Back Send to Printer

Realtor ranks expected to shrink this year

And that's a good thing, say some professionals

Monday, April 16, 2007

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Inman News

This year, membership in the National Association of Realtors is expected to drop after nine consecutive years of growth.

And good riddance, say some real estate professionals -- fewer agents may be better for the industry as a whole.

The trade group's membership grew 89.6 percent during the latest spurt, from 716,078 members in 1997 to 1.36 million Realtors in 2006. But real estate is a cyclical business, and the housing market is slumping.

It has happened before -- Realtor membership, like home homes sales and prices, tends to ebb and flow with economic cycles but has generally risen over time.

NAR projects that membership will drop 4.3 percent this year, to 1.3 million, and fall another 10 percent from that level to 1.17 million in 2008.

Membership in the California Association of Realtors -- which has the largest membership for any state Realtor trade group -- soared 118.8 since 1997 to 199,778 in 2006 and is projected to drop 7.1 percent this year compared to 2006.

David Charron, president and CEO for Metropolitan Regional Information Systems Inc., the largest MLS in the country, in November told an audience of multiple listing service executives that industry brokers and groups "have been running body shops," and have "enlisted thousands upon thousands of new agents -- some of whom are good and some of whom are not so good."

A month earlier, Glenn Dorfman, chief operating officer for the Minnesota Association of Realtors trade group, told members that the industry was overcrowded. "There are too many agents in the business chasing a declining number of deals which has two implications: compensation dilution for many real estate professionals; the public face of real estate professionals is not near the best it could be if brokers terminated non-productive agents now -- keeping them will have a negative impact on the dollar value the public will put on our services as homes sit on the market longer," he stated in a notice to members.

"When the number of agents chasing transactions outnumbers the available resources two things happen: the price of the service falls as people discount rates to get the business; the quality of the service delivered to the consumer is reduced. We're not telling you to quit the industry, but if you are thinking the market will spring back to the levels of the recent past, it probably won't anytime soon," and "perhaps it is time to take a minute, review your business plan and determine if real estate is where your talents are best served," according to the statement.

Real estate author Stefan Swanepoel also has questioned whether the ranks of real estate agents have become bloated from the boom years. In a blog item, he stated, "The increase in NAR membership even outpaced the increase in new households," and noted that the average Realtor participated in fewer transaction sides (either the buy side or sell side of a real estate transaction) in 2006 compared to 2000.

"Normal supply and demand would result in halting the influx of new agents, but alas commission income was supplemented by the sharp increase in house prices and this did not happen," he stated.

Michigan was the only state with a decline in Realtor membership in 2006 -- membership in that state slipped from 33,397 in 2005 to 31,588 last year. Washington, D.C., also reported a decline during that period, from 2,655 members to 2,634 members.

Seven states had lower Realtor membership in March 2007 compared to March 2006, including Minnesota, Florida, New Jersey, Ohio, Michigan, Massachusetts and New Hampshire.

Christopher Galler, senior vice president for the Minnesota Association of Realtors, said that association membership is about 24,500, compared to a high of about 26,000 in 2006.

"We have not experienced a large outflow of members and it appears we will not see one in the near future," Galler said. "The inflow of agents is down by about 30 percent so our numbers will naturally decline as many find the going tougher than they imagined.

Scott Baumgartner, a Realtor for Edina Realty in Maple Grove, Minn., a suburb of Minneapolis, said he believes there are too many agents working in the Minneapolis market area.

While more agents can mean more competition, Baumgartner said it can also dilute the industry's overall quality of service. "You're not always going to get the same amount of quality -- not all agents are the same (though) the public may perceive as such," he said.

Prospecting for new business is a challenge when the field is crowded with agents, he said. "You just have to continue to be creative." A lot of new agents tend to jump on the boom-market bandwagon after it is already at full speed, he said, and he expects that to happen again when the market rebounds.

Jim Duncan, a Realtor for Century 21 Manley in Charlottesville, Va., and a member of the board of directors for the Charlottesville Area Association of Realtors, said the "80-20 rule" -- that 20 percent of the folks in the industry do 80 percent of the business -- seems to hold true in real estate, and he expects to see a lot of agents leaving. "I think that part-timers do a disservice to the industry because this is the business where you have to be up on the latest trends -- everything that goes into a transaction on a day-to-day basis," he said. "If you do two transactions a year you're not serving your clients."

The newest agents and the oldest ones seem to be the most likely to leave the business, he said, while "some may choose to keep a license for that odd referral."

Realtors are just a slice of total U.S. real estate licensees. The Association of Real Estate License Law Officials, an international group of real estate regulators, reported that the total count of U.S. real estate licensees increased from 2.64 million in October 2005 to 2.77 million in October 2006 -- a 5.2 percent gain.

California, Florida and Nevada were among the states that experienced some areas of rapid and massive price gains during the real estate boom years, though sales and price appreciation has been curbed.

In California, the total number of real estate licensees grew 8.2 percent in February 2007 compared to February 2006 -- from 486,395 to 526,308. But there are some signs of a slowdown in new licensees. The number of broker licenses issued in February fell 8.2 percent while the number of broker examinations administered fell 42.9 percent compared to February 2006. And the number of salesperson licenses issued in February dropped 42.6 percent while the number of examinations administered fell 56.4 percent compared to the same month in 2006.

In Florida the number of active real estate brokers and sales associates increased 1.3 percent from Aug. 1, 2006, to April 1, 2007. About 28.1 percent of real estate licensees in Florida were listed as inactive as of April 1, and that number shrank about 0.5 percent compared to Aug. 1, 2006, according to state real estate statistics.

Meanwhile, about 21.4 percent of agents in Nevada were reported as inactive, according to a 2006 "State of the Industry Report" by the Nevada Association of Realtors, and that level "appears to be increasing and suggests a number of brokers and agents are exiting the industry." The report also states, "The industry appears to be entering a period of contraction."

PoliticalCalculations.com, a site featuring calculators and other statistical tools, studied the trends with Realtor population over time, noting that there have been some peaks and valleys and that the surges have coincided with periods of technological innovation, "first in the form of the computerized MLS and later through improved access to information through computerized database and internet technologies."

"With a slowing housing market, what I would anticipate is that the total number of Realtors will flatten out from present levels and would decrease should the housing market substantially weaken from where it is today," according to the site's founder.

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Back Top Send to Printer