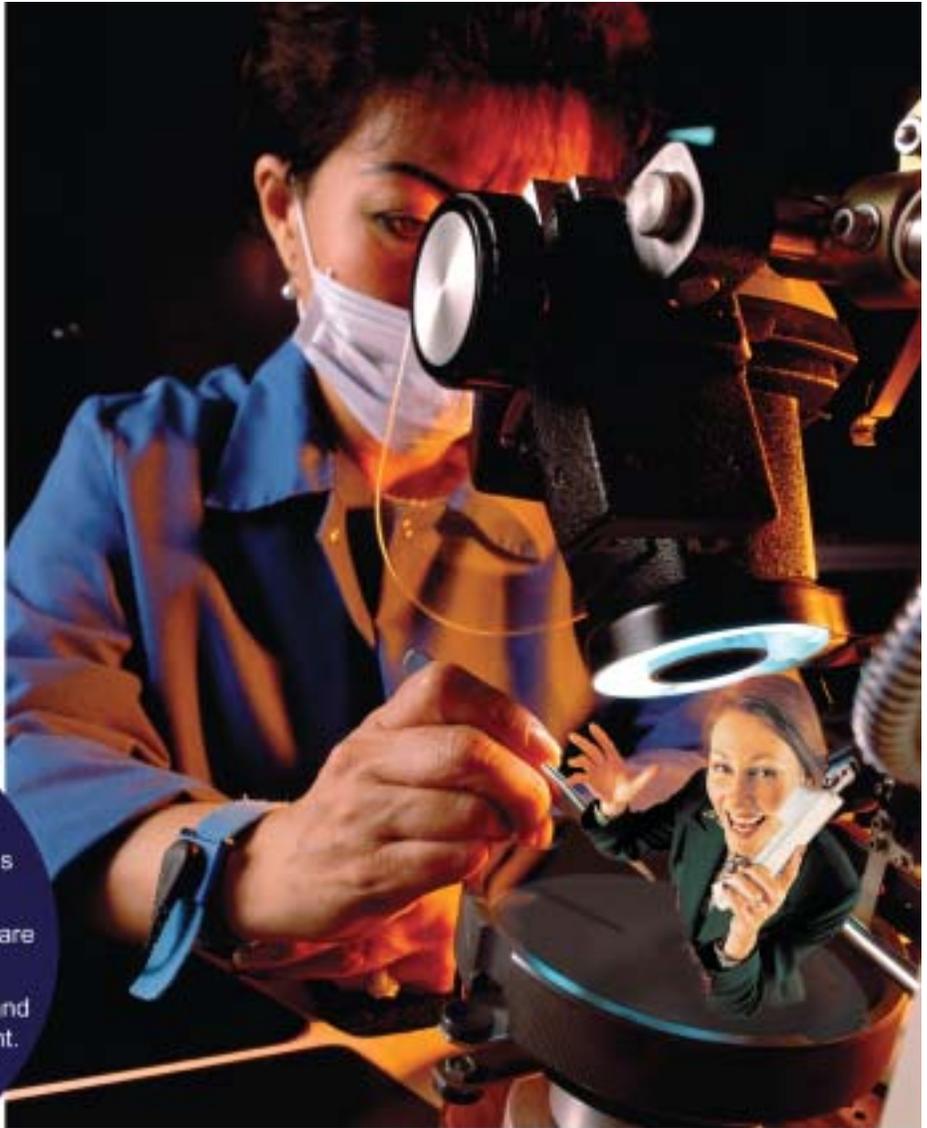


A Reprint from *Tierra Grande*

Brokerage Under the Research Microscope

By Jack C. Harris

- Extraverted, conscientious people are more successful at selling real estate.
- Realtors with professional designations earn more.
- Despite increased liability, more agents are representing buyers.
- Homebuyers are increasingly diverse, and minorities are more likely to use an agent.
- Globalization could reduce real estate commissions in this country.



That's just a sampling of what can be learned from real estate research. At universities around the country, researchers are examining major real estate issues, and convening annually to compare notes. The latest session of the American Real Estate Society met in Naples, Fla. Here are some highlights of what they reported.

Hire an Extravert

Researchers from Upward Motion, Inc., in Toronto, Canada, tested several approaches for predicting the performance of real estate salespeople. They tested three methods for screening job applicants for real estate sales aptitude.

- A *proprietary simulation* requires applicants to respond to typical situations that arise during a real estate transaction. Applicants are rated on how closely their responses match the most effective way to handle each situation.
- A *cognitive ability test* rates applicants on the basis of their ability to learn quickly. Essentially this tests intelligence.

- A *personality profile* rates applicants for characteristics such as extraversion, agreeableness, conscientiousness, emotional stability and openness to experience. The idea is that certain personality traits are more suited to the job of selling, and people possessing those traits will be more successful.

Tests were given to more than 200 experienced agents whose track records were known. Scores were compared to the agents' past performance.

Agents with high simulation scores were top performers about 47 percent of the time, a statistically significant result. While the research found no relationship between cognitive ability and sales performance, combining some of the personality tests with the simulations improved predictability. In particular, higher scores on conscientiousness and extraversion helped predict better sales performance.

Commercial computer software called "Success Profiler" simulates the transaction process from the point of building rapport with the client to closing the sale. The results include

an assessment of the applicant's strengths and areas needing improvement. It can be used as a training resource as well as a recruiting tool. For more information, go to <http://www.upwardmotion.com>.

Professional Designations Pay

Some continuing education is required to maintain a real estate license, but many professionals go a step further by earning professional designations.

Most people assume that this advanced training pays off in more successful careers. Professors at the University of Evansville and Florida Gulf Coast University tested this assumption by surveying full-time Realtors in California, Tennessee and Florida. Researchers defined "career success" based on income, tenure in the business and job status (associate, broker-associate or broker). Statistical methods controlled for other characteristics such as formal education level and age that might have an effect on professional attainment.

The analysis showed that Realtors with professional designations earn an average of \$17,000 more per year and have been in the business an average of 3.8 more years than those without. They also tend to have greater job status, but this association is too weak to be statistically significant.

Researchers also found that designations are associated with respondents' "moral reasoning skills," meaning they tend to make better choices when presented with hypothetical business situations.

Despite Liability, Buyers Reps Flourish

Mandatory disclosure of agency relationships induced wide demand for buyer representation. Most buyers see no downside to having the agent represent them, especially because the seller still pays the commission. Initially, agents saw few reasons to avoid buyer representation agreements. Essentially, agents were freed up to fully serve the buyer and not be governed by the best interests of the seller.

The buyer is more vulnerable to misfortune in any transaction because the seller is more familiar with the property. If anyone ends up dissatisfied with the results, it is likely to be the buyer. And buyers tend to blame the agents who are supposed to be looking out for them. The courts, too, have held buyer agents to a higher level of accountability. As a result, brokers have discovered that representing buyers increases liability.

Researchers from the University of North Alabama and Florida Atlantic University surveyed brokers in Alabama in 1998, 2000 and 2002. In the first two surveys, researchers noted the percentage of agents who represent buyers in at least half their transactions rose significantly after mandatory disclosure went into effect (from 15.4 to 21.7 percent), but then declined (to 16 percent in 2000). The rate rose again in the 2002 survey, as 23 percent of respondents worked mostly as buyer agents.

Researchers point out that the increase in buyer agency is the result of increased consumer demand rather than agent preference. In particular, they found that as agents become more experienced, they are less comfortable working as buyer agents, presumably because they are more aware of the increased liability.

When asked whether they would prefer to act as a buyer agent or a neutral transaction broker, only 42

percent of very experienced agents picked buyer agent compared with 64 percent of inexperienced agents. Two-thirds of the experienced agents disagreed with the statement that buyer agency does not increase liability, while less than half of inexperienced agents disagreed. In spite of this, more than half of very experienced agents said they find themselves increasingly representing buyers. Only 39 percent of inexperienced agents are representing more buyers now than in the past.

Brokers Target Minorities

Housing markets are booming largely because they have become accessible to a wider range of buyers, meaning that real estate agents deal with a more diverse clientele than in the past. Researchers at Cleveland State University and Hawaii Pacific University surveyed brokerage firms in Ohio to document this change in customer base. They also surveyed minority homebuyers in Cleveland to see how they perceive the process.

Ninety percent of the brokerage firms reported that their customer base had become more diverse over the years, while 43 percent said they had undertaken strategies to reach minority groups. The most popular methods were targeted advertising, developing contacts in minority communities and hiring a more diverse group of agents.

Statistical analysis of the data revealed a significant link between efforts to target minorities and diversification of the client base. In other words, the strategies appear to be working.

Analysis of homebuyer data indicates that minorities perceive more difficulties with the homebuying process. Specifically, minority buyers more often mention problems with arranging a down payment (42 percent compared with 22 percent of Caucasians), qualifying for a mortgage (35 percent, 17 percent for Caucasians), difficulties with English (15 percent compared with 3 percent) and cultural differences (7 percent compared with 1 percent). On the other hand, minorities are more likely to use an agent to help find a home (94 percent compared with 79 percent). Apparently, they view agents as experts in overcoming these homebuying obstacles.

Professional Diversity Slow

Women have always been a big part of the brokerage industry and in 1999 made up 58 percent of Realtors. The percentage



BROKERAGE FIRMS work with a more diverse clientele these days, but minorities still perceive more homebuying obstacles than others do.

of women holding broker licenses rose from 21 percent in 1978 to 45 percent in 1999. Ethnic representation in Realtor ranks lags demographic trends, however. In 1999, only 5 percent were Hispanic, and 2 percent were African-American.

Researchers representing American University, University of North Carolina-Greensboro and the National Association of Realtors (NAR) analyzed data from NAR's 1999 membership survey to see how gender and ethnic differences affect earnings. The analysis controlled for differences in experience, education and organizational role of the respondent, and for the size and location of the firm.

The difference in earnings between male and female agents is small (about 4 percent) and statistically weak. It is weakened further when a variable reflecting whether the respondent came to real estate from another profession is introduced.

African-American Realtors earn 28 percent less than whites. Furthermore, African-American males earn 35 percent less than comparable white males, while African-American females lag white females by 15 percent. These results should be considered in light of the fact that less than 2 percent of respondents were African-American.

Globalization May Lead to Lower Commissions

Real estate brokerage has been affected by many forces influencing the business world, especially technology and diversity. So far, however, globalization has not had much impact on the industry.

Real estate markets, especially residential, are essentially local markets; real estate firms do not face foreign competition. However, U.S. commission rates are high relative to other

countries, perhaps suggesting "excess profits" that could dissipate as technology makes price competition more feasible. Researchers at South Alabama University and the University

of Cincinnati compared commission rates for residential sales agents in 30 countries. Commission rates run from a low of 1 percent in the most active market areas of the United Kingdom to a high of 15 percent in the former Soviet republic of Belarus, a market with little available public information. Almost all of the countries surveyed require a license to provide brokerage services.

Researchers used a statistical model to compare the differences in commission rates. Among the factors included were income (in gross domestic product per capita), a corruption index (to measure the risk of doing business), agent representation (typical number of agents involved in a transaction) and sales per agent.

Results revealed that to be in line with those in the rest of the world, the U.S. commission rate should be slightly more

than 4 percent. The researchers also point out that American brokers do not compete on price because firms must cooperate to complete transactions. They suggest that large firms, which may have financial and staffing resources that would allow them to be less dependent on the MLS, may decide to undercut the competition on price and set off a competitive decrease in commission rates. This could change the whole structure of compensation in the industry, leading to lower rates for higher-priced homes and packages of selected services at various prices. ♦

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