



Consumer Federation of America

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MOST CONSUMERS VIEW REAL ESTATE INDUSTRY AND SERVICES FAVORABLY BUT UNDERSTAND THEM POORLY AND OBJECT TO SPECIFIC PRACTICES

Washington, D.C. -- According to a comprehensive survey of consumer knowledge and opinion about real estate services, most Americans view real estate agents, brokers, and services favorably, but understand these services poorly and object to specific industry practices. Respondents who had recently used the services of an agent or broker view the industry more positively, and are more knowledgeable about yet more critical of actual practices, than are other respondents.

"Most consumers disapprove of actual industry practices related to access to listings, disclosure of representation and compensation, "dual agency," commission levels, anti-competitive state laws, and industry domination of state commissions," said Stephen Brobeck, Consumer Federation of America's Executive Director, who analyzed data collected in June 2006 by the Opinion Research Corporation for AARP. "Yet, most consumers have favorable views of real estate agents and brokers and the services they offer," he added.

ORC surveyed 2036 representative Americans, 565 of whom had used the services of an agent or broker in the past five years. For the entire sample, the margin of error was plus or minus two percentage points. All survey questions and responses can be found on the CFA website.

Most Consumers Don't Understand the Real Estate Industry Well

Only 36% of all respondents said they know "a lot" or "a fair amount" about "real estate agents and brokers and their consumer services. And in fact, only a minority knew that the local multiple listing service is the most complete source of information about homes for sale (34%), that one's broker may not represent one's financial interests, that commissions can be negotiated (26%), and that state real estate commissions regulate the industry (30%). In fact, 41% thought that commissions are set by the industry or its agents, while 13% believed they are set by state law.

A much higher percentage of respondents who had used the services of an agent or broker in the past five years (58%) said they were knowledgeable. Yet, far fewer understood that

the local MLS is the most complete information source about homes for sale (44%) that one's broker may not represent one's financial interests, that commissions can be negotiated (31%), and that state commissions regulate the industry (38%).

"Home sellers and buyers who think they understand a complicated industry, yet in fact do not, are at a disadvantage in obtaining effective representation, reasonable commissions, adequate redress, and for buyers, complete information about listings," Brobeck said.

Most Consumers View Agents/Brokers and Their Services Favorably

Over two-thirds of respondents (68%) and nearly three-quarters of those who had recently worked with a broker (73%) viewed agents and brokers, and "their consumer practices," favorably. And even higher percentages viewed their own agent or broker favorably -- 84% for respondents who had recently utilized their services.

Small majorities viewed the traditional services offered by agents and brokers as useful. Yet, somewhat larger majorities of those who had recently worked with a broker viewed these services as useful -- listing homes and helping buyers search listings (68%), helping sellers price homes and buyers evaluate these prices (58%), helping buyers visit homes (74%), helping sellers and buyers negotiate price (60%), and closing the sale (67%).

"Questions about overall consumer views of the industry were asked before questions about specific industry practices," said Brobeck. "If consumers knew more about these practices, they might view the industry, and their own agents, less favorably," he added.

Most Consumers Disapprove of Specific Industry Practices

Agents and brokers require home buyers to sign exclusive agreements with them in order to gain access to local multiple listing services. Yet, 63% of all respondents, and 70% of those who had recently worked with a broker, believe that buyers should not have to sign such an exclusive agreement to gain access to these listing services. They believe they should gain access, for example, simply by paying a reasonable fee.

Some states do not require, and the National Association of Realtors has reported, that many sellers and buyers do not receive timely disclosures from agents and brokers about representation and compensation. But larger majorities of all consumers (73%), and those who have recently worked with brokers (82%), support these disclosures "during the first substantial contact" or "when the consumer agrees to services."

Most states permit "dual agency," where an agent or a firm can represent both buyer and seller. But majorities do not believe that "dual agents" can effectively represent the financial interests of buyers and sellers and that there is a potential conflict of interest when agents from the same firm represent both seller and buyer.

Five to six percent is a common real estate commission for the sale of a house. But well over half -- 59% of everyone and 63% of those who recently worked with brokers -- think a 5-6% commission on a \$300,000 home sale is too high.

Despite the fact that realtors in a number of states have tried to limit competition by passing minimum service laws, three-fifths (60%) of consumers disapprove of these laws. And despite the fact that most brokers serving on state commissions continue to practice, most consumers disapprove (55%) of the potential conflicts created. Slightly less than half of consumers and those who have recently worked with brokers (42% and 47%) disapprove of state laws prohibiting agent rebates to buyers.

"Taken as a whole, these survey data suggest that consumers value the services provided by agents and brokers, and have usually had good experiences with these agents and brokers, but that their views are positive in part because of their lack of awareness of specific industry practices that could harm their interests," said Brobeck.

CFA is non-profit association of some 300 consumer groups that was established in 1968 to advance the consumer interest through research, education, and advocacy.

**CONSUMER SURVEY OF KNOWLEDGE AND OPINION ABOUT
REAL ESTATE SERVICES**

	ALL USED (2036)	LAST 5 YEARS (565)
<u>Use/Perceived Knowledge of Services</u>		
Used services in past 5 years	29%	100%
Perceived knowledge of services (a lot/fair amount)	36	58
<u>Actual Knowledge of Services</u>		
Local MLS as most complete source of info about homes for sale	34	44
Whom one broker in sale represents		
Seller only	42	45
Buyer only	15	19
Neither or both	20	22
Don't know	22	14
How commissions determined		
Negotiated	26	31
Set by industry or agents	41	45
Set by state law	13	13
Typical commission paid		
Over 6%	22	20
5-6%	32	41
3-4%	18	20
Under 3%	12	12
Who regulates industry		
State real estate commissions	30	38
Other government agencies	19	18
Industry self-regulated	11	13
No-one	19	15

Evaluation of Agents/Brokers/Services

View agents/brokers favorably	68	73
View your agent favorably	79*	84
View services as useful (4 or 5 on 5-point scale)		
Listing homes and helping buyers search listings	58	68
Helping sellers price home and buyers evaluate price	50	58
Helping buyers visit homes	64	74
Helping sellers and buyers negotiate price	50	60
Arranging buyer financing	39	41
Closing the sale	58	67

Evaluation of Industry Practices

Buyer access to local MLS should require Signing exclusive agreement with broker	18	18
No exclusive agreement but pay a fee	63	70
Agent disclosure of representation and compensation should be required		
During first substantial contact	46	49
When consumer agrees to services	27	33
When home is sold	19	14
Allowing agent disclosure at closing of home sale is unfair	68	76
"Dual agent" cannot effectively represent financial interests of buyers and sellers	52	59
5-6% commission on \$300,000 home sale is too high	59	63

Potential conflict of interest when seller and buyer agents work for same company	67	68
Disapprove of state minimum service laws	60	64
Disapprove of state laws requiring out-of-state Internet-based services to maintain in-state office	49	54
Disapprove of state laws prohibiting agent rebates to buyers	42	47
Disapprove of agents/brokers practicing while serving as commissioners	55	56
Approve of consumers serving on commissions	57	63

*Only those ever using services of an agent/broker.