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(What) do top performing real estate agents deliver for their clients?

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ABSTRACT

Existing evidence indicates that larger listing inventories thin agent effort dedicated to each individual client. This study examines whether shopping externalities or other scale effects offset this inventory externality for agents with the largest market presence. Data from Central Virginia shows that agents holding the greatest percentage of listings in the housing market obtain higher prices and sell listing faster than other agents. This pattern is consistent with the notion that top tier listing agents are able to exploit their market presence to generate meaningful positive shopping externality effects for individual clients. Propensity scoring models provide evidence that the performance advantage of these agents is not driven by differences in the types of houses they represent, but reflects agent productivity. On the other hand, top tier agents in terms of sales do not consistently obtain higher prices or shorter selling times for their listing clients. The shopping externalities associated with top tier listing agents do not appear to extend to top tier selling agents.

1. Introduction

Many homeowners are infrequent participants in housing transactions and may have limited market knowledge, so most rely on real estate professionals when selling their home; approximately 85% of owners rely on licensed real estate agents to help them sell their properties (NAR, 2011). Existing evidence, however, indicates that larger listing inventories create an incentive to allocate less sales effort to an individual client, even though the agent's total sales effort rises (Bian et al., 2015). What is not known is the extent to which this inventory externality on individual client service persists for top tier agents. Do shopping externalities or other scale effects offset the inventory externality for agents with the largest market presence? This is the question addressed in this study.

The seller's choice of agent is not trivial. In addition to providing pricing information, real estate brokers provide advice on staging the property for presentation, market the property via multiple mediums including multiple listing services and internet marketing, hold open houses, show the property to prospective buyers and handle various administrative tasks during negotiation of the transaction and, not the least, shepherd the transaction through to a successful closing (Turnbull and Dombrow, 2007). Given that real estate is the single largest investment for the average person, the choice of a broker or agent can be a critical decision for the home seller interested in obtaining a high selling price coupled with quick selling time and minimal inconvenience. There are a large number of brokers available in even modest size markets. A paramount question facing sellers is how to select one that will deliver the desired price-liquidity-transaction cost combination. Broker skill or effort cannot be observed directly and, as such, potential sellers may rely on their perception of the broker's general market presence or reputation. Whether performance data adequately informs sellers who are choosing their agents, the brokerage industry itself places significant weight on such measures when recognizing exceptional performance by members and firms in the industry.

This paper focuses on whether exceptionally productive agents offer their individual clients superior results in terms of selling price and liquidity. To this end, we examine the impact of high performing agents' success as defined by their volume of current listings relative to market inventory. The question is whether these top agents exert greater marketing effort or enjoy greater productivity (perhaps arising from their visibility in the market) that yield superior client results in terms of selling price and liquidity; is there a trade-off between aggregate performance and performance on individual sales? To answer this question, we examine the price and liquidity performance of top tier agents, defined as those holding listings or involved in sales representing a minimum of 2% and the more exclusive 5% of the market in a given year.

The next section of the paper discusses the relevant background and related literature. The third section adapts an established stylized

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model of agent behavior to the question at hand. The framework yields insights regarding agent productivity and sales outcomes for listed properties and provides guidance for the empirical analysis. The model formalizes the tie between listing inventory and sales performance, drawing out the different channels through which an agent's listing inventory may influence performance. In this model, increasing the number of listings increases the agent's marginal cost of selling effort for each individual property, which leads to inferior price or liquidity outcomes for individual properties. At the same time, however, shopping externalities arising from an agent's greater market presence increase the productivity of sales effort, enhancing observed sales outcomes. The empirical question is whether agents with the largest shares of the market inventory of listings have a sufficiently strong market presence to generate shopping externalities that over-ride the effort-thinning effect of larger inventories, thereby resulting in higher selling prices or faster sales for those top tier agents.

The fourth section of the paper discusses the data for MLS transactions in Central Virginia which consists of Lynchburg, Virginia, and surrounding counties over 1999–2009 and the samples of the most productive agents examined in the study. Section five presents the empirical model and analysis, applying a three stage least squares (3SLS) price-liquidity model to examine how agent inventory affects the simultaneous relationship between selling price and liquidity. The estimates show that agents with at least 2% of market listings do not generate superior price and/or liquidity outcomes for their clients. On the other hand, agents with at least 5% of market listings do obtain higher prices and/or faster sales for their clients. These results imply that only those agents with the most prominent market presence in terms of listings generate shopping externalities sufficiently strong to offset the dilution of agent effort dedicated to individual clients as listing inventory rises. The results also show no performance premiums for properties listed with top tier selling agents responsible for either 2% or 5% of units sold in the market.

Section five also looks more closely at the source of enhanced performance associated with top tier agents with 5% of listings; is it the shopping externality from greater market presence that is increasing their effort productivity or are they simply focusing on listing or selling houses that are more marketable than average? To address this question, we re-estimate the models with matched samples constructed using a propensity scoring matching method (PSM). The matched sample results estimates indicate that the full sample results for top tier agents with 5% of listings are not driven by sample selection effects; these agents exhibit superior performance for their individual clients in the matched sample results.

2. Background literature

When listing their properties for sale, homeowners generally wish to sell as quickly as possible at the highest possible selling price with the least hassle or out-of-pocket costs. The asymmetric information underlying the principal-agent problem, however, means that the real estate agent who can best meet the seller's goals is not always readily apparent to the seller. It is common to identify the most productive agents as those that are million dollar producers or those in the top percentile of producers within their firm or geographical area. But the fact that a particular agent is a million dollar producer or is the top salesperson in their firm does not necessarily translate into the best outcome for an individual client in terms of selling price or liquidity.

Busy agents with prestigious firms may appear to be a good choice for sellers, but not if these agents must spread themselves thinner to service more clients. The real estate brokerage industry and popular press both offer mixed views of the advantages of working with busy agents. From the buyer's perspective, agents with the most listings may have more intimate knowledge of a wide range of properties, but at the same time, agents with a large number of listings have many sellers to service and may not have the time or inclination to show buyers properties listed with other agents.[2] From the seller's perspective, agents with the most listings are more visible in the market and therefore may have marketing advantages. On the other hand, Bian et al. (2015) argue that an agent with a large inventory may be too busy to adequately deal with individual clients, but the commission-based payment structure for most agents creates incentives for them to take on additional listings since the more listings procured by the agent the higher probability of receiving a commission. This incentive to pursue additional listings exacerbates the principal-agent problem inherent in the seller-agent relationship even when agent effort to obtain additional listings does not directly supplant selling effort. The fact that typical homeowners are infrequent market participants means that they are as likely to be as uninformed about the factors that distinguish the most productive agents from an average agent as they are about the intricacies of current market conditions. If so, then this gives agents enjoying such recognition some latitude regarding their effort decisions when servicing clients.

The literature devotes a considerable amount of attention to empirically identifying agent or firm attributes that influence agent income as well as property selling prices and marketing duration. The results are mixed. In an early study, Larsen (1991) examines whether top real estate agents follow a pricing and/or selling strategy. This study identifies leading agents as the top ten agents receiving the highest commissions within the Dayton, Ohio, Area Board of Realtors between October 1987 and September 1988. The initial results suggest that the financial success of leading agents is attributable to their tendency to focus on more expensive properties. After controlling for property characteristics and other factors, though, the data reveal no significant performance differences between leading agents and other agents.

Jud and Winkler (1994) examine the impact of individual firm and agent characteristics on selling prices and find no empirical evidence that individual brokers are capable of achieving higher selling prices and posit the findings to be the result of the efficient dissemination of information provided by MLS systems. Jud et al. (1996) examine the impact of brokers and brokerage firms on liquidity. They conclude that, while pricing strategies appear to influence the time a property spends on the market, individual agent and firm characteristics do not significantly impact property liquidity. We interpret this as evidence that the MLS setting levels the playing field to some extent, eliminating specific advantages of individual agents and firms that might otherwise enable them to sell houses more quickly than their rivals, a result supported by a number of other studies. Nonetheless, contrary results exist. Huang and Rutherford (2007) find that, within an MLS setting, properties listed by agents without the REALTOR professional designation are less likely to sell, sell at lower prices and have longer marketing durations, than properties listed by REALTORs.

Yang and Yavas (1995) examine the relationship between a seller's choice of agents or firms and the time it takes the property to transact. Results indicate that properties listed with agents with greater inventory experience longer marketing duration. Zumpano et al. (1996) study the factors that influence homebuyers' decisions to rely on a real estate broker and if the decision has an effect on the transaction price. They conclude that the real estate brokerage market is highly competitive and find that, after controlling for selection bias, individual brokers do not have a positive impact on selling price. Elder et al. (2000) also examine the role of buyer broker representation and its impact on selling price and search duration and similarly conclude that neither a traditional nor a buyer's broker significantly affect selling prices.

Munneke and Yavas (2001) compare the productivity of full-commission agents relative to traditional agents and find that the increased incentives facing full-commission agents (and principal/owners of other

[2] http://www.military.com/money/pcs-dity-move/working-with-real-estate-agent-myths.html.