Minimum Service Requirements, Limited Brokers and Menuing of Services

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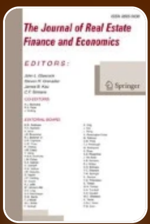

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Abstract

In the past few years, many states have responded to the increasing number of limited service brokers by passing minimum service requirements. Limited service brokers can be viewed as those brokers who are offering their marketing and representative services A La Carte as opposed to the more traditional full-services brokers offering of a Table D'hôte (one size fits all) for their services. Supporters claim the legislation is necessary to protect consumers who are otherwise hurt by limited service brokers, but critics assert that this legislation is anti-competitive and not necessary. This study provides empirical evidence that sellers using limited service brokers experience a trade-off between a higher selling price and longer marketing spans with accompanying lower probabilities of finding a buyer during a given marketing period.

Notes

1. Though not technically correct, the term broker is used in this work to represent both the brokerage company and the salespeople within that company. The term agent is specifically avoided so as to avoid confusion over being an agent and agency duties.

2. These anecdotes are reported in many news stories, including the February 2006 edition of Realtor® magazine in an article entitled "Is Real Estate Anticompetitive?"

3. The letter from the DOJ and FTC to the Alabama Senate can be found here: http://www.justice.gov/atr/public/comments/209001.htm. Comments by the DOJ and FTC to other states can be found here: http://www.justice.gov/atr/public/real_estate/fee_details.htm.

4. The District of Columbia (D.C.) is reported as a state in this present study. The district has its own licensing requirements, is represented by its own Association of Realtors® within NAR, and is at the doorstep of the Federal government; therefore, it seems reasonable to account for this area independently in this study.

5. While there is no mandate that MSR only cover services to sellers, Alabama's, the sampled state, MSRs are aimed exclusively at sellers. Anecdotally, this seems to be the case in most states. Omission of buyers from MSRs could possibly lead to some inequities. However, this issue is beyond the scope of this present study.

6. While the authors do not directly control for marketing time in their hedonic pricing models, they do include a control variable for the impact of unsold properties.

7. Similar to the difficulties experienced by Levitt and Syverson, it is likely that some "one-off" limited service marketing arrangements were made by brokers in traditional full-service firms. However, these numbers are most certainly small and their presence in the pool of full-service brokers only serves to strengthen this present study's results in that but for their appearance in the full-service pool by some limited service brokerage arrangements significance

levels would be greater than reported. Additionally, isolating and removing these observations is not feasible due to the nature of the definition of limited service brokers and corresponding paucity of the data.

8. While the sample market is well known for its stability, specifying a market-swing control (FEDFUNDS) captures any variability caused by market condition to which rates are historically tied.

9. The validity of the instrumental variables is always a concern with 2SLS modeling. In order to address this issue, the Sargan test is performed. The results indicate that our instruments are uncorrelated to our residuals and are therefore satisfactory instruments.

10. Rutherford, Springer, and Yavas (2007) do not jointly estimate property price and time on market while examining the impact of broker-owned condominiums on these two metrics. However, the authors do incorporate information regarding unsold properties into their reported hedonic estimations. In addition, a similar work in the commercial literature by Fisher, Gatzlaff, Geltner, and Haurin (2004) investigates the determinants of transactional frequency.

11. Some might question the level of significance associated with *LSB* in Table 4, however if one considers that a Type II error (beta error), which is essentially a false negative is what is most important here, acceptance at the 10% level seems reasonable. More specifically, while there is strong evidence to support longer marketing spans and lower probabilities of a transaction, it seems unwise to not consider weaker but otherwise convincing evidence that a choice is being made by consumers. Failure to recognize the possibility of this tradeoff only supports one side of the argument, while recognizing this tradeoff suggests something entirely different than what has been proposed by the two competing factions is occurring.

12. This interpretive value comes from exponential of the *LSB coefficient* in Table 4 and adding 22% to the mean marketing time for all properties from Table 3.

13. See Zumpano, Elder and Baryla (1996)

14. In actuality, given that full-service commission are market driven to a certain market rate, the average fee from limited service brokers will be less if only one seller takes less than the full amount of marketing and representative services from a limited service broker. Thus, limited service brokers are less expensive than their full-service counterparts because of itemization and not due to brokers (such as discount brokers) discounting their fees. This is all speculation of course as listing side commissions are not available in the data for this study.

15. This might be the case for homeowners of modest means who have benefited from very rapid house appreciation.

16. Here overpricing is expressed as how far the list price is above or below the fitted value from the hedonic pricing model of list price (in percentage). Overpricing could also be due to uninformed sellers setting higher prices. This seems unlikely in light of the pricing premium associated with limited service brokers. Specifically, if this was the case, it would require sellers to systematically overprice and buyers to accept this overpricing, which seems unlikely in a competitive market.

17. Zumpano, Elder, and Baryla (1996) present evidence that distant movers and first-time, inexperienced home sellers are more likely to choose full-service brokers.

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