



FACT OR FICTION?

Dispelling Myths about Real Estate Commissions and the MLS

— April 2024

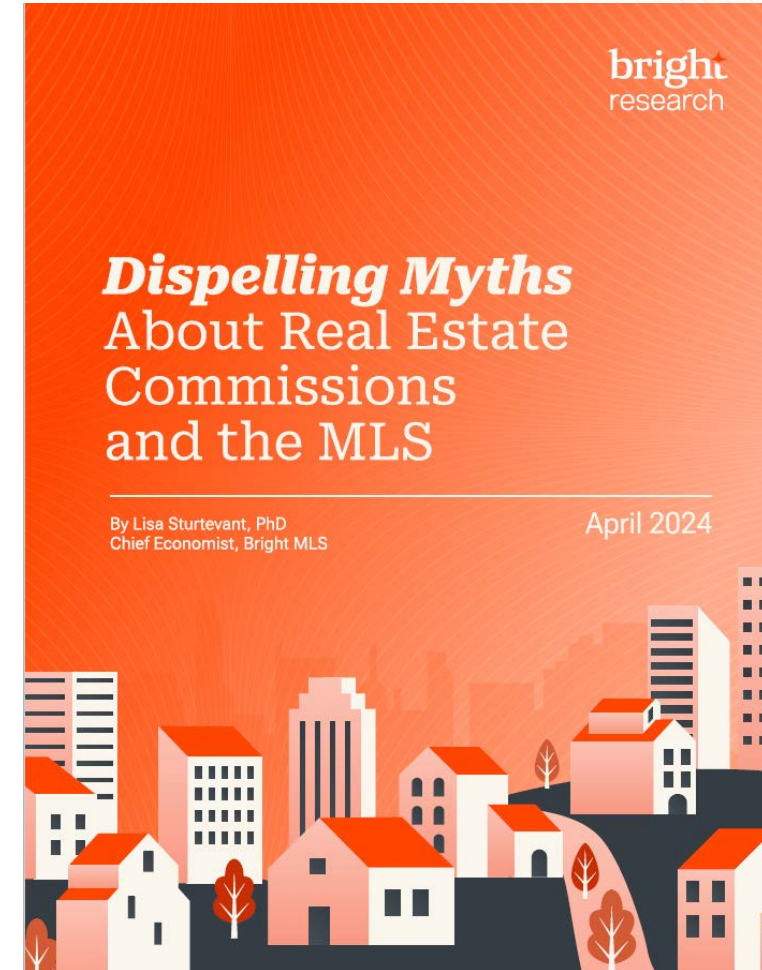


FACT OR FICTION?

Dispelling Myths about Real Estate Commissions and the MLS

Homebuyers and sellers are hearing misleading, and in some cases, inaccurate, information about the real estate industry, real estate commissions, and multiple listing services (MLSs) in the wake of the recent class action litigation.

Bright MLS conducted research to help clarify how home sales transactions actually work and to show how REALTORS® and the MLS bring value to consumers.



THE RESEARCH

Data and Methodology

Bright MLS researchers conducted an analysis of more than one million home sales transactions that took place in the Bright MLS service area between 2020 and 2023.

The Bright MLS service area includes counties in New Jersey, Pennsylvania, Delaware, Maryland, West Virginia, Virginia, and the District of Columbia.

The MLS is the centralized database where property listings are entered by sellers' agents. When a home is listed on the MLS:

- All homebuyers have access to all available listings
- Data are made available to public, online real estate portals
- Property data are consistent and accurate

THE RESEARCH

Data and Methodology

Data available in the MLS:

Property characteristics

Neighborhood

Offer of buyer agent compensation*

*MLSs do not collect or have access to data on seller agent compensation or on the actual amount of compensation received by a buyer's agent, as these are both negotiated during the homebuying process.

Methodology:

Correlation analysis

Multivariate analysis

Reviewed by external economist

FACT #1

Agents do not “steer” buyers to homes with higher buyer agent commissions

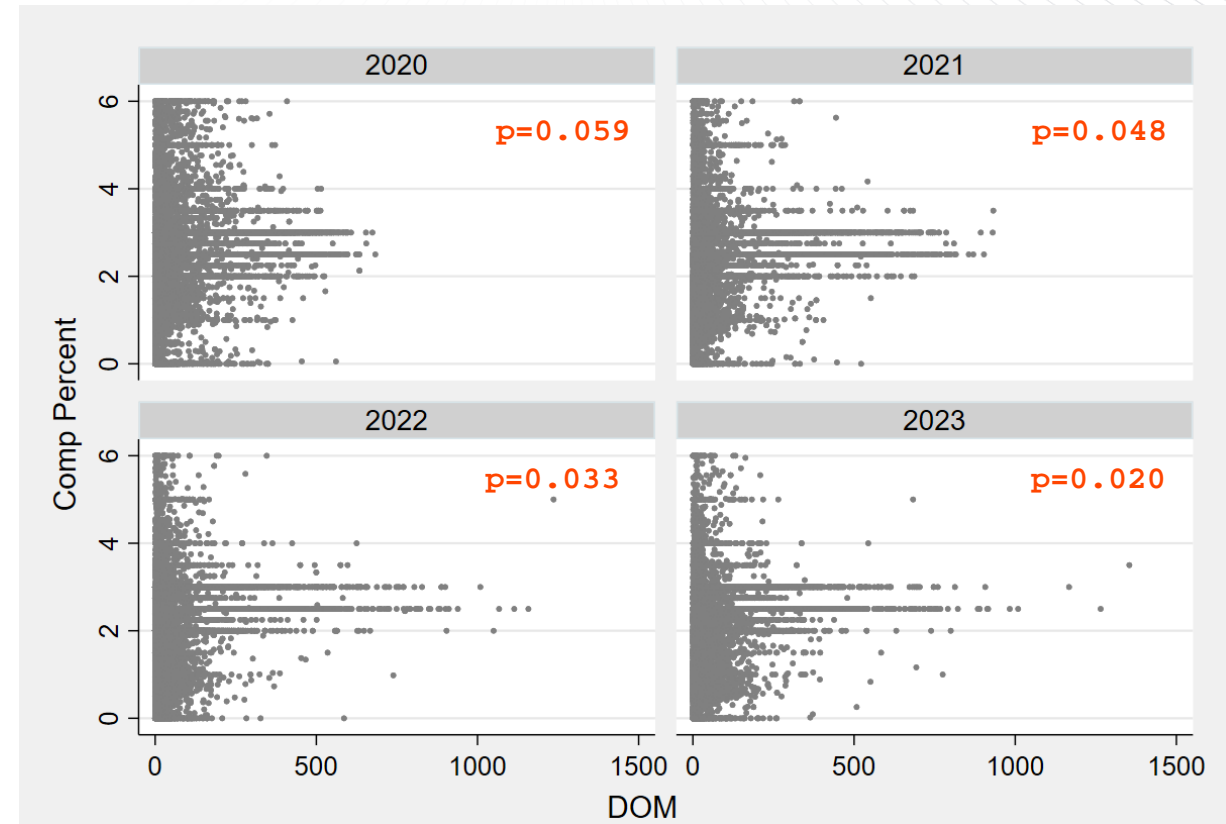
- Analysis of four years of home sales transactions shows no such relationship between sales activity and commissions.
- Furthermore, logic suggests that since buyers can see homes available for sale online, it would be very difficult for buyers’ agents to keep their buyers from touring a home.



FACT #1: Agents do not “steer” buyers to homes with higher buyer agent commissions

Correlation Between Compensation Percent and Days on Market

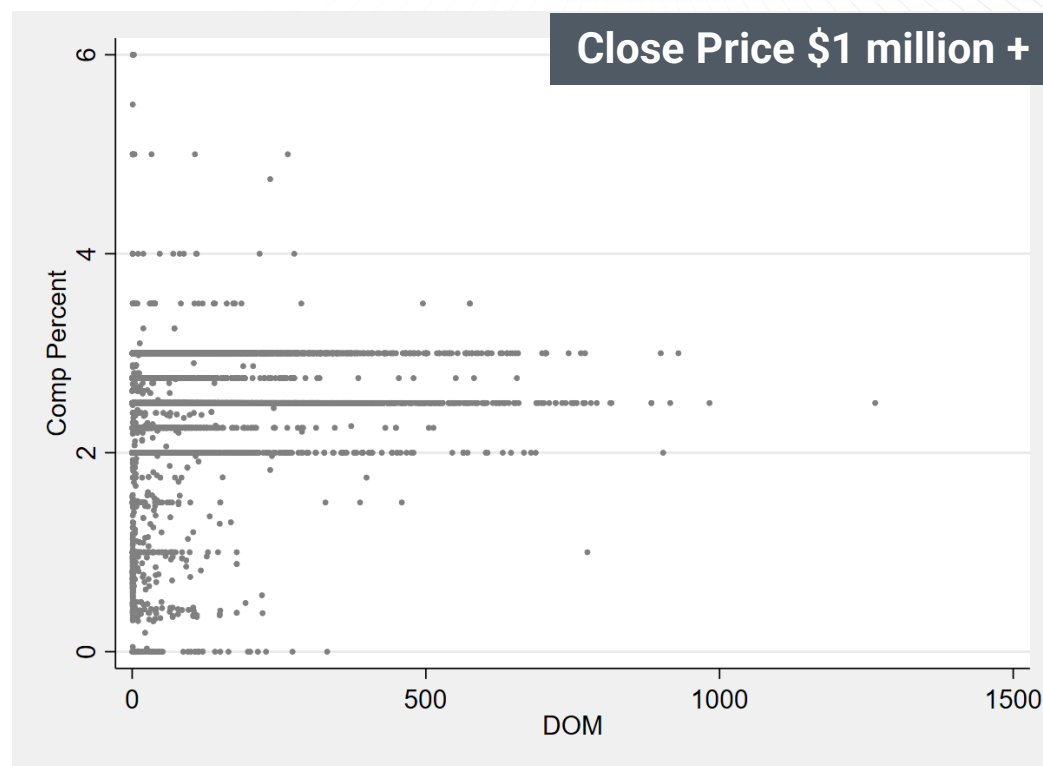
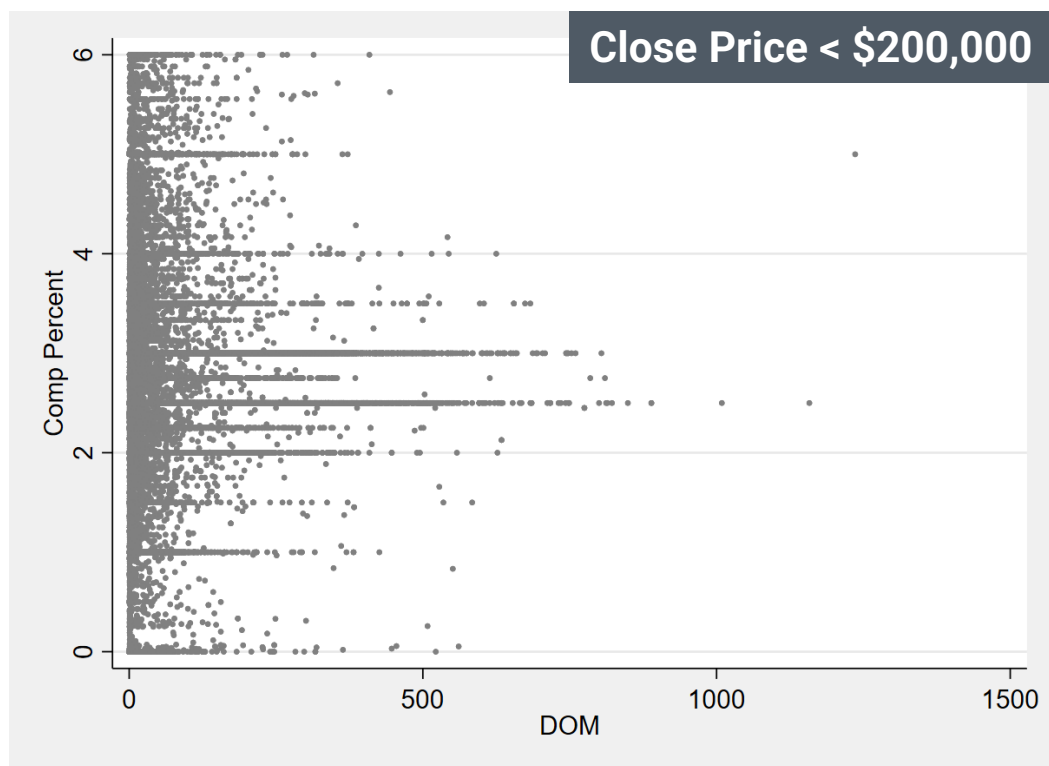
- If agents were “steering” buyers to homes with higher buyer agent commissions, then we would see homes with lower commissions take longer to sell and homes with higher commissions sell more quickly. This would mean a negative relationship between compensation and days on market.
- Instead, we see a weak, positive relationship between compensation percent and days on market.



FACT #1: Agents do not “steer” buyers to homes with higher buyer agent commissions

Correlation Between Compensation Percent and Days on Market

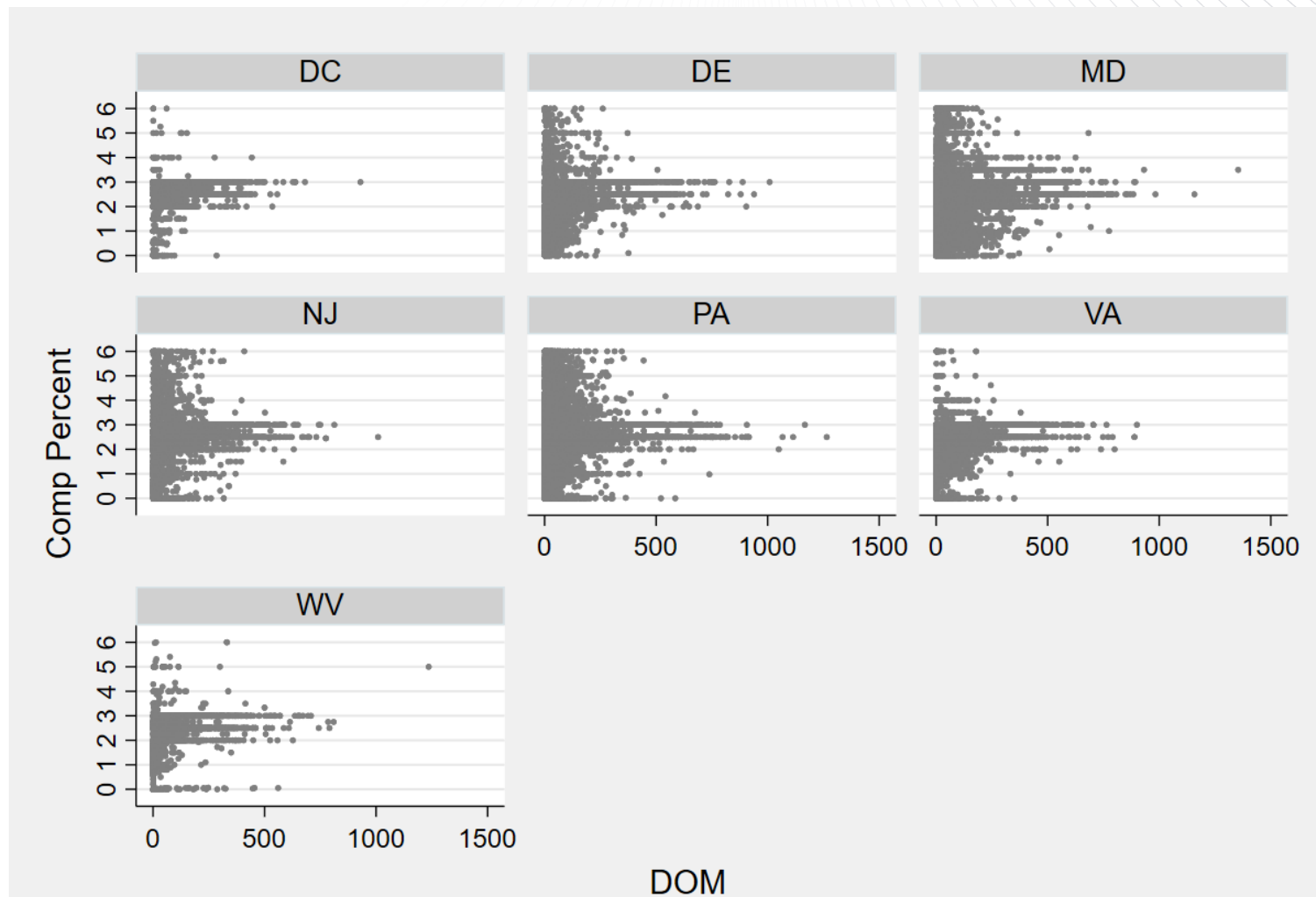
We find a weak, positive relationship between commission rate and days on market across price points.



FACT #1: Agents do not “steer” buyers to homes with higher buyer agent commissions

Correlation Between Compensation Percent and Days on Market

We find a weak, positive relationship between commission rate and days on market across states.

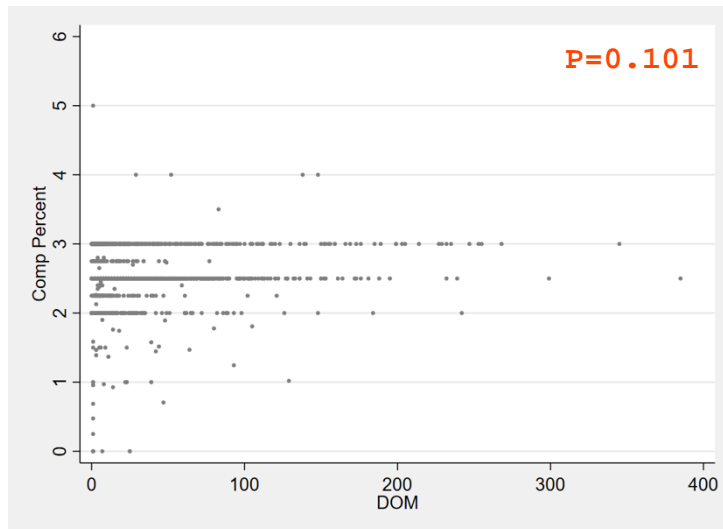


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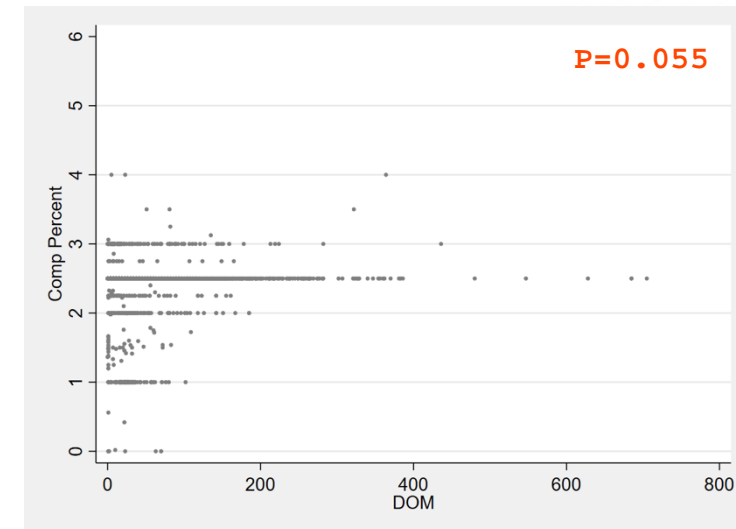
Correlation Between Compensation Percent and Days on Market

There is a weak and inconsistent relationship between compensation percent and days on market at the zip code level.

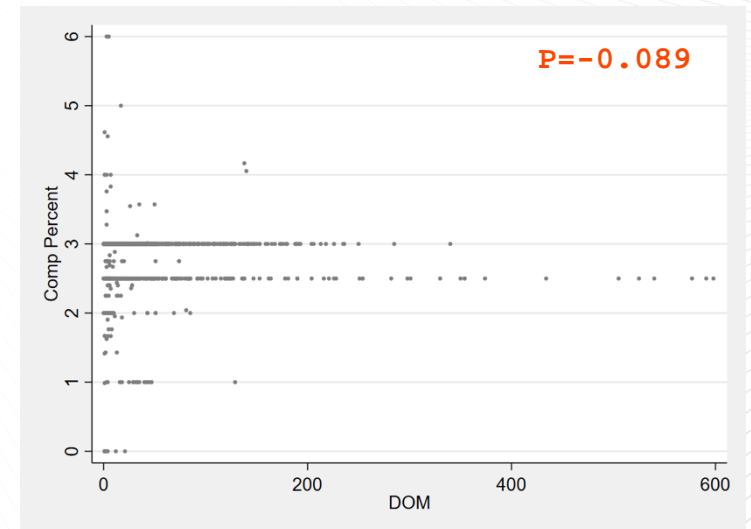
Zip code 22554 : Stafford, VA



Zip code 21224 : Baltimore, MD



Zip code 17603 : Lancaster, PA



FACT #1: Agents do not “steer” buyers to homes with higher buyer agent commissions

Multivariate Analysis – What Explains Days on Market?

A multivariate analysis can account for other factors that influence how long a property takes to sell.

What makes homes take longer to sell?

- Price
- Age of the home
- Size of the home
- Location of the home
- Not the offer of buyer compensation

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areg daysonmarket comm_pct originallistprice listyear age agesq
feesimple bedroomstotal livingarea, absorb(postalcode) robust
```

Linear regression, absorbing indicators
Absorbed variable: **postalcode**

Number of obs = 1,059,333
No. of categories = 1,630
F(8,1057695) = 3771.34
Prob > F = 0.0000
R-squared = 0.1093
Adj R-squared = 0.1079
Root MSE = 44.0233

daysonmarket	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
comm_pct	1.589256	.1288045	12.34	0.000	1.336803	1.841708
originallistprice	6.13e-07	2.88e-07	2.13	0.033	4.94e-08	1.18e-06
listyear	-8.460171	.0511744	-165.32	0.000	-8.560471	-8.359871
age	.0015337	.0004493	3.41	0.001	.000653	.0024144
agesq	6.72e-07	1.42e-07	4.73	0.000	3.94e-07	9.50e-07
feesimple	-7.899328	.1686669	-46.83	0.000	-8.22991	-7.568747
bedroomstotal	1.953954	.2549422	7.66	0.000	1.454276	2.453632
livingarea	.0010175	.0003785	2.69	0.007	.0002757	.0017593
_cons	17119.73	103.4615	165.47	0.000	16916.95	17322.52

Compensation variable sign is positive. As the compensation increases by 1 percentage point, the average days on market increases by 1.6 days.

FACT #2

Commissions are not driving up home prices

- Analysis of four years of home sales transactions shows that list prices are driven by a variety of factors, but buyer agent compensation does not lead to higher home prices.
- Characteristics of the property (i.e. number of bedrooms, age of the home, whether it is a condo or fee simple property) and mortgage rates are the most significant determinants of list price.

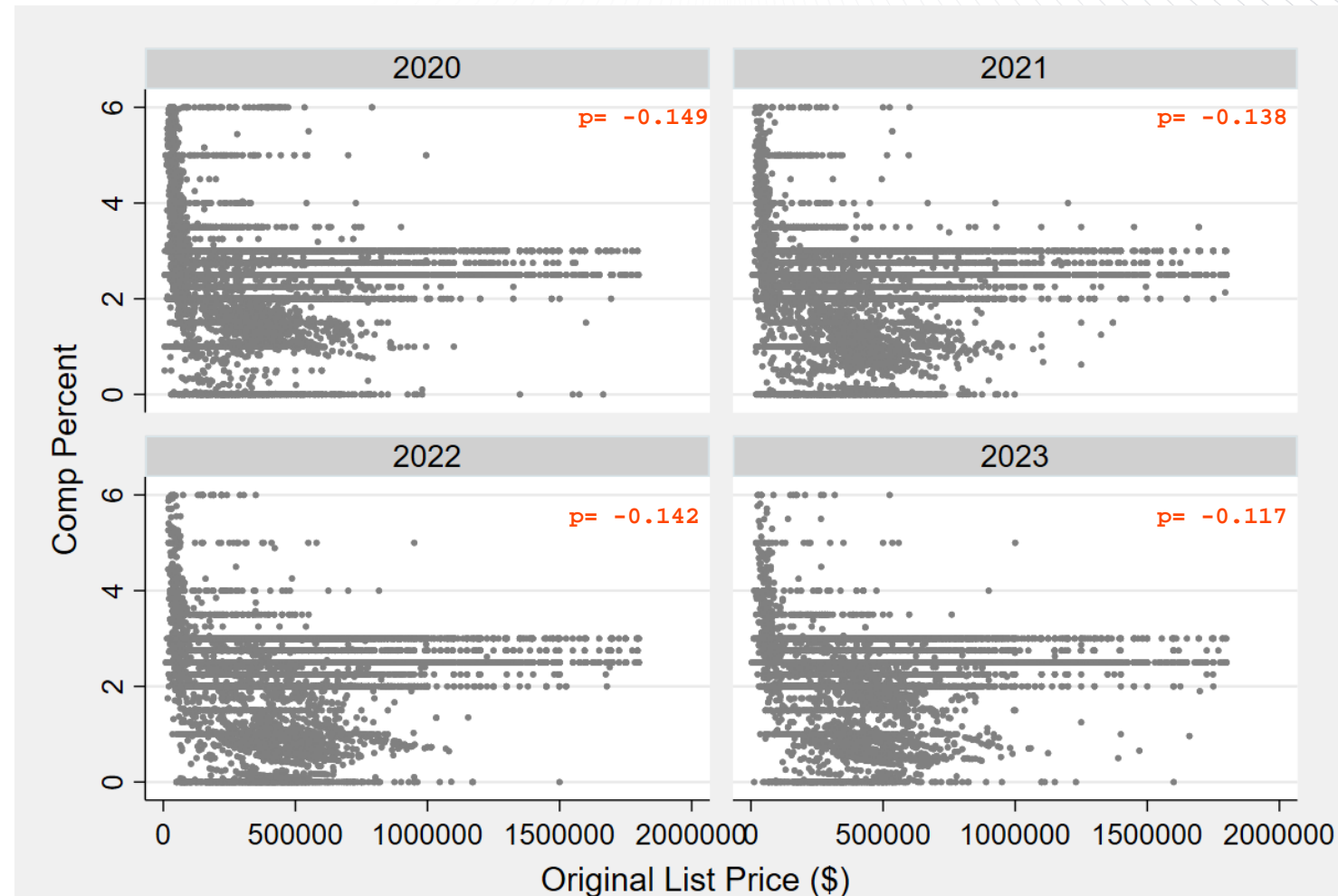


FACT #2: Commissions are not driving up home prices

Correlation Between Compensation Percent and List Prices

If higher commissions led to higher prices, we would expect there to be a positive correlation between compensation percent and list prices. The charts below show scatterplots for **three-bedroom, fee-simple homes** that sold between 2020 and 2023.

As you can see, the correlation between compensation percent and list price is negative, indicating that higher commissions are associated with lower list prices.

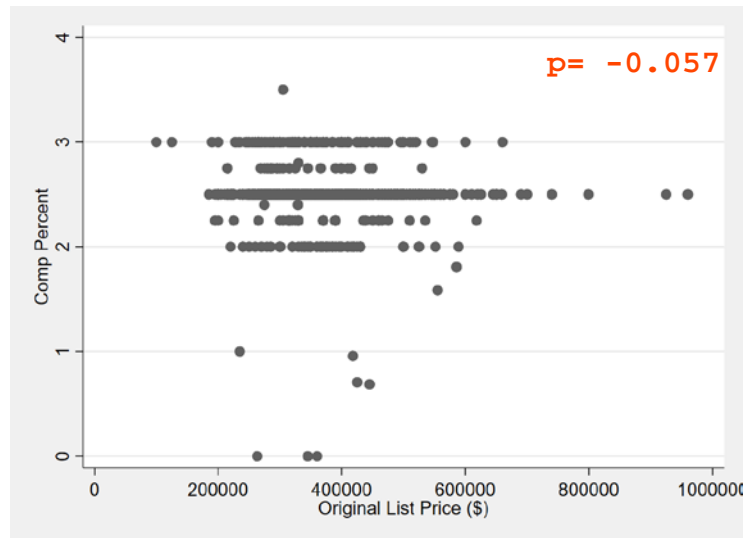


FACT #2: Commissions are not driving up home prices

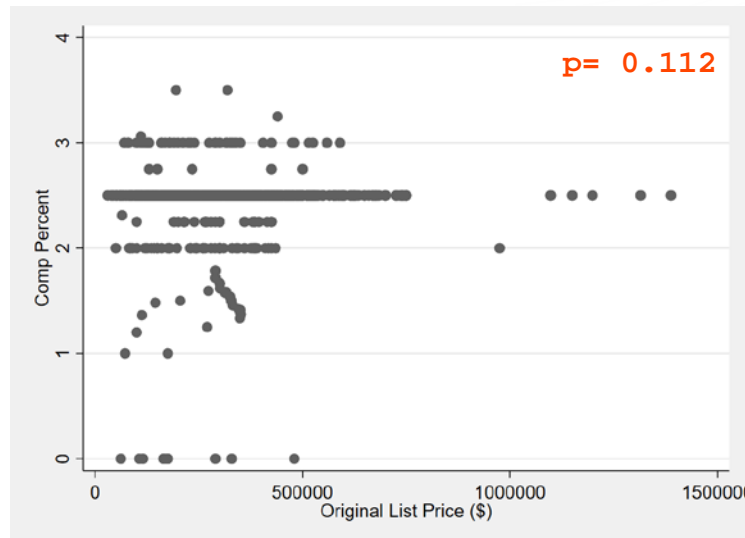
Correlation Between Compensation Percent and List Prices

There is a weak association between commission percent and list prices of three-bedroom, fee-simple homes sold between 2020 and 2023 in three zip codes, though the direction of the relationship is not consistent across zips.

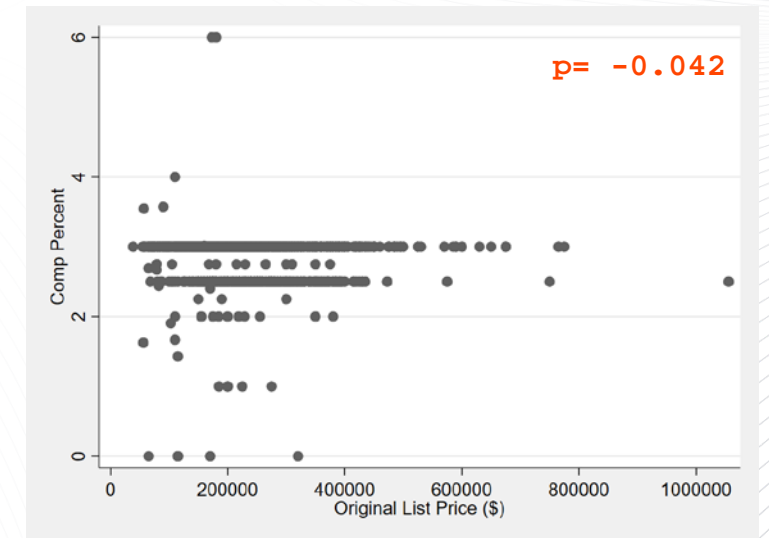
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FACT #2: Commissions are not driving up home prices

Multivariate Analysis – What Explains List Price?

Based on the multivariate analysis of original list price, higher compensation percents lead to lower list prices, holding other factors constant. The most important factors explaining list price are characteristics of the home and mortgage rates.

Compensation variable sign is negative. As the compensation increases by 1 percentage point, a home's list price decreased by \$21,523.

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areg originallistprice comm_pct listyear age agesq feesimple
bedroomstotal livingarea inventory mort_rate, absorb(postalcode) robust
```

Linear regression, absorbing indicators
Absorbed variable: **postalcode**

Number of obs = 1,000,525
No. of categories = 1,620
F(8, 998897) = 35738.73
Prob > F = 0.0000
R-squared = 0.6877
Adj R-squared = 0.6872
Root MSE = 1.472e+05

originallis~e	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]	
comm_pct	-21523.45	986.3358	-21.82	0.000	-23456.63	-19590.26
listyear	31091.81	332.6492	93.47	0.000	30439.82	31743.79
age	-20.22475	4.83467	-4.18	0.000	-29.70054	-10.74896
agesq	.001378	.0006146	2.24	0.025	.0001734	.0025826
feesimple	100431.4	1980.686	50.71	0.000	96549.29	104313.4
bedroomstotal	88014.46	8021.531	10.97	0.000	72292.53	103736.4
livingarea	29.94023	13.14738	2.28	0.023	4.171801	55.70866
mort_rate	-2184.986	181.0916	-12.07	0.000	-2539.919	-1830.052
_cons	-6.28e+07	672480.1	-93.39	0.000	-6.41e+07	-6.15e+07

Note: Excluded top 1% original list prices

FACT #3

Listing a home on the MLS creates an open and fair housing marketplace.

- When brokerages hold listings to sell as “office exclusives,” they are keeping information about available homes for sale from a lot of prospective buyers.
- There is evidence that the practice of holding listings off the MLS and marketing them within a single brokerage reinforces residential segregation patterns and creates an unfair housing marketplace.



FACT #3: Listing a home on the MLS creates an open and fair housing marketplace

Research has shown how the practice of using private networks to market homes negatively impacts minority homebuyers

- A 2018 study of the real estate market in Houston found that listings marketed off the MLS in the form of a pocket listing results in discrimination in the housing market:
 - Minority homebuyers are much less likely to get information about homes available for sale.
 - Pocket listings are most likely to circulate information about pocket listings to predominantly white networks.
 - The result is that the practice of pocket listings increases housing inequalities and raises fair housing concerns.

Korver-Glenn, Elizabeth. 2018. Brokering Ties and Inequality: How White Real Estate Agents Recreate Advantage and Exclusion in Urban Housing Markets. Social Currents 5(4): 350-368.

FACT #3: Listing a home on the MLS creates an open and fair housing marketplace

Summary of Neighborhood Characteristics

OE Listings vs. Non-OE Listings: Bright MLS Service Area

Comparing Neighborhoods

In an analysis of closed sales in the Bright MLS service area between 2020 and July 2023, we found that office exclusive listings were more likely than non-OE listings to be in neighborhoods with higher shares of white residents.

OE listings were also more common in higher-income neighborhoods.

Neighborhood Percent White

State	OE	Non-OE	Diff (OE-non OE)*
Overall	61.7%	59.0%	2.7%
DC	40.5%	36.9%	3.6%
DE	73.2%	63.5%	9.7%
MD	57.8%	53.4%	4.4%
NJ	66.7%	63.6%	3.1%
PA	70.0%	69.6%	0.4%
VA	53.8%	51.6%	2.2%

*Statistically different at the 1% level

Neighborhood Median Household Income

State	OE	Non-OE	Diff (OE-non OE)*
Overall	\$114,504	\$98,609	\$15,895
DC	\$119,527	\$105,674	\$13,853
DE	\$78,469	\$75,786	\$2,683
MD	\$126,198	\$100,153	\$26,045
NJ	\$96,789	\$93,007	\$3,782
PA	\$95,691	\$84,093	\$11,598
VA	\$141,809	\$127,867	\$13,942

FACT #3: Listing a home on the MLS creates an open and fair housing marketplace

Sales are quicker on the MLS

Results from our 2022 study of on- and off-MLS sales found that office exclusives take longer to sell than listings originally marketed on the MLS

Total Office Exclusives:	5,599	100.0%
Eventually listed and sold on the MLS	3,525	63.0%
Sold off-MLS	703	12.6%
Not sold (as of March 31, 2022)	1,371	24.4%

Days to Contract (Median)	
On-MLS sales	7 days
Office exclusives that ultimately sell on-MLS	24 days
Excess time to seller with office exclusive	18 days

Median Sales Prices	
Office exclusives sold on the MLS	\$550,000
Office exclusives sold off-MLS	\$450,000
On-MLS premium	22.2%

FACT #4

Homebuyers highly value a knowledgeable, professional buyer's agent.

- Recent consumer research conducted by Bright MLS found that people believe it is important that homebuyers have their own representation during the transaction.
- Consumers believe that the real estate agent should be compensated fairly. By and large, fees should not go to online portals or other advertising sites.

Source: Bright MLS focus group of 110 recent homebuyers and renters, December 2023



Value of a buyer's agent research

- The industry needs more information about what consumers understand about the homebuying process and what they need from an agent.
- While there have been other surveys on opinions about and experiences working with agents, much of the prior research has been very high level, without the in-depth insights needed to truly understand what consumers value.
- Bright MLS conducted this research to develop a set of resources brokers and agents can use to communicate their value to homebuyers.



Virtual consumer discussion

Goal: Collect in-depth information on consumers' experiences and attitudes about real estate agents and brokers

When: December 2023

Participants: 85 recent homebuyers, 15 renters

Mode: Hour-long, virtual guided discussion

Key Takeaway

Consumers think it is important that homebuyers have their own representation during the transaction.

But agents don't necessarily do a good job explaining their value.

FACT #4: Homebuyers highly value a knowledgeable, professional buyer's agent

Consumers think it is important for buyers to have representation

Which of the following statements do you agree with most?

When you buy a home, you should definitely have someone who represents your interests during the whole process.

76%

Buying a home is something you can do mostly on your own, perhaps with a lawyer to help with the paperwork.

24%

Quotes from participants

"It's important to have professional help so you don't make a huge financial mistake."

"Because the process can have its challenges, I'd rather have someone with experience helping me."

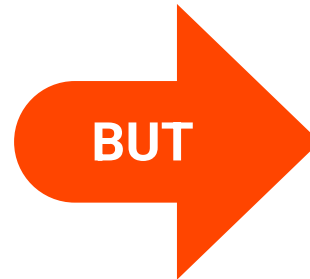
Source: Bright MLS focus group of 110 recent homebuyers and renters, December 2023

FACT #4: Homebuyers highly value a knowledgeable, professional buyer's agent

Consumers do not think portals are a replacement for representation

According to participants...

Online real estate portals have significantly improved the homebuying process by making it easier to access information, compare homes, find homes with specific characteristics, request home viewings, see virtual house tours, narrow down choices, and search from long distances.



- Consumers feel overwhelmed by the amount of information available online.
- Most agree that while you can view homes online, it's still important to work with an agent.
- Human interaction during the homebuying process is extremely valuable.
- An agent has knowledge and expertise that is not available through an online portal.

Source: Bright MLS focus group of 110 recent homebuyers and renters, December 2023

THE RESEARCH

Summary

FACT #1

Agents do not “steer” buyers to homes with higher buyer agent commissions

FACT #2

Commissions are not driving up home prices

FACT #3

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FACT #4

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