Changing Commissions and the Dominance of Major Brokerage Agencies: Trends in Real Estate Broker Compensation

Rupkatha Banerjee

Federal Reserve Board of Governors, Washington, D.C.

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Extended Abstract

Real estate broker commissions have gained increased attention following a major antitrust lawsuit involving the National Association of Realtors (NAR) in March 2024. The NAR settled for $418 million in response to multiple class action lawsuits brought against it by home sellers. The lawsuit also came after a Department of Justice investigation into the NAR's role in rate fixing. Home sellers alleged that the NAR promotes anticompetitive practices in the real estate industry that result in inflated buyer and seller side commissions. This settlement has the potential to have sweeping impacts on broker compensation structure and also provides a critical moment to reflect on trends in the industry that have resulted in persistently high rates.

The residential real estate market in the U.S is massive, with commissions and related closing costs accounting for 0.6% of annual GDP in 2024. It is well documented that realtor's commissions in the U.S. are considerably higher than in other countries (Barwick paper), at an industry standard of 6% which is typically split evenly between the buyer's and seller's agents. Despite the advent of multiple technological innovations, discount brokerage agencies, and online real estate firms, rates have stayed roughly the same over the last 30 years, dropping by approximately 16% nationwide from 1995 to 2024. and Prior to the lawsuit,

the NAR required that listing agents advertise the buyer side commission rate through their local Multiple Listing Service (MLS). One of the key points of the lawsuit is that this practice promotes steering, since the buyer's agent can be incentivized to show prospective buyers only high commission listings. The other key point is that the lawsuit mandates the use of a buyer representation agreement, created by a local real estate commission or board, which outlines the responsibilities of buyer brokers and fixes the terms and amount of compensation beforehand.

Previous literature explores the negative outcomes of low commission listings at the state level and also touches on the role of major brokerages in maintaining the uniformity of high rates. In this article, we look at commission rates at the MSA level and the tendency for agents to deviate from the norm in different circumstances, primarily in response to buyer representation agreements. Buyer representation agreements in theory make buyer side commissions more salient to home buyers and allow them to negotiate the compensation their agent receives. Recent surveys show that almost half of home buyers and sellers did not know how much their agent made in commission and over one third did not know that they could negotiate their broker's rate at at all. This study contributes to existing literature in two ways: first we use a rich panel dataset from CoreLogic that covers 30 years of housing transactions across all states; we also use an event study approach to evaluate the impact of buyer representation policy on the industry norm.

Data

I use the CoreLogic Multiple Listing Service dataset that has transaction and property characteristics for each listed property, and filter on single family homes listed for sale. These data come from regional real estate boards and cover nearly half of listings nationally. The MLS data are collected before settlement requirements went into place, so we observe the commission rate that is advertised to the buyer's agent by the seller's agent and assume that total commission is double the advertised rate.

For state and MSA-level controls, I use personal income data from the BEA, Census population and land area estimates to compute personal income per capita, and the CoreLogic House Price Index.

Prior to the settlement, buyer representation agreements were adopted at the state level, so I was able to verify the policy through state legislative archives.

Results and Methods

The model I used for my event study is as below:

$$rate_{i,t+k} - rate_i = \beta_0 + \beta_1 Treat_j \times Post_t + \beta_2 year + \gamma_{it}$$

where $rate_{ij,t+k} - rate_{ij,t-1}$ is the difference between commission rates at time $t-1$ to time $t+k$ in CBSA i. $Treat_j$ is a binary variable denoting whether or not state j has implemented a buyer representation agreement and $Post_t$ is 1 for the year and all subsequent years after a state adopted the agreement. The γ_{it} denotes CBSA-time fixed effects.

I found no meaningful correlation between income and commissions, and a .003 percentage point change in rates in response to a one percent increase in the house price index. In the year after adopting a buyer representation agreement, CBSAs experienced a 1% drop in commissions, which was sustained across years 2-4. States adopting buyer representation agreements also experienced an increase in the standard deviation of rates from the norm for 3 years after treatment. I hope to include my controls in future regressions.