



In Search of a Better Deal

Effects of Limited Service Representation and Agent Experience

By James Ford and Ron Rutherford

How does limited service representation affect a property's time on the market and selling price? Do agent experience and licensing level make a difference? Research sponsored by the Real Estate Center revealed that limited service representation and agent experience can indeed have significant impacts.

Changing Services, Fee Structures

Limited service representation and discount brokerages in single-family residential markets have been widely scrutinized by the real estate industry. The Internet portal Yahoo! moved from the sixth most visited real estate website to second (behind *realtor.com*) through its series of partnerships with limited service and discount brokerages.

Some of these brokerages offer consumers menu-based pricing, with fees for specific services, such as listing the property on a MLS system, rather than an across-the-board fee for full representation. Others advertise sharply lower commissions while still promising to provide consumers with all of the traditional services.

This evolution of services and fee structures in the real estate industry can largely be attributed to advances in technology that allow consumers to search for properties online. The agent's role has become more a transaction facilitator rather than gatekeeper of property listings data. Computers and advances in communications have also made the transaction process more efficient.

Research into how agent experience and qualifications affect sales performance is limited. Existing research focuses primarily on the relationship between qualifications and earnings, and finds that a positive relationship exists between Realtor designations and career success. Similarly, reports published by the National Association of Realtors indicate that agents who hold the Certified Residential Specialist certification earn, on average, three times more than the typical Realtor.

However, no research has addressed specific quality of service indicators of residential real estate agents. Such indicators would include marketing performance measures like time on the market and selling price.

Limited Service Research Results

Most of the study results were statistically significant, indicating valid relationships exist between limited service representation and agent experience and marketing performance (time to sale and sales price). Licensing type did not demonstrate such a clear relationship.

Interestingly, the empirical results from the models show that limited service listings sold for 1.7 percent less than typical exclusive-right-to-sell listings and took 17.1 percent longer to sell. Given that the typical discount offered by limited service brokers is approximately 2 percent, there does not appear to be any net gain to sellers using limited service representation.

If the limited service broker charges a total 4 percent commission, then the commission plus the 1.7 percent lower price is approximately equivalent to a 6 percent commission from the seller's perspective. If this result holds up in additional studies, it would indicate that limited service brokerage offers no dollar advantages to the seller over typical brokerage when using the exclusive right to sell contract.

Impact of Agent Experience, Licensing

Sellers using listing agents with less than two years of experience received 1.1 percent less for a house compared with sellers who used agents with two to five years of experience, and the marketing time was 1.9 percent longer. While 1.1 percent may not seem to be a large amount, it represents more than \$1,900 for the average property in the sample. If the listing agent had more than five years of experience, the seller received 0.8 percent more than sellers who used agents with two to five years of experience, and the property sold 1.5 percent faster.

Buyers using selling agents with fewer than two years of experience paid 1.1 percent less for a house compared with buyers who used agents with two to five years of experience. If the selling agent had more than five years of experience, the buyer paid 0.4 percent more than buyers who used agents with two to five years of experience.

When both the listing agent and the selling agent had more than five years of experience, these impacts seemed to cancel each other out. When both the listing and selling agent had less than two years of experience, homes sold for 2.2 percent less than when the agents had two to five years experience. Further research is needed to investigate the effects of having an experienced agent on one side of the transaction and a relatively inexperienced agent on the other.

Finally, whether listing and selling agents were licensed as brokers or salespersons was analyzed. Results indicated that properties listed by brokers sold for 0.8 percent less than those listed by salespersons, and with a slightly longer marketing time (not a statistically significant difference). When the selling agent representing the buyer was a broker, the sales price was marginally higher, but not statistically significant.

The real estate industry will continue to evolve as technology and new business models are introduced. This study suggests that limited service representation is not necessarily a better deal than typical representation when considering exclusive right-to-sell listing agreements. Although results were less conclusive with regard to licensing levels, real estate consumers should be aware of the qualifications of agents hired to represent them.

Additional research may be warranted to analyze these effects on specific submarkets, such as the low-cost versus luxury housing segments. ♦

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about this Study

This study was conducted to analyze whether limited service representation, agent experience and type of license have discernible impacts on residential property sales. Because time to sell and selling price are primary considerations for consumers when they list their properties with an agent, the study focused on these two measures of market effects.

The authors constructed a set of statistical models to examine these issues. A sample of more than 55,000 residential transactions from the Dallas-Fort Worth Metroplex were modeled, controlling for location, physical characteristics of the property and market conditions. Average time on the market for the properties in the sample was 90 days; average sales price was \$175,270.

Sales data included information such as whether the listing was a limited service listing (the MLS system required limited service listings to be marked as such) as well as information on the listing and selling agents. Agent information was matched with Texas Real Estate Commission (TREC) data to track agent experience levels and license type with each transaction. Agents were categorized by whether they held broker or salesperson licenses, and further categorized into three experience levels:

- agents with less than two years of experience (licensed in Texas for less than two years);
- agents with two to five years of experience; and
- agents with more than five years of experience.

Two models were formulated from this data. The first model analyzed the effect of selected variables on the number of days the property was listed on the market (the MLS system) until the contract date. The second model estimated the effect of selected variables on the selling price. ♦