



Dispelling Myths About Real Estate Commissions

**An Analysis of the
MLS Now Housing Market**

Introduction

In the wake of recent class action litigation and settlement, there has been a lot of uncertainty and misinformation about how real estate professionals actually work with clients. There is also not enough information being shared about how the multiple listing service (MLS) supports an efficient housing market.

The purpose of this study is to analyze actual home sales data in the MLS Now service area to address some inaccurate perceptions. MLS Now undertook this research on four years of home sales transactions and found that many statements that have been reported in the media are simply not supported by actual market data.



Background

The National Association of REALTORS® (NAR) has reached a settlement agreement in the litigation against NAR and many brokers, associations, and MLSs. The agreement would resolve nearly all of the lawsuits, in exchange for NAR paying hundreds of millions of dollars and requiring brokers, agents, and MLSs to adopt new policies and procedures.

While many current processes will not change, the settlement does change some things about how

agents and brokers negotiate with clients. One change has to do with the offer of buyer agency compensation and how real estate agents who represent buyers will be paid. Multiple listing services, including MLS Now, have collected data on the offer of compensation offered by sellers and their agents to a buyer's agency. This is the "offer of compensation" that has been at the heart of recent litigation and the settlement.

Buyers and sellers have always been able to negotiate commissions with their agents, and that practice will continue. In the wake of the settlement, sellers can also still agree to have their agent share part of their commission with a buyer's agency. And sellers can still offer to pay a buyer's broker directly or offer concessions for buyers to apply to closing costs. Alternatively, buyers may pay their real estate agent directly or ask the seller to cover those costs. Of course, buyers and sellers may still choose to go without representation during the transaction.

The settlement prohibits listing agents from using the MLS to communicate offers to pay a buyer's agency. Listing agents may still communicate those offers, just not through the MLS and websites that rely on the MLS for property information. The settlement also will require buyers to sign a buyer-representation agreement with their chosen agent, agreeing on how much the buyer's agency will be paid.

While the changes related to buyer agency compensation as part of the proposed settlement are scheduled to go into effect in August 2024, it is still important for consumers to understand how the offer of buyer agency compensation has worked historically in order to dispel myths that have been repeated in the media and by government agencies and which have confused homebuyers and sellers and misrepresented the ways in which real estate professionals do business.

Background

MLS Now collaborated with real estate researchers to conduct an analysis of more than 220,000 home sales transactions that took place in the MLS Now service area between 2019 and 2023. The results of this research show that some of the most commonly asserted statements about real estate commissions are simply not supported by market data.

How We Conducted This Research

The MLS Now service area includes 32 counties in eastern Ohio and northwestern West Virginia. In 2023, more than 63,000 home sales transactions totaling more than \$12 billion in sold volume were transacted through MLS Now.

For this analysis, researchers examined data on 222,944 real estate transactions listed with MLS Now between 2019 and 2023. The MLS does not collect—and has never collected—data on seller agent compensation or actual compensation paid to a buyer's agency. However, the MLS does include data on the offer of buyer agent compensation made by the seller and his or her agent. This data was used to analyze how the offer of buyer agent compensation has changed over time and to examine relationships between the offer of buyer agent compensation and market outcomes.

Fact #1

There is variation in the offer of buyer agency compensation

Over the years, research has been conducted that purports to show a high degree of uniformity in the offer of buyer agency compensation across markets and over time.¹ This research has been used to claim that real estate agents have fixed commission rates. In reality, real estate commissions have always been negotiable.

Research on buyer's agency commissions necessarily focuses on the offer of compensation, and not the final amount of compensation received by the buyer's agency. The former is recorded in the MLS while the latter is negotiated and is not required to be recorded as part of an MLS listing. Therefore, research that claims that there is uniformity in buyer agent commissions does not actually examine the final negotiated amount of compensation received by a buyer's representative.

Furthermore, even when examining the offer of buyer agent compensation, there is evidence that in the MLS Now service area, the offer of compensation has varied over time and across home prices.



What the Data Says

Analysis of more than 220,000 home sales transactions in the MLS Now service area shows:

- The amount offered to a buyer's agency varies substantially across listings
- Offers of buyer agent compensation have declined over time in response to an increasingly competitive housing market
- As a percent of the home price, offers of buyer agency compensation are lower for higher-price homes

Among properties listed on MLS Now between 2019 and 2023, the average offer of buyer agency compensation was 2.56% of the home price with a median offer of 2.5%. There is a fair amount of variation across the time period, with about 37% of transactions having an offer of buyer agency compensation below 2.5%, another 37% between 2.5% and 3%, and 25% with offers of 3% and above.

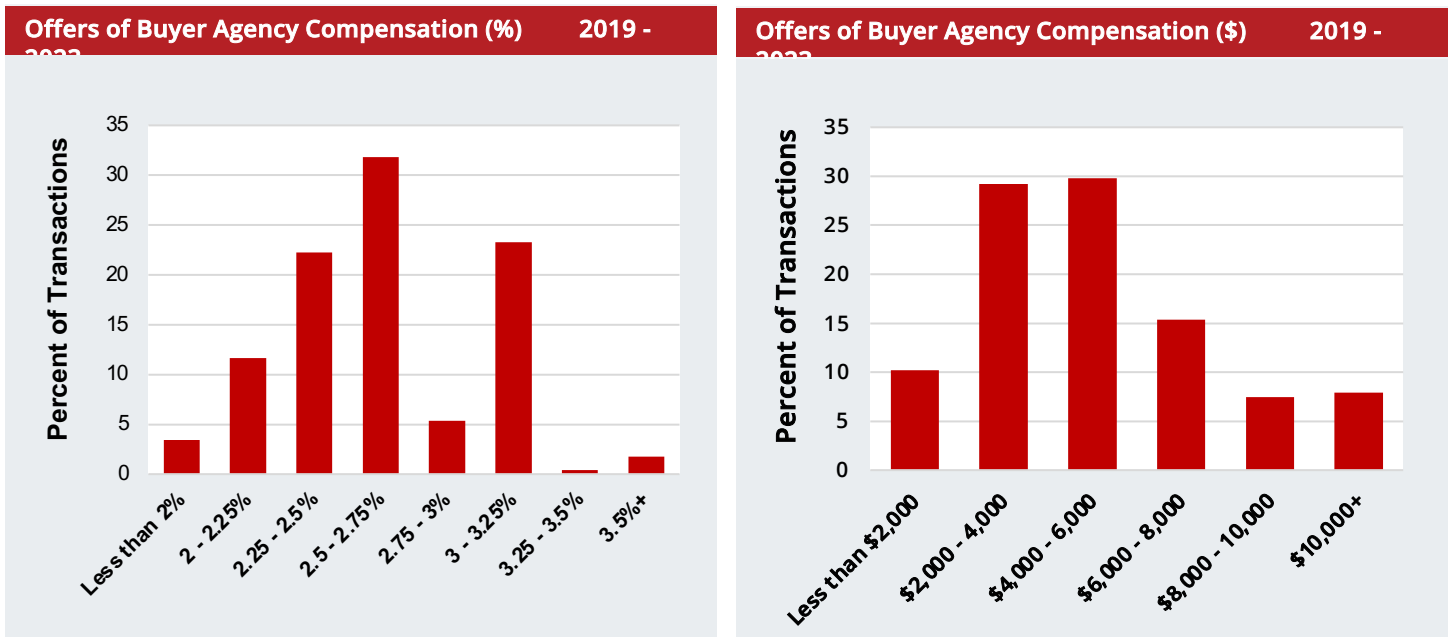
When the offer of buyer agency compensation is calculated as a dollar value, instead of simply as a percent, the analysis reveals that there is significant variation in the amount of compensation offered.

Over the four-year period 2019 through 2023, the average offer of buyer agent compensation was \$5,336 (with a median of \$4,540). The coefficient of variation—which is a measure of how much variability there is in a metric and is calculated as the standard deviation divided by the mean—is 0.683 over the four-year period, indicating substantial variation. About 39% of transactions included an offer of buyer agency compensation of less than \$4,000, 30% were between \$4,000 and \$6,000, and 30% were offers of \$6,000 or more.

Figure 1. Summary Statistics – Offers of Buyer Agency Compensation

	Percent of Home Price		Dollar Amount	
	Average	Median	Average	Median
2019	2.69	2.65	\$ 4,904	\$ 3,950
2020	2.64	2.54	\$ 4,981	\$ 4,280
2021	2.56	2.50	\$ 5,257	\$ 4,500
2022	2.52	2.50	\$ 5,539	\$ 4,733
2023	2.50	2.50	\$ 5,735	\$ 4,998
2019-2023	2.56	2.50	\$ 5,336	\$ 4,540

Figure 2. Distributions of Offers of Buyer Agency Compensation



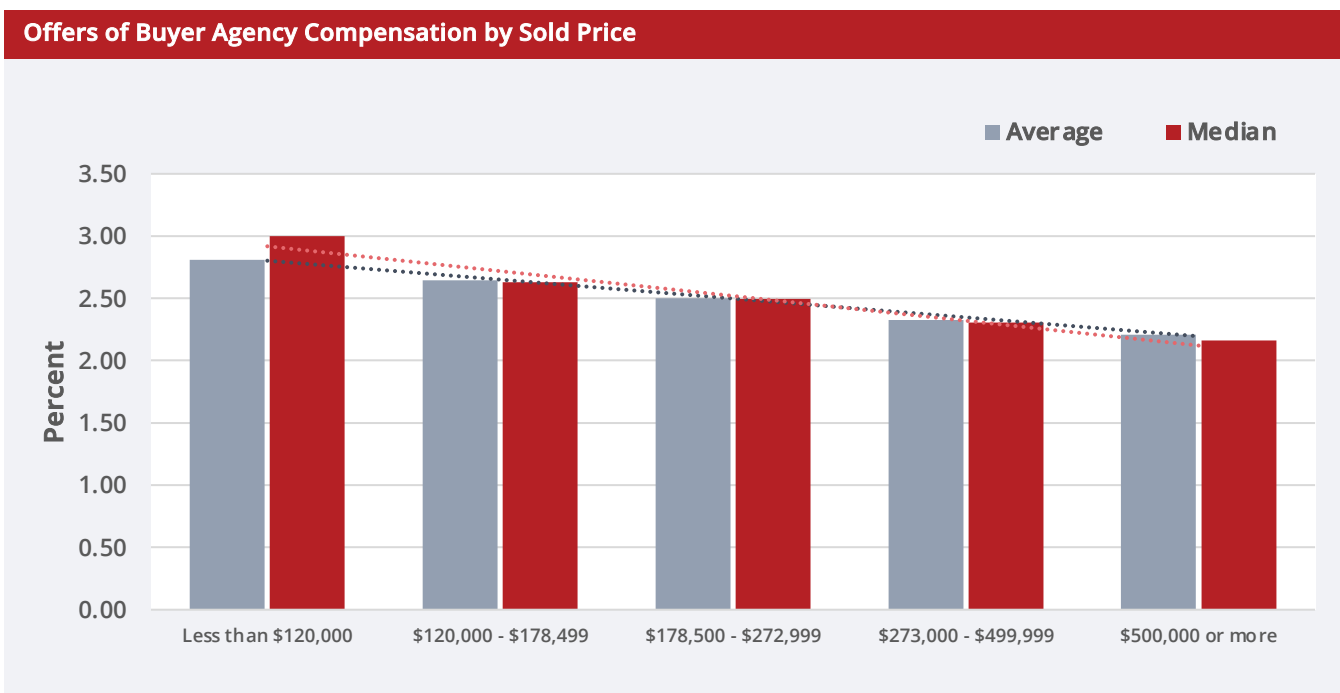
In the MLS Now service area, graduated offers of buyer agency compensation are very common.

Nearly half (46.9%) of all listings between 2019 and 2023 had graduated offers of compensation, where the offers were based on a percentage of the home price but varied depending on that price.

In listings with a graduated offer of compensation, the effective offer percent was calculated using the final sale price and the varying percent. This practice of an offer of compensation based on a graduated percent reflects the fact that agents do not offer a blanket percentage offer regardless of the home price. In fact, the average offer of compensation very clearly declines with home price.

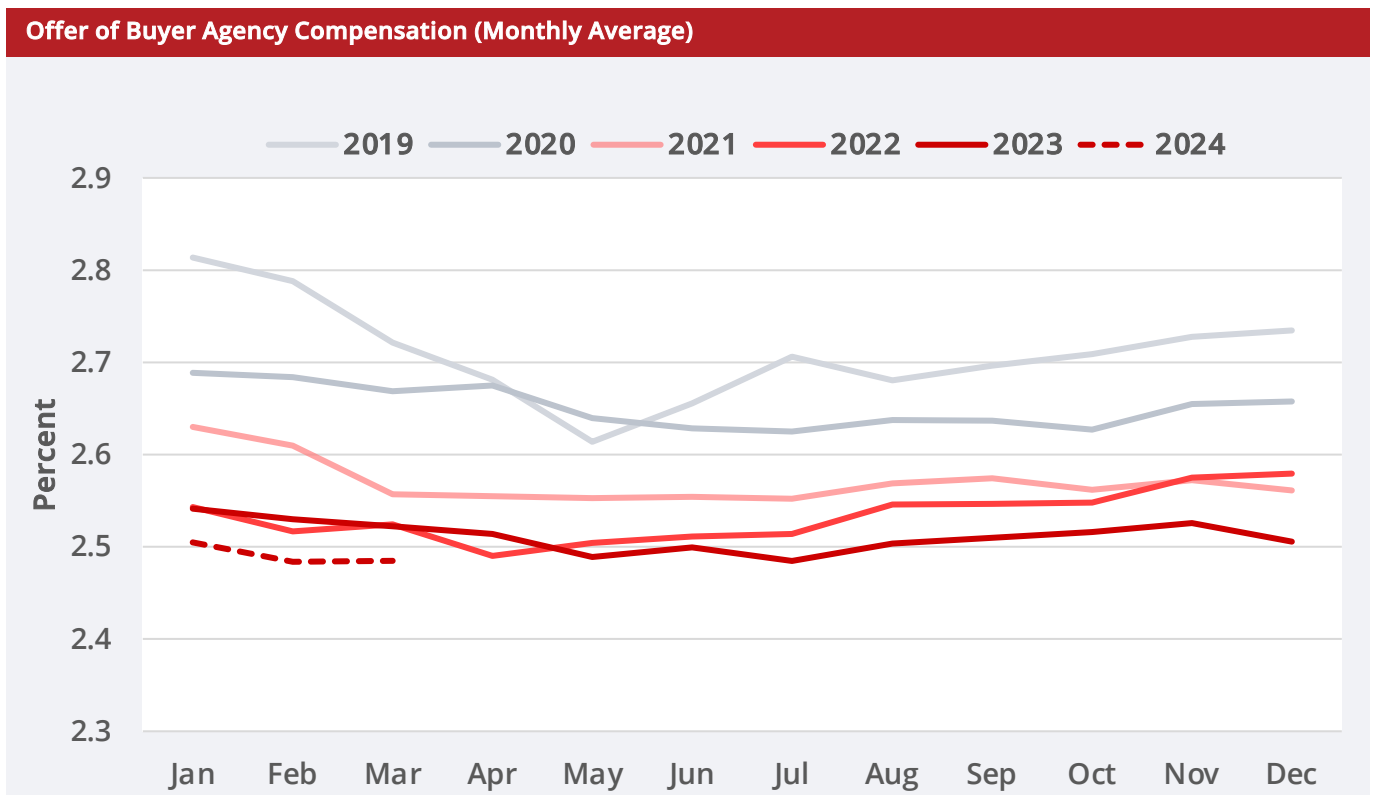
Example of graduated offer of buyer agent compensation: 2.5% of first \$100,000 of sale price; 1.5% of second \$100,000 of sale price; 0.75% of remainder

Figure 3. Offers of Buyer Agency Compensation by Sold Price



Furthermore, data from MLS Now transactions indicates that offers of buyer agency compensation do vary to reflect market conditions. As the housing market heated up in 2021 and 2022, the offer of buyer agency compensation fell. The falling offers to buyer's agency comes at the same time that the market was highly skewed in sellers' favor and when finding a buyer was easier than in a more typical market. The lower offers of commissions to the buyer's agency in 2021 through 2023 reflects the competitive market, with sellers and their agents indicating that they do not need to compensate an agent as much to bring a buyer to the table.

Figure 4. Offer of Buyer Agency Compensation (Monthly Average)



Fact #2

Real estate commissions do not drive up home prices

Reporting on the recent settlement has suggested—and in some cases, outright stated—that real estate commissions are causing high home prices. The suggestion has been that a seller will increase the list price of his or her home in order to cover the cost of the buyer's agency compensation.

Home prices have escalated over the past few years, and it is tempting to want to place the blame on one industry or practice. However, strong demand fueled by low mortgage rates and historically low inventory has created a super-competitive housing market for homebuyers, which has led to fast-rising home prices.

The primary drivers of home prices include properties of the home, quality of the neighborhood, inventory, mortgage rates, demographics, and labor market conditions. The compensation received by real estate professionals to help homebuyers and sellers through home sales transactions is not a primary factor in the level or growth of home prices.



What the Data Says

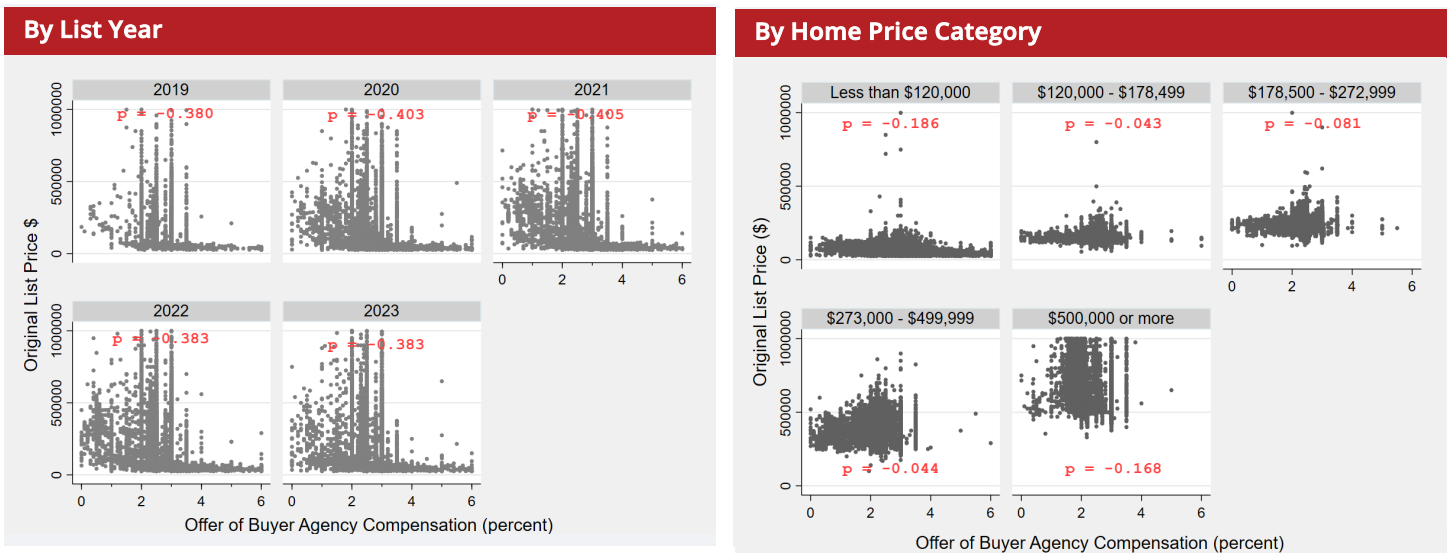
Analysis of four years of home sales and home price data in the MLS Now service area shows that there is no relationship between the offer of compensation to the buyer's agency and home prices. In fact, the offer of compensation to the buyer's agency, as a percent of home price, declines for higher-price homes.

If higher offers of compensation led to higher prices, we would expect there to be a positive correlation between the offer of compensation and list prices. The charts below show scatterplots for homes listed between 2019 and 2023 in MLS Now, restricted to homes with close

prices of less than \$1,000,000 (for easier display). The correlation between compensation percent and list price is consistently negative across year

Examining the relationship within home price bands shows a similar result. Within different home price categories, there is a negative relationship between the list price of a property and the offer of compensation to the buyer's agency as a percent of the home price. This negative relationship suggests that there is no evidence that sellers increase their asking price to offset higher offers of compensation to the buyer's agency.

Figure 5. Correlations: Offer of Buyer Agency Compensation and Original List Price *By List Year*



There are many other factors that drive home prices. A multivariate analysis accounts for a set of factors that influence how much a property is listed for. Using a multivariate analysis to look at the relationship between the offer of compensation and original list price can help us see if other factors are “masking” a positive relationship between compensation rate and list price.

The estimation includes zip code (zip) as an absorbed variable, which means the model is accounting for differences across zip codes.

Other explanatory variables included year of the sale and characteristics of the property (e.g., age of the home, number of bedrooms). In addition, we included the average rate on a 30-year fixed rate mortgage during the month the property sold.

The dependent variable is the log of the original list price.

Based on the multivariate analysis of list price, higher compensation percents are associated with lower list prices, holding characteristics of the property and mortgage rates constant. Therefore, after controlling for other factors, we find no evidence that higher offers of buyer agency compensation lead to higher home prices.

Figure 6. Multivariate Regression Analysis
Dependent Variable: Log(Original List Price)

Linear regression, absorbing indicators
Absorbed variable: zip

Number of obs = 222,478
No. of categories = 839
F(6, 221633) = 20114.86
Prob > F = 0
R-squared = 0.6438
Adj R-squared = 0.6424
Root MSE = 3.83E-01

Dependent Variable: Log(Original List Price)	Coef.	Robust Std. Err.	t	P>t	[95% Conf.	Interval]
Offer of Compensation (percent)	-0.298	0.003	-93.500	0.00	-0.30	-0.29
List Year	0.061	0.001	46.830	0.00	0.06	0.06
Age of Property	-0.013	0.000	-120.080	0.00	-0.01	-0.01
Age of Property (squared)	0.000	0.000	63.740	0.00	0.00	0.00
Total Bedrooms	0.257	0.002	169.330	0.00	0.2535524	0.259491
Mortgage Rate	0.0043544	0.000913	4.77	0.00	0.002565	0.0061438
Constant	-110.746	2.632592	-42.07	0.00	-115.9058	-105.5862

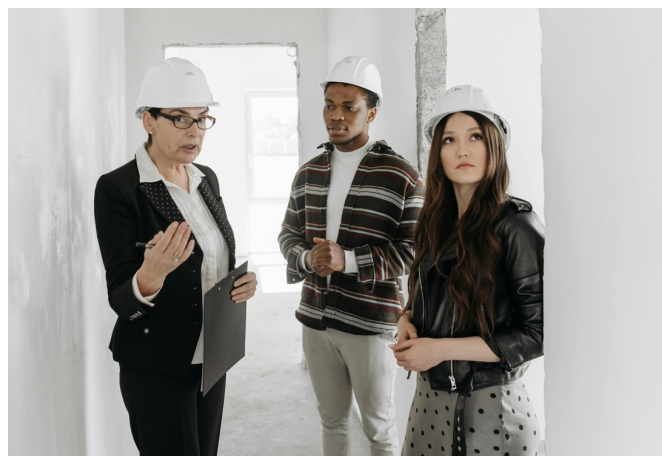
Fact #3

Agents do not steer buyers to homes with higher offers of buyer agency commissions

The statement that buyers are “steered” away from homes with lower buyer agent commissions has been made repeatedly during recent class action litigation and in the media. However, the research that is cited about so-called “steering” does not reflect current housing market conditions. Analysis of over 220,000 home sales transactions taking place across eastern Ohio and northwestern West Virginia shows no such relationship between sales activity and commissions.

The first study purporting to show that listings with lower commission offers take longer to sell examined home sales in the Boston area between 1998 and 2011 to conclude that homes with lower buyer agency commissions were more difficult to sell. But there have been major changes in the housing market since that study, making the findings largely irrelevant. In particular, the research was conducted on sales that occurred long before online searches became common to the homebuying process. Most buyers are looking for homes online, along with working with a real estate professional. Because home shoppers are seeing properties online, it would be difficult to convince a buyer not to see a particular home, making it simply impractical for a buyer's agency in today's market to engage in the type of systematic steering being suggested.

The second study looked at the correlation between buyer agency commissions and listing page views on an online real estate portal. The study's results are unconvincing. The website used in the study does not permit users to filter or sort their home-search results based on the amount offered to their buyer broker; therefore, it is not reasonable to conclude that lower page views were due to lower offers of compensation. Instead, it would be more reasonable to assume that some other variable that the study did not account for—like the attractiveness of the home, the photos, and the descriptive information—accounted for lower page views for those homes. In addition, the study looked at relatively few listings in each metro area.



What the Data Says

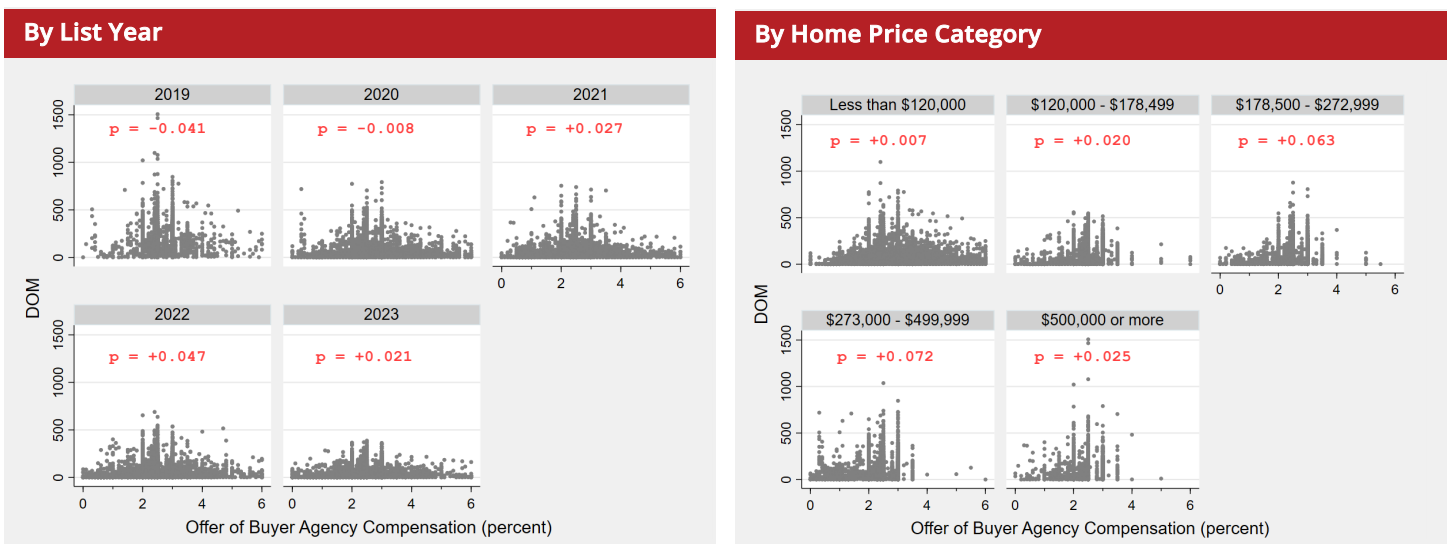
In the MLS Now service area, when examining over 220,000 home sales transactions over a four-year period, there is no evidence to suggest that properties with a lower offer of compensation to the buyer's agency take longer to sell.

If buyer's agency were, indeed, "steering" their buyers away from listings with lower offers of compensation, then we would expect those homes to take longer to sell. In this situation, there would be a negative correlation between the offer of compensation and days on market. If "steering" is truly happening, when there is a higher offer of compensation to the buyer's agency, the home should sell more quickly, and when the offer of compensation is lower, the home should take longer to sell.

The correlation between the offer of buyer agency compensation and days on market shows no relationship between the two. The correlation coefficient between offer of compensation and length of time to sell is very close to zero, but it is more likely to be positive, rather than negative.

There is no evidence that homes take longer to sell when the offer of compensation is lower across the four years of data or across price points.

Figure 7. Correlations: Offer of Buyer Agency Compensation and Days on Market



Similar to the list price analysis, we conducted a multivariate analysis of days on market and compensation. After controlling for the property's list price, the year the property sold, the age of the home, the number of bedrooms, the average mortgage rate during the month the property sold, and zip code, the relationship between compensation percent and days on market is positive and not negative.

All variables included in the model are significant predictors of days on market at the 1% level. The coefficient on compensation percent is significant and it is positive, which means that controlling for other factors, properties with higher offers of buyer agency compensation take longer to sell compared to similar properties with lower offers of compensation.

Figure 8. Multivariate Regression Analysis
Dependent Variable: Days on Market

Linear regression, absorbing indicators
 Absorbed variable: zip

Number of obs = 222,477
 No. of categories = 839
 F(7, 221631) = 1554.32
 Prob > F = 0.0000
 R-squared = 0.1997
 Adj R-squared = 0.1966
 Root MSE = 50.0594

	Coef.	Robust Std. Err.	t	P>t	[95% Conf.	Interval]
Dependent Variable: Days on Market						
Offer of Compensation(%)	3.491	0.385	9.08	0	2.737	4.244
List Price	0.000	0.000	15.09	0	0.000	0.000
List Year	-26.094	0.269	-97.04	0	-26.622	-25.567
Age of Property	-0.124	0.022	-5.59	0	-0.168	-0.081
Age of Property (squared)	0.002	0.000	13.5	0	0.001	0.002
Total Bedrooms	-0.833	0.311	-2.68	0.007	-1.442	-0.224
Mortgage Rate	13.184	0.158	83.65	0	12.876	13.493
Constant	52708.940	542.767	97.11	0	51645.130	53772.750

Conclusion

Over the past few months, there has been a lot of misinformation about the real estate industry, agents and brokers, and multiple listing services. Much of the narrative has not been supported by research on the current housing market. This research uses data on actual home sales transactions over a four-year period to provide context about how the market has actually worked.

This analysis provides evidence that contradicts some of the most common headlines and assertions about the real estate industry:

1. Offers of buyer agency compensation vary substantially. In the MLS Now market, there are often graduated offers of buyer agency compensation, and compensation offers have varied across time and price points.

2. Commissions to buyers' agencies do not drive up home prices. Instead, the main drivers of home prices are property and neighborhood characteristics and mortgage rates.

3. There is not relationship between offers of buyer agency compensation and how long it takes a property to sell. Thus research shows that agents do not steer buyers to homes with higher offers of compensation, and the days on market depends on other factors.

Footnotes

¹ See, for example, Brobeck, Stephen. 2021. *The Relationship of Residential Real Estate Commission Rates to Industry Structure and Culture*. Washington DC: Consumer Federation of America;

² Panle Jia Barwick, Parag A. Pathak, & Maisy Wong, *Conflicts of Interest and Steering in Residential Brokerage*, 9 *Am. Econ. J.: Applied Econ.* 191 (2017), www.aeaweb.org/articles?id=10.1257/app.20160214

³ Jordan M. Barry, Will Fried, & John William Hatfield, *Et Tu, Agent? Commission-Based Steering in Residential Real Estate*, USC CLASS Research Paper No. 24-7 (Oct. 9, 2023), <https://ssrn.com/abstract=4596391>

