



Consumer Federation of America

A SURFEIT OF REAL ESTATE AGENTS: INDUSTRY AND CONSUMER IMPACTS

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For years, many researchers and industry members have suggested that there are too many licensed real estate agents selling residential properties.¹ As one agent put it: “Almost nowhere in North America will I be contradicted by this statement -- where [there] is a decent population there are simply too many agents.”² Industry experts have noted that this surfeit of agents creates economic inefficiencies, deprives full-time agents of needed income, frustrates both consumers and experienced agents who must deal with inexperienced agents, forces agents to spend inordinate time and money acquiring new customers, reinforces relatively high and uniform commission rates, and damages the reputation of the industry.

This report explores the issue of agent surfeit using old and new data. It examines the number of practicing residential agents, giving special attention to sales agents, especially their level of activity and annual incomes.³ It also provides an estimate, in three local markets, of the percentage of commissions received by marginal agents with five or fewer sales during the previous year. The report then discusses the implications of these factors on agent turnover, customer acquisition, quality of service, and industry reputation. It raises questions as to whether the industry should make a greater effort to address these issues, primarily by ensuring that new agents have greater commitment and competence. A second report will examine the issue of agent access and training with special focus on the state licensing process.

Number of Practicing Residential Agents

About 1.5 million agents are Realtors who belong to the National Association of Realtors (NAR), the industry’s major trade association.⁴ Beyond providing traditional trade association functions, NAR plays an important role in the creation and maintenance of industry rules and norms. NAR members are required to understand and adhere to its Code of Ethics.

¹ Scholarly research includes: Panle Jia Barwick and Parag Pathak, “The costs of free entry: an empirical study of real estate agents in Greater Boston,” *The RAND Journal of Economics* 46-1 (2015), pp. 103-145. Lu Han and Seung-Hyun Hong, “Testing cost inefficiency under free entry in the real estate brokerage industry,” *Journal of Business & Economic Statistics* 29-4 (2011), pp. 564-578. Chang -Tai Hsieh and Enrico Moretti, “Can free entry be inefficient?: Fixed commissions and social waste in the real estate industry,” *Journal of Political Economy* 111-5 (2003), pp. 1076-1122. Sonia Gilbukh and Paul Goldsmith-Pinkham, “Heterogeneous Real Estate Agents and the Housing Cycle,” working paper published March 23, 2021. Articles written by or quoting industry members include: Alan J. Heavens, “Too Many Real Estate Agents,” *Washington Post* (January 17, 2004). Darian Woods, “Too Many Real Estate Agents,” *NPR Playlist* (April 21, 2021). Kenyon Harris, “Are There Too Many Realtors?” *Search Medium* (September 21, 2021). Eli Residential Group, “Too Many Real Estate Agents?” (February 25, 2019). Quora industry member comments on the question, Is the real estate industry saturated with too many real estate agents?

² Quora quote by Barry Lebow (2020).

³ This report will use the general term “real estate agents” to refer to all those selling properties, including sales agents, associate brokers, and brokers.

⁴ NAR reported 1,526,915 members in March 2023.

Each year NAR asks members to respond to a survey about their personal and business characteristics.⁵ In 2022, 9,220 members responded to the survey.⁶ While NAR sought to weight the data to reduce sample bias – 176,494 members received the emailed survey – it seems probable that respondents were more likely to be active and successful Realtors than were non-respondents. Research indicates that successful people who identify with surveying organizations are more likely to respond than those who are not.⁷ Realtor responses are summarized in NAR’s annual Member Profile.

The 2022 Member Profile includes useful information about the level of business activity of Realtors. The survey reported that in 2022, 71 percent of Realtors indicated that their “primary real estate specialty” was residential brokerage. A slightly higher percentage (73%) said their “main function” was sales agent.⁸

In terms of hours worked, most sales agents were not full-time. They reported spending a median number of 30 hours a week, with nearly one-fifth (18%) indicating that they worked less than 20 hours weekly. (Brokers and broker associates reported spending a median number of 40 hours weekly.)⁹

A large majority of active residential real estate agents and brokers are Realtors, in part because NAR membership provides access to affiliated local multiple listing services (MLSs). Yet, a large number of those with real estate licenses are not Realtors, with the percentage sometimes varying widely from state to state.¹⁰ In a recent communication to CFA, the Association of Real Estate License Law Professionals (ARELLO) estimated the total number of licenses nationwide as 2 to 2.5 million. It based this estimate on the number of licenses reported to ARELLO by state member groups. It also noted the imprecision of this estimate because of factors including state differences in licensing and agents with licenses in more than one state.

Many of the licensees who are not Realtors work in commercial brokerage. Other licensees are inactive, often acting as agents only when those they know, such as friends and family members, need assistance on sales. Still other non-Realtor licensees assist sales by owners (FSBOs). And some act only as referral agents. Without a license these licensees could not legally collect referral fees.

⁵ National Association of Realtors, 2022 Member Profile (July 2022).

⁶ *Ibid.*, p. 89.

⁷ Lucia Chung, What is a good survey response rate for online customer surveys? (Delighted by Qualtrics). Survey response rates: Tips on how to increase your survey response rates (PeoplePulse).

⁸ NAR, 2022 Member Profile, loc. cit., p. 11.

⁹ *Ibid.*, p. 32.

¹⁰ CFA compared the ratio of Realtors to real estate licensees in a number of states using data reported by NAR and by individual state licensing entities. Many states did not publicly report the number of real estate licensees. For some who did, Realtor to licensee ratios were: Virginia (46%), Washington (45%), South Carolina (47%), New Hampshire (59%), Minnesota (67%), Massachusetts (38%), Georgia (43%), California (49%), Arizona (63%), Alaska (48%).

Annual Incomes of Residential Sales Agents and Brokers

Given these data on agent and broker numbers, it seems highly likely that more than 1.5 million licensees are willing to work with prospective home buyers and sellers, in some instances just by making referrals. These agents compete for commissions on home sales that in the past decade usually ranged between five and six million annually.¹¹ If \$100 billion in annual commissions were divided equally among 1.5 million residential agents and brokers, these licensees would receive an average of \$67,000 each.¹² Yet, the typical (median) income earned annually by these agents and brokers is much lower because of an unequal distribution of agent and broker incomes. Also a portion of the gross income from commissions is used to pay taxes and business expenses including:

- marketing,
- for most sales agents, a percentage of commissions paid to their brokers, and
- for some agents, referral fees that typically represent 25 percent of the agent's commission on a sale.¹³

According to the 2022 NAR Member Profile, sales agents received median gross income of \$38,300 in 2021, with net income after taxes and expenses totaling only \$25,000. Brokers and broker associates had a median gross income of \$90,000 with a net income of \$57,100.¹⁴

An annual net income of \$25,000 would provide most households a low level of living while a net income of \$57,100 would allow only a modest level of living, so it is not surprising that in many households with a Realtor, there are other sources of income. The median gross household income reported by Realtors was \$110,000 for sales agents and \$156,700 for brokers and broker associates.¹⁵ The income of commercial agents is higher but these agents make up only two percent of surveyed Realtors. Most Realtors responding to the NAR survey average fewer than 40 hours or work per week, so they may have a second job or have retired from a full-time job with a pension or retirement savings.¹⁶ The latter is suggested by NAR's statistic that half of all Realtors are over 56 years of age.¹⁷ Since over three-quarters of Realtor households (77%) included at least two adults, another household member likely provided additional income.¹⁸

¹¹ Sales data from NAR published by Mortgage News Daily.

¹² CFA and others roughly estimated this annual figure for 2021. Given recent declining sales and leveling of housing prices, it will likely be lower in 2023. See: Noah Buhayer, "Real Estate Agents Target Record \$100 Billion as Home Sales Boom," Bloomberg (July 9, 2021).

¹³ Stephen Brobeck, Real Estate Referral Fees: Do They Harm Consumers? (Consumer Federation of America, September 2020).

¹⁴ NAR, 2022 Member Profile, p. 48.

¹⁵ Ibid., p. 84.

¹⁶ The median hours worked per week by all Realtors was 35. For sales agents, it was 30 hours, and for brokers and associate brokers it was 40 hours. NAR, 2022 Member Profile, p. 32.

¹⁷ Ibid., p. 86.

¹⁸ Ibid., p. 82.

Not surprisingly, new entrants to the industry earned the lowest incomes. In 2021, nearly two-thirds of Realtors (64%) with two years or less experience had annual net incomes under \$10,000 with a net median income of \$7,800. Net median income rose to \$34,200 for Realtors with 3-5 years experience and to \$51,700 for those with 6-15 years experience. Especially at the beginning of their careers in real estate, most Realtors face tough challenges supporting themselves solely on sales-generated commissions.¹⁹

Impact of Marginal Agents on Incomes of Active Agents

Commission income for individual Realtors varies largely with the number of properties sold and the price of these properties. This section will address the question as to what extent marginal residential agents, defined as those with five or fewer residential sides annually, deprive more active agents of commission income. Total homes sold, and related aggregate commission income, appears largely unrelated to the number of licensed agents. Thus, the larger the number of agents, the lower the average annual compensation for each.

Each sale has two sides so an agent, for example, who double-ended one sale and represented just the buyer in three others would have five sides. Assuming a median sale price of \$400,000 (close to recent national median sale prices) and typical net commission earned of two percent per side, an agent with five sides annually would have gross commission-related income of \$40,000 while an agent with only two sides would receive income of \$16,000.²⁰ If an agent with five sides on homes sold for \$1 million each, their gross annual income would be \$100,000. On the other hand, if the properties sold for \$200,000 each, their income would be only \$20,000. Accordingly, a large majority of agents with five or fewer sales a year would have commission-related income well under the nation's median household income of about \$70,000.

The 2022 Member Profile provides information on the number of sides of residential specialists. For residential sales agents, one-third (33%) had five or fewer transaction sides. For brokers and broker associates, 22 percent had five or fewer sides. Furthermore, only three percent of the sales agents and eight percent of the brokers and broker associates had more than 50 sides.²¹ (Using the hypothetical sales in the previous paragraph, an agent or broker with 50 sides would receive \$400,000 in commission-related income.)

These numbers were reported by NAR's survey sample of agents and brokers. We examined actual sales in several markets to learn to what extent the sales of marginal agents affected the incomes of more active agents.²² We selected the Minneapolis (MN), Albuquerque (NM), and

¹⁹ Ibid., p. 50.

²⁰ According to YChart, median home sales prices peaked at \$414,000 in July 2022 and in February 2023, were at \$363,000.

²¹ NAR, 2022 Member Profile, p. 25.

²² A local Northern Virginia brokerage reports that in Arlington, "1,669 different agents represented buyers and 1,452 different agents represented sellers in 3,095 transactions....71% of those agents represented one Arlington

Jacksonville (FL) areas, including both city and suburbs, as examples of largely middle-class communities. In each, we studied the distribution of agents by annual sides in 500 consecutive sales (1,000 sides). The data on solds was drawn from local MLSs with the assistance of two brokers.²³ Most data on annual agent sales came from Realtor.com though this information was checked or supplemented by other sources including Zillow Agent Profiles, HomeLight, and individual agent websites.²⁴

In Minneapolis, agent sides were identified for 956 of the 1,000 sides, with 267 sides (27.9%) representing agents with five or fewer sides. In Albuquerque, agent sides were ascertained for 963 of the 1,000 sides, with 269 sides (27.5%) representing agents having five or fewer sides. In Jacksonville, agent sides were identified for 953 of the 1,000 sides, with 324 sides (34.0%) representing agents having five or fewer sides. The higher percentage for Jacksonville may largely reflect the fact that the ratio of Realtors to population is much higher in this area than in both the Minneapolis and Albuquerque areas, as the note below indicates.²⁵ These three percentages are consistent with the numbers (cited earlier) reported by NAR members – 33 percent for sales agents, and 22 percent for less numerous brokers and broker associates, with five or fewer sales the previous year.

To estimate the extent to which active agents lost commission income to marginal agents from these sales, we correlated agent sides with their home sale prices in the three areas. These correlations are found in the three tables below.

Table 1: Percentage of Sides Sold by Marginal Agents in Minneapolis by Home Price

Home Price	Sample Size	Percent Sides
\$150,000 and under	117	33.3%
\$151,000-\$250,000	291	27.5
\$251,000-\$350,000	307	27.4
\$351,000-\$450,000	117	24.8
\$451,000 and higher	124	28.2

buyer and 65% represented one Arlington seller in 2018.” Eli Residential Group, “Too Many Real Estate Agents?” (February 25, 2019).

²³ Minneapolis solds were in early 2021. Jacksonville solds were in the summer of 2021. Albuquerque solds were in early 2022. Minnesota broker and attorney Doug Miller made available the Minneapolis solds. Flat-rate broker Derek Eisenberg supplied the Jacksonville and Albuquerque solds.

²⁴ Data on previous year home sales were collected in March and early April 2023. Despite declining sales over the past year, NAR reported slightly more than five million sales in 2022.

²⁵ Data on the number of area Realtors was drawn from Homes.com. Estimated ratios of area Realtors to population were 0.79 percent in Jacksonville, 0.29 percent in Minneapolis, and 0.25 percent in Albuquerque.

Table 2: Percentage of Sides Sold by Marginal Agents in Albuquerque by Home Price

Home Price	Sample Size	Percent Sides
\$150,000 and under	44	30.1%
\$151,000-\$250,000	247	31.6
\$251,000-\$350,000	352	27.6
\$351,000-\$450,000	195	28.2
\$451,000 and higher	125	19.2

Table 3: Percentage of Sides Sold by Marginal Agents in Jacksonville by Home Price

Home Price	Sample Size	Percent Sides
\$150,000 and under	102	33.3%
\$151,000-\$250,000	244	44.7
\$251,000-\$350,000	352	29.0
\$351,000-\$450,000	144	29.2
\$451,000 and higher	111	33.3

Before computing these percentages, we had assumed that marginal agents with few sales would be far more likely to sell lower-priced homes and least likely to sell the highest-priced properties because active agents would be more effective in securing clients for higher-priced homes and least interested in selling lower-priced ones. The dollar commission on the sale of a \$600,000 home is typically three times the commission on a \$200,000 home. However, this assumption proved to be largely false. Marginal agents were as likely or almost as likely to sell homes in all price categories. Given these numbers, we estimate that marginal agents in these three largely middle-income areas combined received 25-30 percent of all commission-related income.

Other Industry Costs

Besides reducing incomes, the surfeit of agents imposes other costs on sales agents and brokers. These costs include the time and expense of acquiring clients, the necessity of dealing with inexperienced and/or inattentive agents, and the related reputational damage to the industry.

Acquisition Costs: The fact that so many agents compete for relatively few sales pressures them to spend some money and much time acquiring clients. According to NAR's 2022 Member Profile, in 2021 all Realtors spent a median of \$6,250 on real estate business expenses, with sales agents spending a median of \$5,000. For successful agents with annual gross incomes of at least

\$75,000, these expenses ranged from a median of \$10,000 to \$28,750 for those with at least \$150,000 in income. A portion of these expenses represented “marketing of services.” According to the 2022 Member Profile, 37 percent of sales agents, 54 percent of associate brokers, and 49 percent of selling brokers spent more than \$1,000 in 2021 on this marketing.²⁶

More expensive, though, is the time most agents spend acquiring new clients. According to a Realtor.com study, “generating new client leads is hands down the top challenge today for agents of all experience levels.”²⁷ Another expert noted that “the two most time-consuming activities of agents were marketing and advertising, and prospecting and lead generation.”²⁸

The need for commitment to client acquisition is illustrated by the advice of one experienced Realtor: “Want to make good money? Follow the top agents to the office by 8:30, make 10 calls by 9 a.m., knock on some doors, work on a marketing plan, visit some former clients, contact some FSBOs, do a vacant open house all week all day, accept the fact that you will be working most evenings and weekends.”²⁹ Since Realtors who report working 40 to 59 hours a week also report median gross income of \$85,400, it is likely that the typical full-time Realtor secures an average of fewer than two new clients a month. Two dozen commissions averaging \$4,000 each would total \$96,000. According to NAR member data, the typical Realtor averages only one new client (sale) a month.³⁰

Costs of Dealing With Incompetent or Uncommitted Agents: On this subject, a NAR-commissioned 2015 report on “dangers” facing the industry concluded: “The industry is saddled with a large number of part-time, untrained, unethical and/or incompetent agents....The knowledge and competency gap from the most to the least is very large....The delta between great real estate service and poor real estate service has simply become too large.”³¹ An Inman survey released the same year revealed that 77 percent of respondents said “low-quality agents” was a challenge the industry currently faced, with 36 percent indicating that it was the single biggest challenge.³²

The costs of this incompetence born by experienced agents have been voiced by many. Some examples follow. Several of these comments seem unduly critical, yet they all seem to reflect the frustration of competent, experienced agents that is revealed by the D.A.N.G.E.R. and Inman surveys.

²⁶ NAR, 2022 Member Profile, loc. cit., pp. 41-42.

²⁷ Realtor.com, #ThrivePastFive Study Results (May-August 2022).

²⁸ Michael Koch, “Life as a Real Estate Agent: Survey Results,” conducted by Placester Marketing Academy, which could not provide a date for the survey.

²⁹ Quora comment by Allison Van Wig (2016).

³⁰ NAR, 2022 Member Profile, p. 25.

³¹ Swanepoel, D.A.N.G.E.R. Report, commissioned by the National Association of Realtors and released in 2015, section A1.

³² Inman Select, Real Estate Professionals Weigh in: Why and How Real Estate Needs to Clean House (2015).

- “Incompetent real estate agents do not know the agency laws for their own state, how to read a contract, how to evaluate a home, what is negotiable, the rules of property offers and counteroffers, the difference between clients and customers, and what their duties are to customers to name a few.”³³
- “Agents get in easily, don’t know what they are doing and don’t ask questions to learn. I hate agents who don’t return calls when you want to show properties, aren’t managing client expectations, ask for crazy concessions, miss deadlines, aren’t familiar with contracts and generally act like spoiled children.”³⁴
- “After two decades I found about 20% of my transactions were with highly competent, professional agents. The rest of the time I was handling transaction issues that the other agent either ignored or was unable to solve.”³⁵
- “Too many weekend warriors passing themselves off as experts...with one or two transactions under their belt, and looking to make a fast buck.”³⁶
- “The number of incompetent realtors I come across is astounding...This is in addition to what feels like a third of agents who don’t even return calls.”³⁷
- “Most agents are absolutely terrible at their job and many don’t even answer the phone.”³⁸
- “I’m running across more and more agents who are either new or don’t work real estate on a full-time basis. And that often creates a lot of needless work on the most active agents like myself to essentially watch over the deal and make sure everything closes okay.”³⁹
- “I’m just at my wit’s end with the agents I’ve had to do deals with this year...I can confidently say only 1 in 10 agents I deal with are competent, professional, and honest. The other 9 out of 10 are lazy, uneducated, lie, and do shady business. How is this possible? How is this one industry so lacking in professionalism? Maybe I’m expecting too much as my background is in law and attorneys are forced to be professional.”⁴⁰

Reputational Costs: Industry leaders are aware of the reputational damage resulting from incompetent or negligent agents. The NAR-commissioned report stated: “Masses of marginal agents destroy reputation...Professional, hard-working agents increasingly understand that the

³³ Buyers Broker of Florida, “Incompetent agents lack important skills.”

³⁴ Anonymous agent quote from 2015 Inman Special Report: Why and How Real Estate Needs to Clean House, reported in Inman by Andrea Brambila, August 15, 2015.

³⁵ Bernice Ross, “Why the real estate industry does nothing about agent incompetence,” Inman (September 21, 2015).

³⁶ Alex Aguirre commenting on Inman article by Andrea Brambila, “Danger report alerts industry to 50 biggest threats,” published on May 15, 2015.

³⁷ Reddit comment by r/TorontoReal Estate (2022).

³⁸ Quora comment by Jeremy Keeler (July 29, 2022).

³⁹ Fuller Home Options, Too many real estate agents in Colorado?

⁴⁰ Reddit comment on r/RealEstate by lateralus420 (2016).

‘not so good’ agents are bringing the entire industry down.”⁴¹ The Inman survey included respondent comments such as: “Inexperienced and uneducated agents intentionally or unintentionally commit ethics violations and give the industry a bad name.” And, “lack of professionalism hurts agents’ credibility and perception of value.”⁴² A long-time industry leader noted: “It’s a shame that so many [agents] continue doing business in a way that makes us all look bad by creating the wrong impression and undervaluing our service in the eyes of some of the population.”⁴³

The industry, however, seems to have a better public reputation than some industry leaders believe. Each year Gallup surveys a representative sample of Americans about the honesty and integrity of different professions. Its 2022 survey found that 24 percent of respondents rated the honesty and integrity of real agents as high or very high, while 19 percent rated them as low or very low.⁴⁴ (Fifty-five percent said “average.”) These ratings were quite similar to those for bankers, a little higher than those for lawyers and journalists, and much higher than those for car salespersons. Moreover, several surveys have found that more than three-quarters of home sellers and buyers rated the work of their agents as at least satisfactory.⁴⁵

A survey of buyers during the recent seller’s market did find that 70 percent had at least one regret, with 20 percent believing they made their purchase too quickly.⁴⁶ Another recent industry survey of home buyers learned that 75 percent had regrets about their new home, with the top regret being purchase of a home that needs more work or maintenance than expected.⁴⁷ These regrets were certainly influenced by the mad scramble for properties in many areas with limited housing inventories. Yet, one wonders if some agents of these buyers with regrets should not have done more to focus on the condition of the properties. Might personal need for income as well as client pressure have influenced them to make sales too quickly?

Consumer Costs

Quality of Service: We believe that the apparent inconsistency of the critical views of many industry members, on the one hand, and those of consumers, on the other, largely reflects two factors. The first is that most agents selling homes are competent and try hard to please their clients. Agents depend on reasonably satisfied clients to make sales, the sole source of the real

⁴¹ Swanepoel, D.A.N.G.E.R. report, loc. cit., section A1.

⁴² Inman Select report, loc. cit.

⁴³ Ibid.

⁴⁴ Gallup, Honesty/Ethics in Professions (<https://news.gallup.com/poll/honesty-ethics-professions>).

⁴⁵ Consumer Federation of America/AARP, Consumer Survey of Knowledge and Opinion about Real Estate Services (2007). The National Association of Realtors annually surveys the experience of recent home sellers and purchasers as part of its Profile of Home Buyers and Sellers. It typically finds that around 90 percent of respondents say they are at least “somewhat satisfied” with their home sale process.

⁴⁶ HomeLight, 2022 Buyer and Seller Insights Report (2022).

⁴⁷ Zillow press release (February 8, 2022).

estate-related incomes of most agents, and on highly satisfied clients for favorable reviews and referrals, an important source of new clients.⁴⁸

The second factor is that for most clients the sales process is relatively opaque. Clients do not participate in or usually even see communications between agents in the sales process. They are not aware, for example, whether their agent negotiated the most favorable terms of the sale that were available. If these clients believed that the sale occurred in a reasonable time period for what they consider to be a reasonable price, they were likely to be satisfied with the work of their agent even when the completion of the sale was largely a result of the competence of the other party's agent. If, hypothetically, 30 percent of agents in sales lack competence, overall there is an 85 percent chance that at least one agent in each sale has the ability to complete that sale. And if neither has the capability, an agent's broker is likely to intervene to ensure completion of the sale.⁴⁹ Without completion, no commission is paid.

Nevertheless, the critical views of many experienced agents, and the fact that a significant minority of clients are not satisfied, does suggest that the lack of experience of many agents diminishes the quality of service received by many home buyers and sellers. As one Realtor put it, "the few good agents are surrounded by too many untrained, inexperienced agents who are not giving people the value they should be getting."⁵⁰ That may not be true for many agents who worked full-time for decades then cut back to part-time in their later years. The median age of Realtors, surveyed recently by NAR, who had worked in real estate for at least 15 years was 64. However it is likely the case for the many agents who obtain a license, find clients mainly among family and friends, then either quit or scale back their efforts.⁵¹ We were unable to confirm a much-cited NAR 2014 estimate that 75 percent of those receiving licenses left the industry within five years.⁵² Yet, no-one disputes the fact that agent turnover is high. In the NAR member survey, nearly half of sales agents (46%) said they had been in the industry five years or less.⁵³

Commission Costs: The surfeit of agents also helps explain the level of commission rates. Much research has shown that these rates are fairly uniform (in areas) and relatively high

⁴⁸ The latest annual survey of recent home buyers and sellers by NAR reported that 50 percent of home buyers, and 63 percent of home sellers, worked with an agent with whom they had worked previously or who had been recommended by a friend, neighbor, or family member. National Association of Realtors, 2022 Profile of Home Buyers and Sellers: Highlights (2022).

⁴⁹ Quora comment by Allison Van Wig (2016)

⁵⁰ Quora comment by Glenn G. Millar (2018).

⁵¹ An article posted by the editorial staff of *firsttuesday Journal* ("The rise and fall of real estate brokers and agents") on October 9, 2020 reflects the view of a number of full-time Realtors: "Large single family residential (SFR) brokerage operations with branch offices have always depended on a constant flood of newly-licensed agents to fill cubicles. This practice was enabled in the past by a high agent turnover rate, as freshly-minted agents burned through their family members and social contacts without developing a stable client base."

⁵² Bret Weinstein, "The real reason so many new agents quit in 5 years," *Inman* (August 22, 2022).

⁵³ NAR, 2022 Member Profile, p. 15.

(compared to those in Western Europe).⁵⁴ The fact that most agents have difficulty finding sufficient business to generate adequate full-time incomes pressures them to support and charge high commission rates. Strong industry opposition to commission uncoupling, which is perceived to and likely would result in more fee competition, may reflect in part the high proportion of agents to home sales.

Conclusion

The residential real estate industry faces a significant challenge resulting from a surfeit of sales agents and brokers. A majority of all real estate licensees are inactive or part-time with commission-related income that, by itself, is not sufficient to support them financially. Yet, because so many agents look for opportunities to sell properties, most full-time agents are unable to secure enough clients to provide commission-related income that is at or above the national median household income of around \$70,000.

These full-time agents, who tend to view themselves as professionals, frequently complain about the burdens of dealing with incompetent agents and with agents who have little regard for good customer service. The former are also aware that marginal and part-time agents, especially those lacking competence, deprive them of clients and needed income, forcing them to spend most of their time and some expense finding new clients. The report found that in three largely middle-income urban areas, marginal agents, defined as those with zero to five sales in the past year, received an estimated 25-30 percent of all commission-related income.

For consumers, the damage wrought by agent incompetence is mitigated somewhat by the fact that in any one transaction, it is highly likely that at least one of the two agents will be capable of completing the sale. However, consumers are not served well when they are clients of incompetent or inexperienced agents.

The surfeit of agents also burdens consumers with higher commission costs. Most agents feel financial and/or peer pressure to keep commission rates relatively high. Without 5-6 percent rates, even fewer agents would survive financially. Ironically, relatively high rates attract new entrants into the industry, increasing competition for clients and reducing individual income for all. Many new agents may dream of selling a one million-dollar home, which with a two percent commission, would provide about \$20,000 in income. This financial opportunity helps persuade some people to seek a real estate license, increasing the ratio of agents to home sales.

⁵⁴ The following is a small sample of the extensive literature supporting the statement: Panle Jia Barwick, Parag Pathak, Maisy Wong, Conflicts of Interest and the Realtor Commission Puzzle, NBER Working Paper No. w21489 (posted August 2015, last revised March 2023). Stephen Brobeck, Real Estate Commission Rates in 35 Cities: Uniformity and Variability (Consumer Federation of America, April 2022). Swanepoel, D.A.N.G.E.R. Report, loc. cit., section A2. Wall Street Journal, real-estate commissions around the world (2016).

A future complementary report will explain how easy it is for many people to obtain a real estate license but how difficult it is for most licensees to learn how to succeed as Realtors. This report will also offer suggestions as to how the industry could discourage unqualified and insufficiently committed people from obtaining a license yet also make it easier for capable, hard-working licensees to succeed.