



KONKURRENCE- OG FORBRUGERSTYRELSEN

Consumer conditions in the estate agency market

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Chapter 1

Summary and main conclusions

1.1 Summary and main conclusions

Buying and selling homes is complicated. Residential property sales involve many legal documents and statutory requirements that may be difficult for ordinary consumers to understand and become familiar with. Few consumers therefore sell their homes themselves; most consumers choose to buy various services from an estate agent instead¹.

The estate agent acts as the seller's representative in the property sale process. The agent advises the seller about various issues related to the property sale, performs a series of practical tasks and assumes responsibility for compliance with the statutory requirements of property sales. Additionally, the agent is subject to disclosure requirements towards the buyer.

This report mainly focuses on problems relevant to sellers. The report shows that conditions can be improved for consumers in the estate agency market.

It is difficult for consumers buying estate agency services to assess the quality of those services. Consumers know whether their home has been sold, but may find it difficult to assess whether the property could have been sold faster or at a higher price. Additionally, the market is highly regulated, which contributes to the complexity of the market. Similar problems apply to other markets, but in the estate agency market the problem is intensified by the fact that consumers buy such services only a few times in their lives. Various initiatives could improve conditions for consumers in the market, but the market will remain complex for consumers.

Consumers who use an estate agent to sell their homes are actively attempting to get the best deal. Eighty-six per cent compare offers from two or more estate agents, and about every second consumer negotiates the fee. Eighty-nine per cent of those who negotiate the fee achieve a lower fee.

The consumers' efforts in the estate agency market do not make it easy for them to assess price and service. Consumers find it difficult to determine what they get for their money. After the sale of their homes, 58 per cent of consumers are quite sure that they chose the best estate agent, whereas half of the consumers find that the services met the expectations they had before they chose the estate

¹ In this report, all property intermediaries are referred to as estate agents or agents. Similarly, the full group of property intermediaries and their customers is referred to as the 'estate agency market'.

agent. Consumers experience similar problems in other complex markets such as banking and pensions. But in those markets, the consumers are not as active as in the estate agency market.

Consumers find that market transparency is low. The market is listed as number 37 of 49 markets studied for transparency. Consumers find it difficult to compare prices and choose the best estate agent. They also experience problems in understanding the documents involved in property sales, including the agency contract, which is the seller's contract with the estate agent, and the contract of sale. Complaints to '*Klagenævnet for Ejendomsformidling*', the Danish estate agency affairs board, often concern disputes about the terms and conditions applicable to the sale of a home.

A study of consumer confidence in various professions lists estate agents as number 45 of 49 professions. Consumers experience that their expectations are not met, and they have no confidence in the estate agents' marketing or their compliance with the rules intended to protect consumers. This is a problem, not least because 97 per cent of consumers consider the estate agent's professionalism and honesty important when they choose an estate agent. By comparison, 76 per cent state that the estate agents' fees are important to their choice.²

The estate agency market is listed as number 48 of 49 markets studied concerning consumers' expectations of being treated fairly by estate agents if any post-service problem arises. Consumers also assess the possibilities of complaining to a third party to be relatively poor.

In other countries, consumers experience similar challenges in the estate agency market. A study carried out by the European Commission shows that consumers' assessment of transparency, confidence and satisfaction is low in other EU Member States that Denmark is usually compared with. These problems are also in focus in Norway. Several countries have launched initiatives to promote competition in order to remedy the situation, such as initiatives intended to improve consumers' possibilities of performing some of the tasks related to property sales themselves.

Studies carried out by the former Competition Authority (*Konkurrencestyrelsen*) indicate that competition in the estate agency market has been relatively weak. However, the most recent study, which was made in 2007, concluded that competition had improved since 2002. The competitive situation has not been the focus of this analysis.

² The current financial crisis may have affected the consumers' view of the estate agency market. But the general picture has been the same in various analyses since 2004.

Boks 1.1

Main conclusions**Consumers are active in the estate agency market:**

- » Eighty-six per cent compare offers from two or more estate agents.
- » About every second consumer negotiates the fee with the estate agent. Eighty-nine per cent of those who negotiate the fee achieve a lower fee.

But the market could function better for consumers:

- » Half of the consumers find that the services met the expectations they had before they chose the estate agent.
- » After the sale of their home, 58 per cent of consumers are quite sure that they chose the best agent.

Transparency is low compared to other markets:

- » Consumers find it difficult to assess the relationship between price and quality.

Consumer confidence in estate agents is low compared to their confidence in other professions:

- » Consumer confidence in the estate agents' compliance with consumer protection rules is fairly low.
- » Consumers have low confidence in estate agents' marketing, and they feel that their expectations of estate agents are not met.

Conditions for complaints are assessed low compared to other markets:

- » Consumers are not confident that estate agents will treat them fairly if they experience any post-service problems.
- » Consumers assess their possibilities of complaining to a third party to be poorer than in most other markets.

The complexity of the estate agency market makes it difficult to point to simple solutions that can improve consumer conditions. But consumers find the estate agency market difficult, and both consumers themselves and the industry could make an effort to make it easier for consumers. A revision of the regulation of the market may also contribute to a more transparent market.

It is important that consumers spend time and energy on preparing themselves before the sale of their home (see Box 1.2). Consumers might consider whether they can do some of the tasks themselves. Before involving an estate agent, consumers should clarify their needs and wishes for the sales process and the estate agent's services. In the current property market situation, many consumers may be more focused on selling their home than examining the estate agency market and making demands of estate agents. But it is important for consumers to keep in mind that selling a home is expensive, and that it will pay to do the necessary research.

The extensive regulation of the market is one of the reasons for the low transparency experienced by consumers. A general simplification of rules to the benefit of consumers is therefore recommended. Simplification of the rules may result in

lower prices in the market if the administrative burdens imposed on estate agents are reduced and competition is strengthened.

If conditions for consumers in the market are to be improved, the industry must assist in increasing market transparency and consumer confidence in estate agents. As an example, the industry could make standard documents easier to understand and highlight deviations from them more clearly.

The overall assessment is that conditions for consumers in the estate agency market can be improved if both the consumers, the industry and the authorities make an effort.

Boks 1.2 Recommendations to improve consumer conditions

The Danish Competition and Consumer Authority recommends that consumers:

- » prepare before the sale of their home by obtaining information about the formal requirements of property sales from the following public sources: 'boligejer.dk', 'ois.dk' and the future tool 'DIADEM'
- » consider whether they can do some of the task themselves, such as minor administrative tasks or showing the house to potential buyers
- » take account of the information available on various portals on the Internet when they choose an estate agent
- » obtain offers from several estate agents
- » negotiate the fee with the estate agents
- » clarify their needs and make them clear to their estate agents, such as:
 1. Is the home to be sold at a particular price, or is it more important to achieve a rapid sale?
 2. Is the home to be marketed in specific media, and how is the advertising money to be applied over the sales period?
- » consider whether the terms and conditions of the standard documents of property sales are acceptable and decide whether they will accept any deviations from the standard terms and conditions. For sellers, this particularly applies to the agency contract.

The Danish Competition and Consumer Authority recommends a revision of the legislation applicable to the estate agency market:

- » The revision should include a review of the disclosure requirements applicable to estate agents and their price disclosure rules. A general legislative simplification may contribute to higher market transparency and lower prices for estate agency services if the administrative burdens of estate agents are reduced and competition is improved.

The Danish Competition and Consumer Authority recommends that the industry:

- » make standard documents easier to understand for consumers and highlight deviations from standard conditions more clearly.