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# BROKERAGE ECONOMICS IN THE YEARS AHEAD

Presentation by REAL Trends

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# Brokerage Economics

- Commission rates
- Gross margin rates
- Profit margins
- Impact of regulatory environment
- Profitability in the future

# Commission rates

- REAL Trends began tracking national level rates in 1991
- In 1991 average commission rate was 6.1%

- Through 2005 the average commission rate fell every year
- In 2005 the average commission rate was 5.02%

# Commission rates

- From 2005 through 2010 the average commission rate rose again
- The average commission rate rose to 5.38% at the end of 2010

- From 2010 through 2015 the average commission fell again
- The average commission rate fell to 5.18% at the end of 2015

# Commission rates

- The cause of the change has to do with competition among agents and not due to internet or discount brokerage

- REAL Trends' research shows that when the number of listings per agent falls so will the commission rate – when the number of listings per agent rises then so will the commission rate

# Gross Margins

- The Gross Margin is defined as that amount of money that remains for the brokerage company after agent commissions, referral fees and co-op payments have been made.
- REAL Trends began formally tracking national average gross margins in 2002
  - In 2002 the national average gross margin was 30.5%
  - As of the end of 2015 the national average gross margin was 19.5%

# Gross margins

- The main reason for the decline in gross margins is the intensifying competition for producing agents among all brokerage business models and the growth of agent teams
- There are many more low cost options for agents and teams today than there were ten years ago
- An additional reason is that the cost and availability of technology and other agent-required services have declined and become easier to acquire

# Profit margins

- In the late 1990's most leading brokerage firms had profit margins between 4-6% of gross commission revenues
- Interesting enough the profit margins today among leading brokerage firms remains 4-6% regardless of the business model or brand that the firm operates within
- Brokerage firms have found ways to:
  - a) increase fee based charges to consumers and agents and/or
  - b) reduce the costs of business primarily in the two biggest cost areas: employment and occupancy

# The impact of the regulatory environment

- The regulatory environment addressing both the brokerage/consumer relationship and the brokerage/regulator relationship
- Some examples
  - CFPB Ending the MSA for brokerage firms in mortgage, title and other
  - NRLB Franchises may now have to follow the employment policies of their parent franchiser
  - IRS Challenges to the Independent Contractor status
  - States Broker supervision requirements will get tougher

# Profitability in the future

- Brokerage firms will necessarily become larger or smaller but not remain in the middle of the pack
- Brokerage firms will have to decide whether to pursue the full time high producer or build their own as a focus
- Brokerage firms will have to decide whether to embrace the agent team concept or leave it to others
- Brokerage firms will enter other related REAL ESTATE services such as leasing, rental, property management and property casualty insurance to boost their returns from the business

# Profitability in the future

- Other opportunities exist in the development of brokerage firms that generate business opportunities for their agents
- Between 33-40% of all consumers choose their agent by means other than through a personal relationship and can be said to be “up for grabs”
- In short regardless of the factors mentioned brokerage will remain a business that can be profitable and enjoyable