

## Homesellers Do Better On Their Own

It sounds like a setup for a dull economist joke. Who gets the better deal: the cautious economist who sells his house through a real estate agent, or his risk taking friend who finds a buyer on his own?

But the question debated by two Northwestern University economists who chose different methods to sell their homes, and the research it helped prompt are serious. And the answer will be of interest to anyone who has paused to consider whether paying a real estate agent's commission, typically 5 to 7 percent of the sale price, is worth it.

In a study done in Madison, Wisconsin from 1998 to 2004, people in that city who sold their homes through a real estate agent, typically did not get a higher sale price than people who sold their homes on their own. When the agent's commission is factored in, the for sale by owner people came out ahead financially.

This study is highly unusual in comprehensively measuring the impact on the sale price of a home of hiring, or not hiring a real estate agent.

Study findings by the National Association of Realtors, the group has said that houses sold by a realtor via it's MLS listing services, get a 16% premium over homes sold by owner. Critics question the need for 5 to 7 percent commissions which deliver about \$60 billion a year to agents & their employers.

For sale by owner sites, fetched an average price of \$175,068 during the years studied. Those sold on MLS services brought an average price of \$173,205, roughly equal when taking into consideration the study's margin of error.

FSBO (for sale by owner) sales results were adjusted for timing, for house & lot size and characteristics and for neighbourhoods to make them comparable with sales by agents. They were also adjusted for what the researchers came to believe is an extra bit of shrewdness that FSBO sellers possess.

The National Association of Realtors have been defending their fees. In a 2005 survey of home buyers, it reported the FSBO sold for a median price of \$198,200 and those sold through an agent went for a median price of \$230,000 or 16% more. Two fifths of those FSBO were selling to a friend, relative or neighbour, and that might have led to lower prices, but agent assisted sellers still enjoyed a huge premium, the association said. So according to them, even with an agents commission you will still probably come out ahead.

Those studies had their own asterisks. The 2005 survey was based on buyers written responses, rather than actual records or transactions, and included data only from people who chose to reply – 7,813 out of 145,000 questionnaires mailed out. The association also did not disclose data on house size, lot size and some other factors that could affect price differences between an agent-assisted and FSBO price.

The economist studying the Madison market received listing data from both the FSBO site and the Realtors Association, which operates the local MLS service. Those were checked against records at the assessors office for actual sales prices. The study looked at 15,616 listings from 1998 to 2004.

Higher sales price with a realtor may sound great to a seller – that a realtor could help get a higher price. But agents typically also represent buyers in such transactions and obviously buyers do not want to pay 16 % more.

Price parity between FSBO & realtor sales is not surprising because buyers can now comparison shop on the Internet. Even the inexperienced buyer can walk into a home and tell if it's overpriced – based on competition.

Some buyers think that 5-7% commission is too much and many home owners try to avoid the realtors as much as possible, thinking they will have more room to negotiate if that fee isn't build into the price.

For the most part, real estate transactions are straightforward and many FSBO don't feel the need for a realtors help in selling.

On average, it took FSBO homes an average of 125 days to sell and agent sold homes an average of 105 days to sell.

The results, from another perspective also show, that with agents failing to bring a higher sale price, their commission pays only for the work they do. Sellers are beginning to examine more closely the cost of all the small tasks handled by a realtor. To justify a \$12,000 fee on a \$200,000 home, realtors are pulling in a very high hourly rate for their work.

So before you list your home with a realtor, consider the pro's & cons, the potential commission you will pay, showing times that don't work around your schedule, among other factors.

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