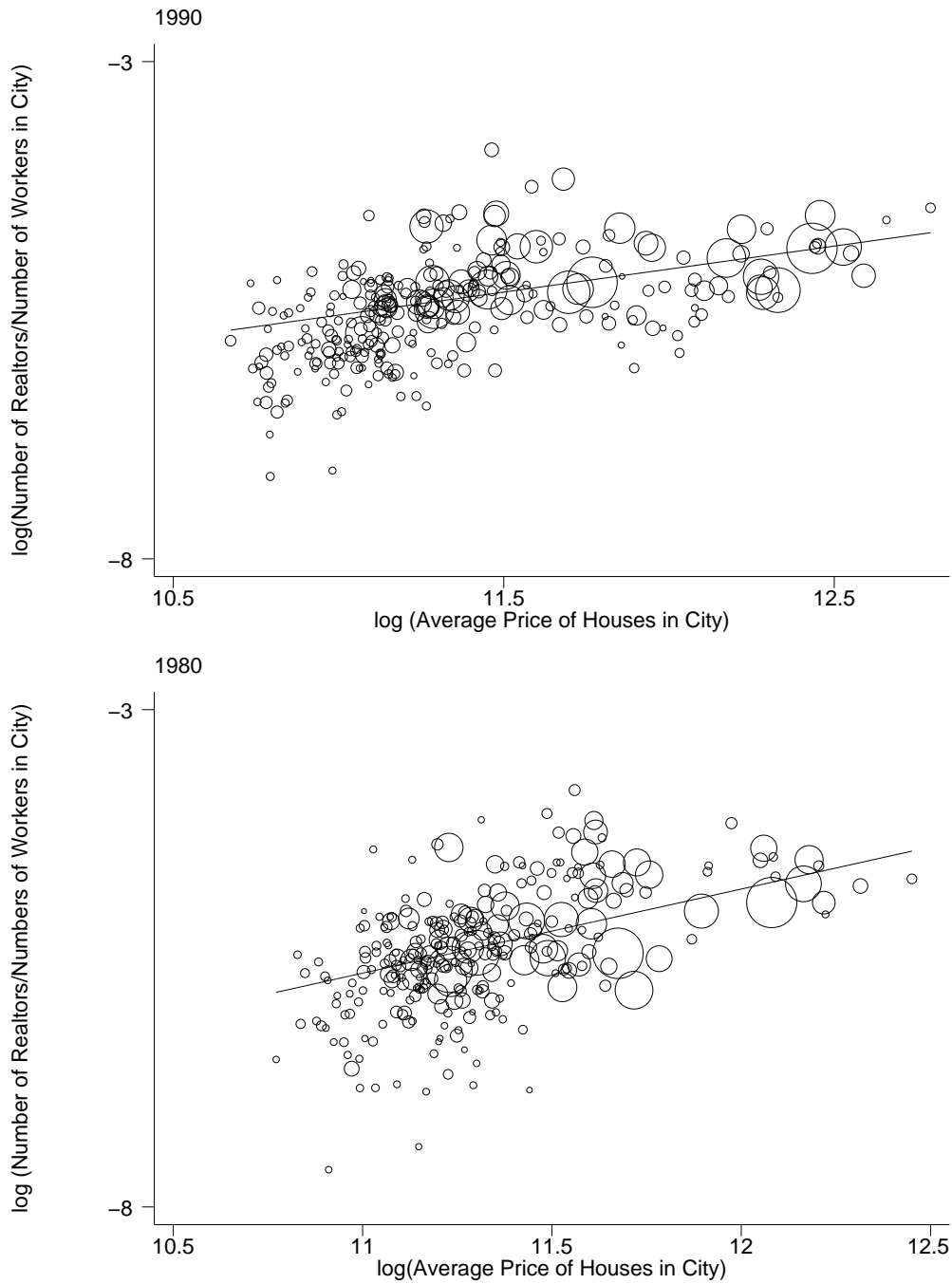
Note: Data are from the 1980 and 1990 Census of Population and Housing.

Figure 4: Commission Rates and Price of Housing in the CEX



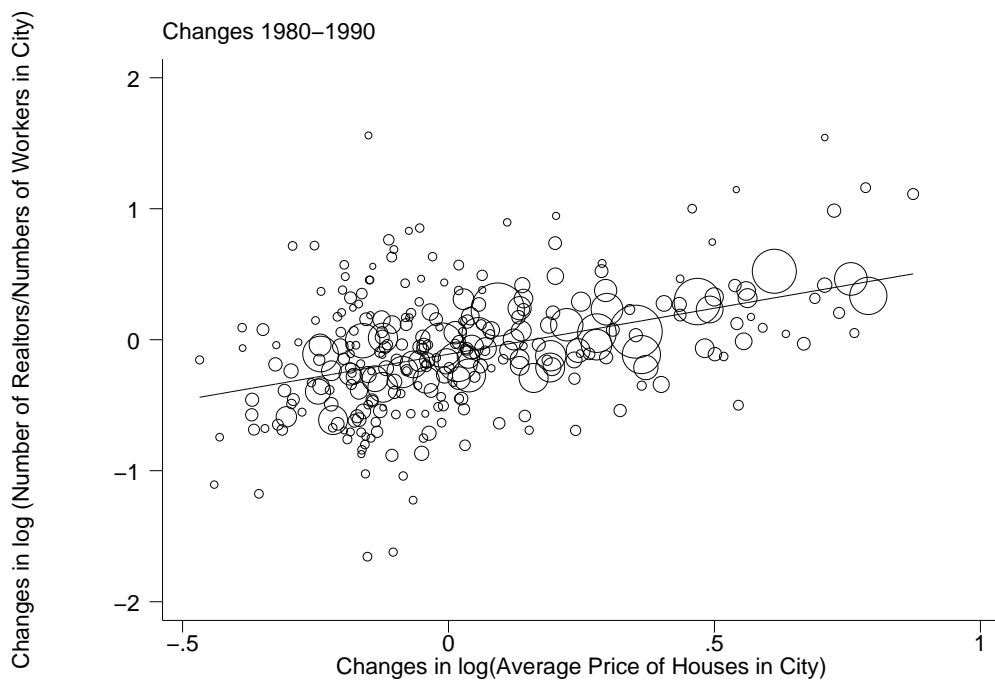
Notes: Each point in the Figure is the average commission rate within intervals in housing price \$10,000 wide. The superimposed fit is from an household level regression of commission rates on housing prices. N = 406.

Figure 5: Percentage of Real Estate Agents in the Labor Force and Average Cost of Housing



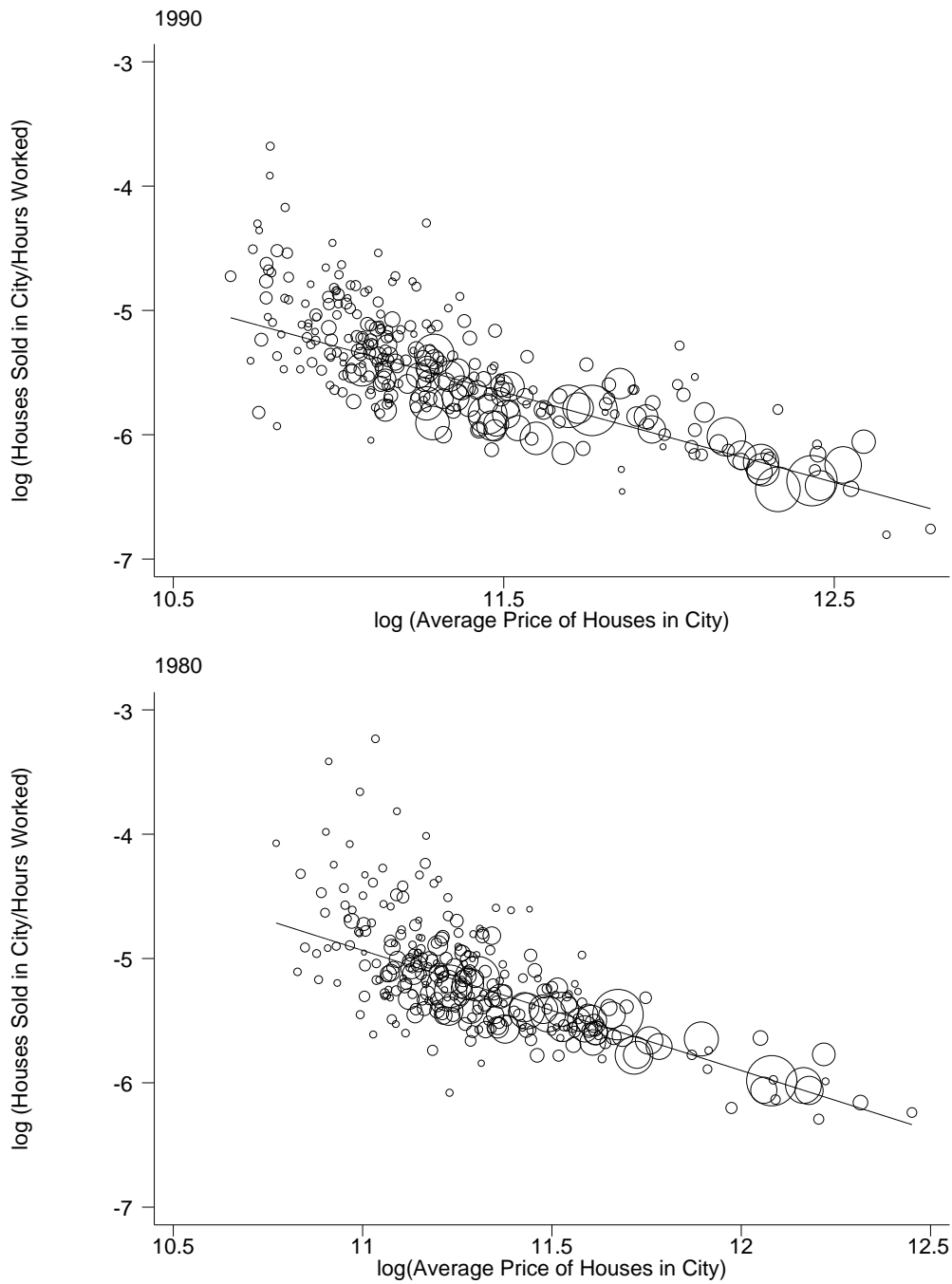
Notes: The top panels refers to 1990. The bottom panels refers to 1980. Data are from the Census of Population and Housing.

Figure 6: 1980-1990 Changes in Percentage of Real Estate Agents in the Labor Force and Changes in Average Cost of Housing



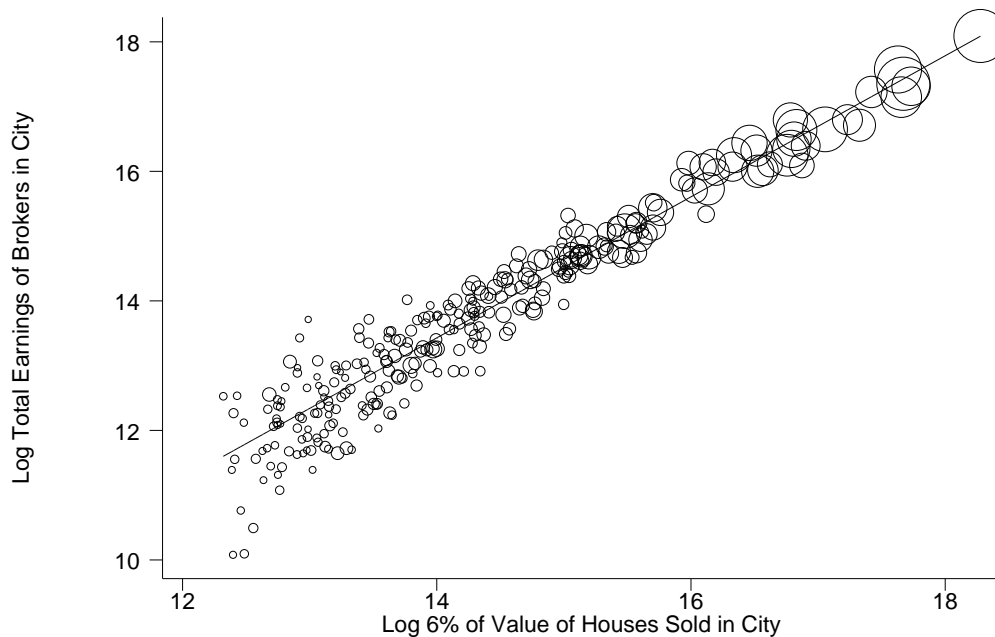
Notes: Data are from the 1980 and 1990 Census of Population and Housing.

Figure 7: Productivity of Real Estate Agents (Houses Sold in the City / Hours Worked) and Cost of Housing



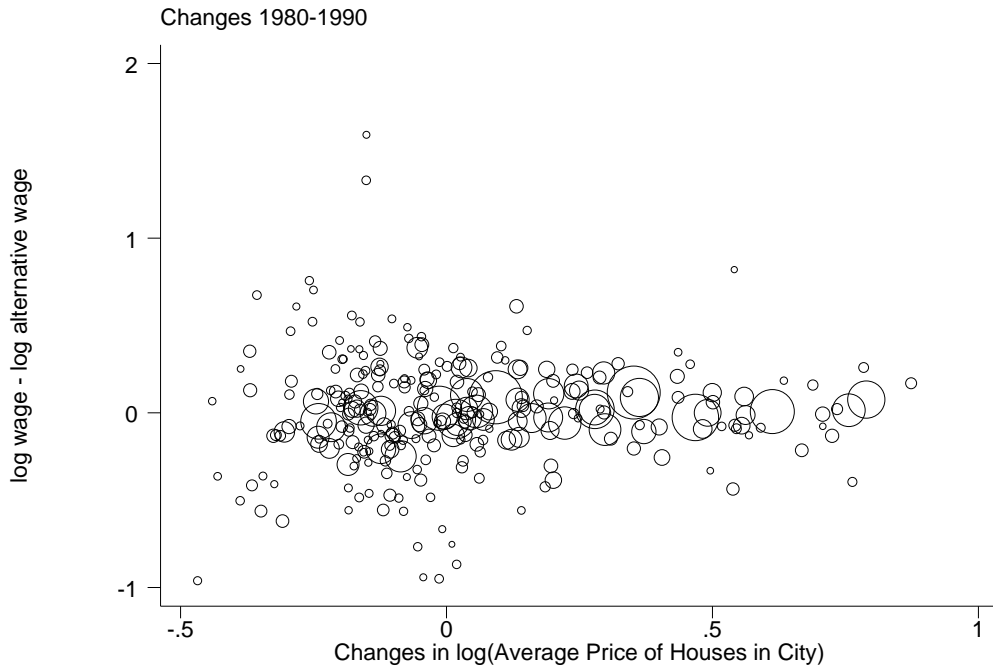
Notes: The top panels refers to 1990. The bottom refers to 1980. Data are from the Census of Population and Housing.

Figure 8: Relationship between Total Earnings of Brokers and 6 percent of the Total Value of Homes Sold in 282 Cities in 1990



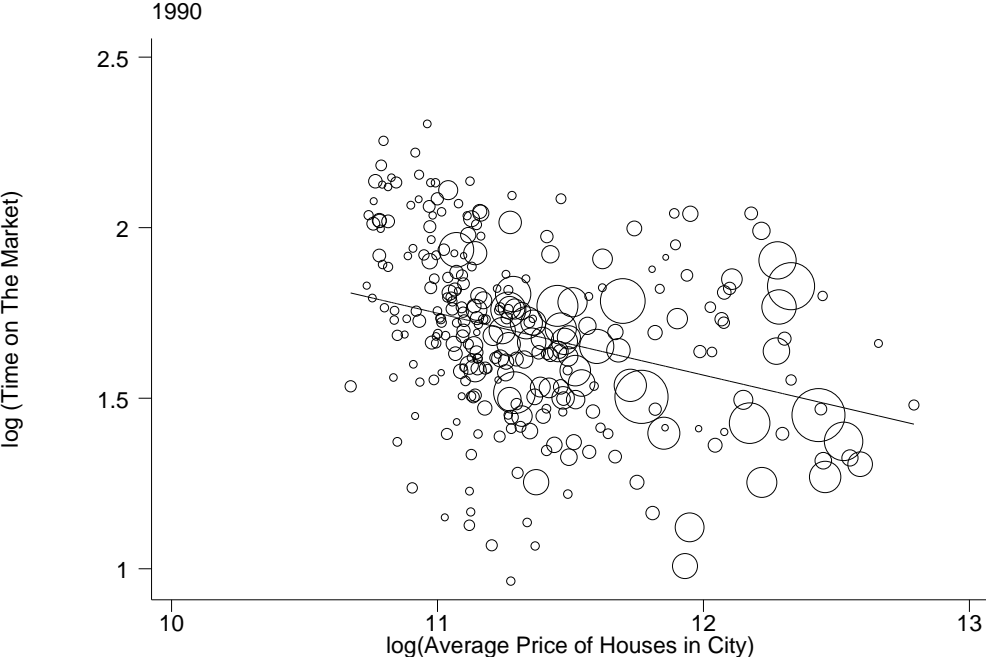
Notes: The x-axis is the expected revenue of real-estate agents, calculated as 6 percent of the total value of homes sold in a city. The y-axis is the *total* value of brokers' earnings in the city (i.e. the sum of the earnings of all brokers in the city). If the commission rate for all transactions is 6 percent; and brokers' earnings comes exclusively from sales of residential home; then the sum of earnings reported by all brokers in a city should be exactly equal to 6 percent of the sum of the value of all home sales in the city. The solid line is the OLS fit, with an estimated slope equal 1.08 (0.01). Data are from the 1990 Census of Population and Housing.

Figure 9: Average Earnings of Real Estate Agents and Average Price of Housing in 282 Cities in 1990



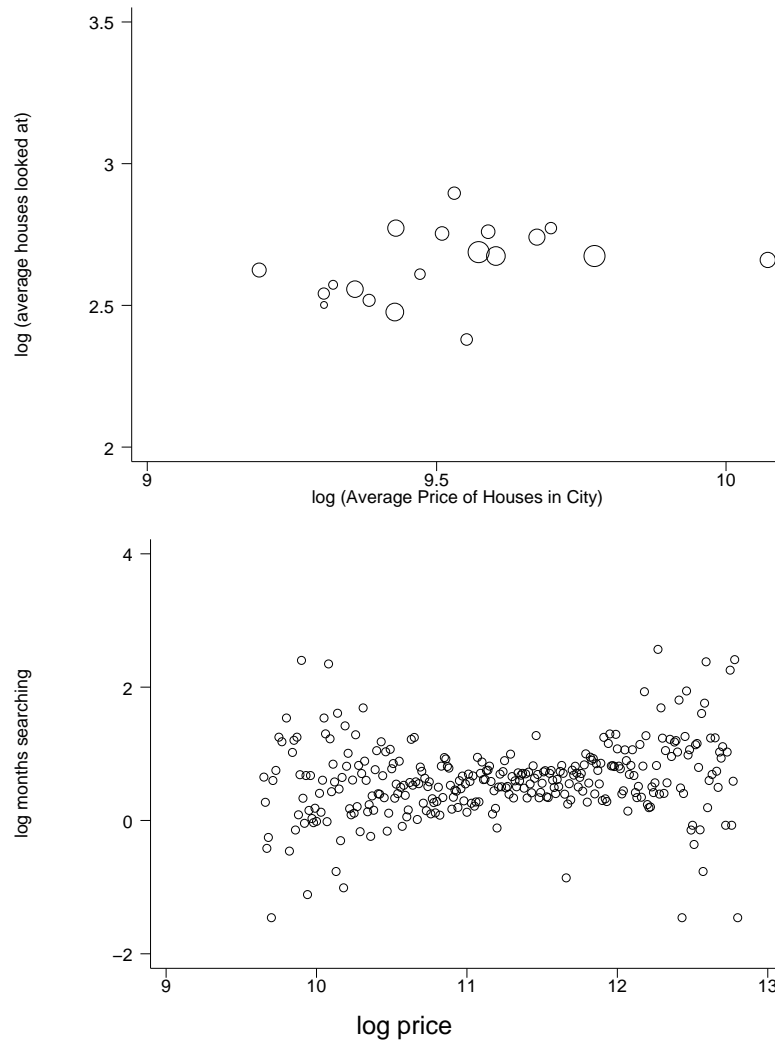
Notes: The y-axis is the log difference between average earnings in a city and brokers' reservation wage. The reservation wage of real estate agents is a weighted average of the wages of workers in all other occupations in the same city. We assign weights to individuals in the sample who are not brokers based on how similar their observable characteristics are to the observable characteristics of brokers. See text for details.

Figure 10: Cost of Housing in 282 Metropolitan Areas and Vacancy time



Notes: Data are from the 1990 Census of Population and Housing

Figure 11: The Effect of Housing Cost on the Number of Houses Looked at and Search Duration



Notes: Top Panel: Data are from the 1997 Chicago Title and Trust Company Annual Survey of Recent Home Buyers, a representative sample of approximately 1,800 home buyers in 20 cities. The cities included in the survey are Atlanta; Boston; Chicago; Cleveland; Dallas/Fort Worth; Denver; Detroit; Houston; Los Angeles; Memphis; Miami; Minneapolis/St. Paul; New York City; Orange County; Orlando; Philadelphia; Phoenix; San Francisco; Seattle/Tacoma and Washington, D.C.

Bottom panel: Data are from the National Association of Realtors. Original data are at the household level (N=3839). Each point in the Figure is the average number of months spent by the respondents searching within narrow intervals in housing price.