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How a Dual Agent Affects Sale Prices

Having an agent represent both buyer and seller can either raise or reduce the final selling price, depending on the timing of the transaction

By SANETTE TANAKA CONNECT

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Evan Rosenfeld was a dual agent for a West End Avenue home in Manhattan. *Goran Rukavina/Town Residential*

Would you trust a dual agent?

Dual agency occurs when the same brokerage firm—and sometimes the same real-estate agent—represents both the buyer and the seller in the same transaction. Dual agency can increase or reduce a house's sale price, depending on the timing, says Bennie Waller, professor of finance and real estate at Longwood University in Farmville, Va., who studied dual agency in home sales.

Dual-agency sales that occur in the first 30 days of the listing contract sell for roughly an 18% premium because agents may be able to more efficiently match the property with the right buyer if they search within their own network, Prof. Waller says.

Over time, that information advantage diminishes as other agents learn more about the seller and property, says Raymond Brastow, professor of and seller. The study found:

- Dual-agency sales in the first 30 days of a listing contract sell for a premium of about 18%, or $28,800 more for the average house.
- Dual-agency sales in the last 30 days of a listing contract sell at about a 6% discount, or $9,300 less.
- Overall, dual agency reduces home price by about 1.7%.
- Dual-agency sales occur 55.1% more quickly than non-dual agency sales.
- About 32% of all transactions are dual-agency transactions.

Source: Journal of Real Estate Research, June 2013

economics at Longwood University, who co-wrote the study. By the end of the listing contract, the agent's priority is getting the property sold before the contract expires. Dual-agency sales during the last 30 days of the listing contract sell for roughly a 6% discount, or $9,300 less. Overall, a dual-agency representation reduces sale prices by about 1.7%, according to the study.

Real-estate agents have a lot to gain from dual agency. The seller typically pays 5% to 6% of the sale price as commission, which is split between the buyer's agent and seller's agent. Thus, agents have an incentive to represent both sides of the transaction and earn the entire commission, Prof. Waller says.

That may also mean an agent might encourage sellers to accept a lower price for a home to get the double commission, says Prof. Brastow. "You have the interest of the buyer, the seller and the agent, and it's unlikely all three will coincide, especially in respect to price. They can't," he adds.

Prof. Waller and Prof. Brastow examined 12,549 transactions between January 2000 and June 2009 in a central Virginia multiple-listing service. They analyzed which transactions were dual agency or non-dual agency and looked at effects on sale price and time on the market. The study, "Dual Agency Representation: Incentive Conflicts or Efficiencies?" was published in the Journal of Real Estate Research in June 2013.

Many states allow true dual-agency relationships, in which the agent represents, and has a fiduciary duty to, both the buyer and seller. Some states, however, have modified versions of dual agency, such as letting transaction agents act only as deal facilitators, says Ilona Bray, real-estate editor for Nolo, a publisher of consumer legal guides in Berkeley, Calif.

In general, Ms. Bray warns against dual agency. "A buyer and a seller are in very different parts of the transactions. Their interests are different," he says.

But some agents say dual agency is more efficient and effective. Sometimes they will accept a lower commission from the seller. Also, both sides benefit from having one point of contact, says Jud Henderson of Callaway Henderson Sotheby's International Realty in Princeton, N.J., who was a dual agent in three transactions last year. "It can work to disarm the process, cut out the politics and just focus on the terms of the transaction," he says.

Last May, he received two offers for a $1.995 million listing from one of his buyers and another agent's buyer. The seller ended up selling the property for just under the asking price to Mr. Henderson's buyer.

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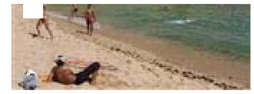

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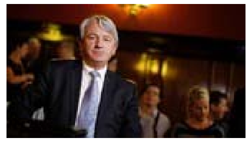

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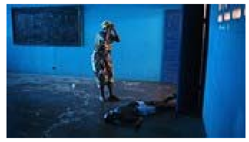

For Want of Gloves, Ebola Doctors Die

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Raymond Reis

In the interests of honesty, I am myself, a real estate agent. I work at Keller Williams NYC and am also licensed in NJ. That said, while the study itself may not be flawed, how it is presented in the article creates an illusion that an agent is not working in the best interests of the client. I have to call into question the comparisons. The article states that dual broker sales in the first 30 days sell for 18% more "for the average house". And that dual agent sales in the last 30 days sell for 6% less than the average house. (The average in the example and presumably that MLS being $160,000) But that comparison is between houses that sell in the first 30 day period verses those that sell in the last 30 days, by dual agents, not as compared to homes that were cobroked. There are no figures presented as to how cobroked sales fared compared to the average home during the same period. There are no facts presented other than one sentence that states, not backed up by any statistics that dual agent sales reduce prices by 1.7%. No mention at all as to how that number was produced. Now even if that 1.7% number is valid, the real gist of the article is that dual agency reduces prices by $2720 which is a lot less than the 18%, $28,800, 6% & $9,300 which are prominently displayed in a text box at twice the font size.
A true comparison would be to show how sales in the first 30 days by dual agents compared to cobroked sales in the first 30 days. That would be comparing apples to apples. And if sales in the last 30 days by dual agents were compared to cobroked sales in the last 30 days. That would be comparing oranges to oranges. But in reality, the real true comparison would be comparing the discount to asking prices not sales prices. For all we know, higher than average priced homes in this MLS tend to sell faster than homes priced below the median, that in itself would cause the same statistical anomaly that the article is using to paint real estate brokers negatively.
The statement "By the end of the listing contract, the agent's priority is getting the property sold before the contract expires." is illusory. Yes the agent wants to sell the home, that's what their job is. They weren't hired to list the home, they were hired to sell the home. And if the home hasn't sold after the first 60 days, then it likely was over priced and the asking price needs to be lowered, and after another 60-90 days it is often lowered again, as the homeowner desires to "sell" their home, not just list it. The homeowner comes to the conclusion that it is not going to sell unless it's price is lowered. Only in strongly rising markets do homes typically sell for prices in the last 30 days of the listing contract that are higher than could be obtained during the first 30 days of the contract, as the market itself rises to meet the previously too high asking price.
Lastly, the study was done in one Central Virginia MLS.... Talk about using a small sample size! This study is being used here to create a thesis which paints an entire country of real estate agents negatively!. There ARE most definitely reasons why a person doing a real estate transaction would want not to go the dual agent route. And perhaps the study itself does accurately define them. But if so, those facts were not presented in this article. There are a percentage of agents that want to get a home sold quickly and move on to the next one, and I"m sure there are agents that work harder to get a double commission. But the vast majority of agents, certainly the ones I work with, work very hard to do the best possible job for their clients. And they do it because they know that a recommendation from a satisfied, a happy, or an ecstatic client, is worth a helluva lot more than can be made by dual brokering one listing.

Randy Reis
Keller Williams NYC

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