

A Reprint from *Tierra Grande*

analyze this

By Jack C. Harris



Studies Probe Industry

Each year the American Real Estate Society, an organization of real estate professionals and academic researchers who study real estate markets, meets to present current research projects. The research is original and sometimes groundbreaking. This article summarizes the results of four studies presented at the April 2008 meeting.

Agent Compensation Versus Performance

Authors Leonard Zumpano (University of Alabama), Ken Johnson (Florida International University) and Randy Anderson (the Anderson Group) developed a model that explains agent compensation choice. The authors use four factors to explain compensation choice: productivity, agent characteristics, job characteristics and risk tolerance.

Data were taken from the National Association of Realtors 2001 Membership Survey. A sample of almost 2,000 agents included agents on full commission and split commission. Results

of the study indicate that agents choose their compensation package based on factors other than expected success.

The authors report several findings of interest to owners and managers of brokerage firms.

Clearly, compensation from commissions alone, which generally requires the agent to cover office and sales expenses, is viewed as a high-risk arrangement. The higher a respondent's income and the more of that income that is derived from activities other than sales (property management, for example), the more likely it is that the agent is on full commission.

The larger the brokerage firm, the more likely the agent is to be on full commission. The authors explain this as the synergy of a large sales staff surrounding a productive agent. It could also indicate that large firms offer more opportunity for agents to select the full commission option.

With all other factors held constant, male agents are more likely to take full commissions than are female agents. The

authors cite studies indicating that men are overconfident about their financial abilities and more likely to take risks when investing as well as when making career choices.

The use of full commissions as incentives for hard work and long hours does not appear to work. To the contrary, the more hours full-time agents worked, the less likely they were to be on full commission. Full commission agents make more money but work fewer hours, suggesting that they work more efficiently. Findings suggest that full commission agents employ more aids, such as technology and personal assistants, which allow them to be more productive.

Overpriced Properties Take Longer to Sell

Although most brokers know better, home sellers often think they can get more than market value for their homes. A group of professors from Longwood University in Virginia provides evidence of the futility of this expectation. They suggest that an overpriced property justifies a longer-than-normal term on the listing contract.

Professors Bennie Waller, Ray Brastow and Caitlin Hooe analyzed home sales in Southeastern Virginia from 2004 to 2007. They measured the percentage that a property is overpriced as the percent difference between the original listing price and the final sales price.

- During periods of tightening monetary policy, when interest rates are rising, properties tend to sell in a shorter period. These periods represent strong economic growth, which is good for housing markets. The rising rates encourage buyers to speed up their buying decisions.
- A seller can try to speed up the broker by insisting on a shorter-than-standard listing term, but that will not lead to a quicker sale if the property is overpriced, atypical of the market or if the economy is slowing.
- Atypical properties tend to be overpriced because they are difficult to value using current market data.
- Male brokers tend to take shorter listing contracts compared with female brokers. This seems to reiterate that men are overconfident as mentioned in the compensation-versus-performance study.

Results also indicate a significant relationship between the length of the listing contract and time on the market. For the Virginia data, each ten days added to the listing term extended the marketing time by eight days. The authors suggest this reflects the lack of urgency on the broker's part when the listing expiration date is extended. It could also indicate that brokers demand longer contracts when presented with harder-to-sell properties.

Barriers to Agency Disclosure

While almost all states have laws that require residential brokers to disclose who they represent, the effectiveness of these requirements remains in question. In the mid-1980s, almost three-fourths of homebuyers reported that they thought the agent represented them, when in fact the agent worked for the seller. While awareness has risen since disclosure became mandatory, it is far from being universal. Awareness is especially low for first-time buyers, older buyers and ethnic minorities.

Professors Jonathan Wiley (College of Charleston) and Leonard Zumpano (University of Alabama) researched why some states do a better job of agency disclosure than others. They used data from the National Association of Realtors' annual Home Buying and Selling Process surveys from 2001 to 2006, supplemented by other sources. The authors noted that reported disclosure rates did not improve during this period.

The study found the states that are most effective in meeting disclosure requirements have a mandated disclosure form or standardized language that is readily available to the public (for example, displayed on a public website). These states also require more than 60 hours of real estate education for licensees, and emphasis is placed on agency disclosure in agent training and on the licensing exam.

Does the lack of universal awareness indicate that some brokers are not complying with the law? Not necessarily. A disclosure form might not be recognized as such if it is



Each 10 percent the listing price exceeded the final sales price translated to an additional month of marketing time.

The study's second major finding was the effect of overpricing on time on market. Each 10 percent the listing price exceeded the final sales price translated to an additional month of marketing time. Sellers intent on getting the highest possible price may be willing to wait longer, but asking prices sometimes decline as time on market increases, so the additional time may not provide a higher price.

Other findings from the study included:

- Larger homes take longer to sell.
- Firms affiliated with national franchises tend to sell properties faster.

included with a lot of other paperwork, particularly if it is not presented until the closing. Such low-key disclosure may explain why those relatively unfamiliar with the homebuying process (such as first-time buyers) report lower rates of disclosure.

Buyers now have more representation options. Buyers who want their interests to be represented can employ a buyer's agent who is not beholden to the seller. In some states, a neutral transaction broker can be used to facilitate the sale.

Brokers High in Emotional Intelligence

The ability to "think on one's feet" or just plain common sense are types of intelligence that may be more important to real world success than having a high IQ, especially in real estate brokerage, which requires a knack for working with people rather than understanding abstract concepts. The formal name for this concept is "emotional intelligence" — the ability to understand oneself in relation to others, work with others and adapt to changing situations.

The importance of emotional intelligence in brokerage success is the focus of a study planned by professors Bruce Gordon and Daniel Hallock (University of North Alabama) using RE/MAX agents from around the country.

The authors completed a pilot study that measured agents' emotional intelligence based on the Bar-On Emotional Quotient Inventory. The inventory is a standardized score that can be compared with that of the general population.

There are five scales on the inventory, each measuring a different aspect of emotional intelligence. Each scale has subscales relating to personality characteristics that make up the scale. Each scale and subscale level has an individual score.

The group of agents who took the inventory scored above the societal norm both in total and for each of the scales. Here are results for each scale and subscale.

Intrapersonal

The agents scored the highest on this scale, which relates to how they feel about themselves and what they do. Among the subscales, agents were strongest in "independence," feeling that they have control over what they do, and "assertiveness," the ability to express personal feelings and beliefs.

They scored lower, but still above average, on "self-regard," "emotional self-awareness" and "self-actualization."

Interpersonal

The overall score on this scale was the lowest of the five scales but still above average. This aspect concerns interrelations with people: how one understands, interacts and relates to others.

The highest subscale score was on "social responsibility," indicating that agents tend to do the right thing rather than

the most expedient. The "empathy" subscale was also high. Agents scored slightly below average on the "interpersonal relationship" subscale.

Adaptability

This is the essence of common sense as most people understand it. Adaptable people are able to size up situations and react accordingly. The agents scored well on this scale, especially on the "problem solving" and "flexibility" subscales. They were closer to average on the "reality testing" subscale, which relates to how well one senses the situation as it exists.

Stress Management

This scale measures a person's ability to operate under pressure and do so in a calm manner conducive to sound decision making. On this scale, the agents scored very high on "stress tolerance," indicating their willingness to tackle difficult tasks and perform them well even when a lot is at stake. By contrast, the agents scored a bit below average on "impulse control," indicating a tendency to lose patience or even lose control in a pressure situation.

General Mood

This scale measures the ability to maintain a good outlook and be happy. The agents had no difficulty with this scale. The group scored quite high on the "optimism" subscale. However, the agents did not do as well on the

"happiness" subscale, scoring just below average.

While it would seem that all these attributes would be essential to being an effective salesperson, a test with real data is still forthcoming. This pilot study gives a psychological portrait of people who are attracted to the brokerage profession and are successful enough to have survived as practicing real estate agents.

The studies summarized here represent a small number of the topics the research community is exploring. These findings and the results of studies currently being conducted offer real estate practitioners information that may prove valuable. 📌

Dr. Harris (jackharris@verizon.net) is a former research economist with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

Four separate real estate studies yielded interesting findings. For example, full commission agents work fewer hours but make more money. For each 10 percent a property's listing price exceeded the final sales price, a month was added to marketing time. And brokers tend to rank higher in "emotional intelligence," which is the ability to "think on their feet" and adapt to changing situations.

Study Contact Information

Determinants of Real Estate Brokerage Compensation Choice and Agent Performance. Contact author – Leonard Zumpano lzumpano@cba.ua.edu.

Two-Stage Least Squares: Simultaneous Determination of Days on Market, Length of Contract, and Percentage Overpriced. Contact author – Bennie Waller wallerbd@longwood.edu.

Agency Disclosure in the Real Estate Transaction and the Impact of Related State Policies. Contact author – Jonathan Wiley wileyj@cofc.edu.

Emotional Intelligence and Its Effect on Real Estate Licensee Income. Lead author – Bruce Gordon blgordon@una.edu.



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

Director, Gary W. Maler; **Chief Economist**, Dr. Mark G. Dotzour; **Communications Director**, David S. Jones; **Managing Editor**, Nancy McQuiston; **Associate Editor**, Bryan Pope; **Assistant Editor**, Kammy Baumann; **Art Director**, Robert P. Beals II; **Graphic Designer**, JP Beato III; **Circulation Manager**, Mark Baumann; **Typography**, Real Estate Center.

Advisory Committee

D. Marc McDougal, Lubbock, chairman; Ronald C. Wakefield, San Antonio, vice chairman; James Michael Boyd, Houston; Catarina Gonzales Cron, Houston; David E. Dalzell, Abilene; Tom H. Gann, Lufkin; Jacquelyn K. Hawkins, Austin; Barbara A. Russell, Denton; Douglas A. Schwartz, El Paso; and John D. Eckstrum, Conroe, ex-officio representing the Texas Real Estate Commission.

Tierra Grande (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: Bob Beals II, p. 1; Real Estate Center files, p. 2.