

STRUCTURE AND ORGANIZATION OF THE REAL  
ESTATE BROKERAGE INDUSTRY

by

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## ABSTRACT

The major objective of the present study is to analyze the real estate brokerage industry in British Columbia with respect to its organization, structure, and conduct. The industry has been criticized for overly high real estate commission rates, an excessively large sales force which contributes to high turnover, heavy competition leading to unethical practices and low wages for some salesmen. These allegations led to a provincial inquiry that was to examine many of the problems faced by the industry. The federal government created further controversy with the enactment of the new Combines Investigation Act. The Act prohibited the setting of minimum or fixed commission rates that had been a traditional practice of the real estate industry.

In view of the public concern over issues relating to real estate, the present study proposes to examine the basic structure and performance of the industry so that one may have a clearer understanding of the problems that it faces. The study utilizes two approaches to investigate the current situation of the industry. On the one hand it encompasses a statistical survey of real estate agents and salesmen in British Columbia, and on the other it uses primary and secondary sources to analyze the conduct of the industry. The statistics concerning the real estate industry is derived

mainly from three surveys conducted during the summer of 1975.

The real estate brokerage industry in British Columbia has reached a period when many changes are needed to revitalize its operations. Since the industry has always been a self-regulatory system, these changes would be most effective if they are initiated from within. Until now, the industry has not made any serious attempts to instigate new policies which will improve the relation of agents and salesmen, to curb the size of the sales force by using responsible hiring practices, or to encourage more comprehensive brokerage services by endorsing a flexible commission rate system.

Many of the criticisms mentioned above can be corrected by concerted effort of industry leaders. The recommendations made by the present study are directed toward the brokerage industry and deals with many of the aforementioned issues. The writer believes that reforms must be instigated soon, before lack of public confidence in the industry necessitates government intervention.



## CHAPTER 1

### INTRODUCTION

Since 1954 when the British Columbia Association of Real Estate Boards (which later became the Real Estate Institute) retained an investigating counsel to inquire into the operation of the real estate brokerage industry, real estate business had gradually come under public scrutiny. In admitting the need for an investigation, the industry itself had come to realize that a certain amount of control and regulation was necessary. Regulations first embodied educational requirements for entering the industry. Then in 1973, they extended to advertising codes, recruitment procedures and numbers. Although they were on the increase, these controls nevertheless were self-imposed and represented the industry's concern for its own viability.

The 1970's brought their own problems and intensified previous ones for the brokerage industry. The soaring demand for housing at the turn of the decade made all aspects related to housing, but in particular the cost, a political issue. The provincial government of British Columbia in 1975 commissioned an inquiry into the real estate industry because of several points.<sup>1</sup> Real estate brokerage commissions were suspected to be unnecessarily high because of an escalating market. The large numbers that were attracted to real estate brokerage due to an expanding market and zealous advertising more than doubled the sales force from 1963 to

1973. The provincial government contended that the industry's high turnover rate can be attributed to the large sales force. Moreover, it claimed that wages were too low for some salesmen because of the heavy competition that existed among the excessive numbers.

On the federal level, the much debated Bill C-2<sup>2</sup> had been passed as the new Combines Investigation Act, which forbids price fixing for service industries such as real estate brokerage. This means the traditional practice of real estate boards to recommend or require minimum commission rates would be deemed illegal. The new Act may also forbid the operation of the Multiple Listing Service in its present form because it contravenes the Fair Trade Practices law by discriminating against certain members of the brokerage industry.

The new federal law and the provincial commission both reflect the extent that real estate brokerage has become a public concern. Yet, there is a noticeable dearth of research concerning the industry's structure and organization. Considering the significance of this sector of the service industry, the lack of rigorous research is surprising. The present study was undertaken partly because of the void in existing data, but more importantly because in light of the aforementioned events, the brokerage industry will be undergoing significant internal changes. This study will attempt to analyze the current structure of the real estate brokerage industry in British Columbia by concentrating on the two

main components that make up the industry: the salesperson and the agent (firm). It is important to understand the composition of salesmen and firms individually as well as their relationship to each other since without doing so one cannot fully assess the effect that increasing external controls will have upon the brokerage industry, or indeed, understand why such controls are being exerted. The study's general objective is to increase awareness of the industry's participants and some of the problems that the industry faces in a changing society.

Chapter 2 serves as an introduction to the brokerage industry by defining the environment and constraints within which the real estate brokerage industry in British Columbia must operate. It explains licencing requirements, the laws of agency and brokerage, the provincial Real Estate Act which regulates the industry and the role of trade associations.

Chapter 3 describes the methodology of the three surveys which served as a major source of information for the present study. The chapter defines sample sizes for each survey, sampling accuracy, and the estimating procedure used for some of the data analysis.

Chapters 4 and 5 deal with the structure of the industry and encompass the actual analysis of the surveys. Together, the surveys sought to determine salesmen turnover, work hours, earnings, the relationship between salesmen and agents, and general industry structure - the number, size and income distribution of firms.

Chapter 6 furthers the analysis of the real estate brokerage industry by dealing with its conduct in the face of external and internal pressures. The two main issues studied here are salesperson recruitment and the Combines Investigation Act. The brokerage industry's conduct regarding these two questions reveals much about the relationship of agents and salesmen, about the power structure of the industry, and about the susceptibility of the industry to change.

The final chapter gives a synopsis of the study, conclusions and recommendations for self-regulation on the part of the real estate brokerage industry. Some suggestions for further research are also included in this chapter.

### 1.1 Definition of Terms

A real estate agent is defined in Section 2 of the Real Estate Act of the Province of British Columbia as a person who, on behalf of another, for a compensation, sells or offers to sell, buys or offers to buy, exchanges, leases, or rents real estate, negotiates loans for or collects money from the transfer of real estate, solicits or lists real estate for sale or lease. Corporations and partnerships, as well as individuals, may apply for an agent's licence, but must be represented by a nominee.

Throughout the study the term "agent" is used to denote a firm which holds a real estate agent's licence rather than an individual. Sometimes the term "employer" is used when

it was necessary to emphasize that particular role of the agent, but "agent" is not synonymous with "employer".

A real estate salesman is a person, other than a nominee, employed by an agent to perform any or all of the duties specified for an agent.

A nominee is an individual nominated by an agent to represent a corporation or partnership. This individual must be actively engaged in the business of the corporation or partnership, and must be licenced as a real estate agent.

A licencee is a person licenced under the Real Estate Act of the Province of British Columbia.

## 1.2 Scope of the Study

Because the field of real estate is so diverse, this study can only hope to concentrate upon one sector. Thus when reference is made to the "real estate brokerage industry", it includes that part of the industry that is connected mainly with the purchase and sale of real estate, and to a lesser extent with leasing, property management, and other subsidiary functions that are associated with buying and selling of real estate.

The actual field research of this study is limited to the seven largest organized real estate boards in British Columbia. The number of salesmen and firms belonging to these seven boards represent a sufficient majority of the provincial population, while the remaining four boards are

sufficiently small to permit their absence.

The majority of information supplied in Chapters 4 and 5 - Profile of the Salesperson and Firm - is obtained from three surveys conducted during the summer of 1975, and as such covers the periods of 1973 and 1974 only. The study cannot venture to analyze the participants over any length of time, with the exception of salesmen turnover rate, as comparison is impossible without past data.

### 1.3 Limitations of the Study

As noted previously, much of the information on the profile of salesmen and firms within the real estate brokerage industry is derived from three surveys. Insofar as the questionnaire responses are adequately representative of the entire provincial population, the study will be substantially accurate. However, since the results are tabulated on a sampling of the industry, rather than on a complete coverage, the degree of accuracy will be somewhat reduced. Moreover, non-sampling errors such as misinterpretation (by both the surveyor and respondents) and processing further lower the level of precision of the study.

Notes to Chapter 1:

<sup>1</sup>Alex Young, "B.C. Real Estate Probe to Start in Early '75," Vancouver Province, 23 October 1974, pp.1,14.

<sup>2</sup>House of Commons of Canada, An Act to amend the Combines Investigation Act and the Bank Act and to repeal an Act to amend an Act to amend the Combines Investigation Act and the Criminal Code, First Session, Thirtieth Parliament, 23-24 Elizabeth II (1974-75)

## CHAPTER 2

### THE REAL ESTATE BROKERAGE INDUSTRY IN BRITISH COLUMBIA- ITS LEGAL ENVIRONMENT AND TRADE ASSOCIATIONS

The real estate brokerage industry is composed of independent agents and salesmen who act as intermediaries between two parties - usually property vendors and purchasers. Unlike other middlemen such as merchant wholesalers, real estate agents do not take title to the goods. They maintain no lasting contractual relationships and are available to any client. Agents are usually employed by sellers, and in most cases are compensated by a brokerage commission that is some percentage of the selling price of the property.

The brokerage industry in British Columbia operates within a legal environment that is determined by statute and common law. The provincial Real Estate Act controls licencing and ethics of agents and salesmen, while the laws of agency and brokerage govern the nature of relationships between real estate agents and their clients.

#### 2.1 Licencing Requirements

The Real Estate Act of the Province of British Columbia states that:

No person shall act or hold himself out as an agent unless he is the holder of a valid and subsisting agent's licence issued to him...by the Superintendent (of Insurance). 1958, c.47, s.4(1).



The Act also states that:

No agent shall employ or engage...any unlicensed salesman or nominee in any real-estate transaction, and no agent shall pay a commission or other remuneration to any such salesman or nominee. 1958, c.47, s.33

Every person who applies for a licence is required by the Real Estate Act to meet these criteria:

1. Be a bona fide resident of British Columbia;
2. Be of the full age of twenty-one years in the case of an agent or nominee and of eighteen years in the case of a salesman;
3. Be of good reputation, and in the case of an applicant for licence as an agent be in sound financial circumstances;
4. Have taken such course or courses and have passed such examination or examinations as shall have been prescribed by the Council and approved by the Superintendent;
5. Be endorsed by three persons who vouch for integrity, good business reputation, and good character of the applicant.

Presently there are three ways of satisfying the necessary educational requirements prior to licencing. All three are administered by the Faculty of Commerce & Business Administration at the University of British Columbia. The pre-licencing courses for salesmen and agents are the least time-consuming, and are taken by correspondence. The length of the salesmen's and agents' courses are three months and nine months, respectively. Graduates from both the Diploma Program in Urban Land Economics and the Faculty of Commerce with option in Urban Land Economics have automatically fulfilled the educational requirements for becoming a salesman

or agent. However, in addition to the above criteria set by the Real Estate Act, agents must also serve two years as salesmen before they are qualified for licencing. By far the majority of British Columbia's real estate licencees are salesmen, and most choose to take the three-month pre-licencing course rather than the four- to five-year programs of the other two methods.

Applicants for an agent's licence may not have to fulfill the experience requirement of two years if he had fulfilled similar requirements within the British Commonwealth or the United States of America.

## 2.2 Law of Agency

A real estate agent acts as a representative for his client in real estate transactions and is governed by the law of agency as long as he is acting in this representative capacity. The fiduciary relationship between the agent and his client requires the agent to act in good faith toward his principal. This means the agent must place the interest of his principal above all else except the law.

The agent is bound to inform his principal of any information that might influence the latter's decisions. The agent is prohibited by law from personally profiting by virtue of his agency, except to the extent of the agreed remuneration. He should not be serving two principals in the same transaction, since the two principals will have conflicting

interests. His acting for both without disclosing the fact constitutes a fraud and precludes the recovery of remuneration. However, an agent can legally act for both parties and accept compensation from both if they are aware of the arrangement and have given their consent.

Finally, the agent is bound to act with reasonable care, skill, and diligence.

The agent may delegate his duties to a qualified salesman under his employment. However, there exists no contract between the principal and the salesman. Accordingly, the principal may hold his agent responsible for the consequences of an improper performance by the salesman, but has no claim against the salesman himself.

### 2.3 Types of Brokerage

The three most commonly used types of listing agreements are the open listing, the exclusive agency listing, and the exclusive right to sell. Under the open listing the vendor may hire the services of any number of real estate agents, but still reserves the option to sell the property himself. The vendor may consider any purchase offer brought by an agent, and is under no obligation to inform the other agents of a completed sale. The vendor has no commission obligations to any agent if he successfully sells his own property. The open listing generally has no time limit. The agency relationship with all agents is terminated upon the

sale of the property or when the agents' authority is revoked before a purchaser is found.

Under an exclusive agency listing the vendor enters into a contract with a single agent, and will pay a commission only if the sale is procured by this agent. The vendor reserves the right to sell his own property without commission obligations.

The exclusive right to sell listing requires the vendor to pay a commission to his contracted agent regardless of who sells the property. The vendor also surrenders his own right to sell. The agent does not have to prove that he was the procuring cause of the sale.

Both the exclusive agency and exclusive right to sell listings must have a specified term. If the contract does not specify an expiry date, then it is legally void, and the agent is not entitled to a commission.

The terms exclusive listing and multiple listing do not refer to a legal arrangement. An exclusive listing may contain either the exclusive agency or the exclusive right to sell conditions, whereas a multiple listing always includes the exclusive right to sell. The Multiple Listing Service is essentially a cooperative where a group of real estate agents pool their exclusive right to sell listings. The listing agent is the agent under contract, but he shares his commission with a cooperating selling agent. A small amount of the payment goes toward administration of the MLS.

## 2.4 The Regulatory Machinery

British Columbia's real estate brokerage industry has had a licencing law since 1922. The Real Estate Agents Licencing Act was passed to "set minimum standards of practice in the vocation for the protection of the general public in real estate transactions."<sup>1</sup> Presently, the brokerage industry is regulated under the provincial Real Estate Act which is enforced and administered by the Superintendent of Insurance. The Act attempts to protect the general public in real estate transactions by setting minimum standards of practice such as licencing requirements. The Act also provided for appointment of the Real Estate Council, which was to act in an advisory capacity to the Superintendent.

The Council is a body comprising of fifteen agents or nominees appointed by the Lieutenant-Governor in Council. Its main functions include setting educational requirements and providing educational programs for agents and salesmen, screening applicants for licencing, providing disciplinary action to protect the public, and commissioning spot audits of books and accounts of real estate agencies.

The fifteen councillors are elected from the Provincial Membership Division of the Real Estate Institute of British Columbia, to which all licenced agents and nominees of the province may belong.

## 2.5 Trade Associations

In British Columbia, real estate trade associations are

organized on a geographical basis. The basic unit is the local real estate board which is an association of real estate agents with business interest in a defined locality. Some of the objectives of the real estate boards are to promote interest in the marketing of real estate, to advance and promote the interests of those engaged in the real estate business, to improve relations of board members with the public and increase confidence in real estate agents. Boards also encourage the study of real estate, plus organize and maintain a multiple or cooperative listing service. Members are to conform to a code of ethics and a standard of business conduct adopted by the local boards.<sup>2</sup>

Real estate boards in British Columbia usually have a separate "salesmen's division". Normally, salesmen cannot become voting members of real estate boards, except where the salesmen fulfill certain educational and experience requirements, or are elected representatives of their own salesmen's divisions. The precise arrangement varies from board to board. Although some salesmen are admitted, real estate board memberships are composed mainly of agents and nominees and as such are more representative of real estate firms than of the salesmen working within the firms.<sup>3</sup>

On the provincial level there are two organizations. The Real Estate Association of British Columbia is composed of all the local real estate boards of the province and individual members from areas which are not served by a local

board. Its chief functions are to serve the interests of local boards, to coordinate the work of these boards, and generally to represent them at the provincial level.<sup>4</sup>

The Real Estate Institute of British Columbia is comprised of individual members who have met certain educational and experience requirements. The educational standards are generally higher than that required for real estate agents.<sup>8</sup>

Prior to April 1, 1976, the Real Estate Association and Real Estate Institute had been known respectively as the Realtor Membership Division and Professional Membership Division of the Real Estate Institute. A third division, the Provincial Membership Division, had been created solely for the election of the fifteen councillors who constitute the Real Estate Council of British Columbia. This division still exists within the realm of the Institute, but may be dissolved once its function of electing the councillors is shifted to the Real Estate Council.

Nationally, real estate agents and boards are represented by the Canadian Real Estate Association. Originally set up in 1943 to offer advice to the federal government on the subject of war-time controls of real estate, the Association is now active in recommending just and desirable real estate legislation and the study of real estate taxation.<sup>5</sup>

Notes to Chapter 2:

<sup>1</sup>Real Estate Council of British Columbia, "Submission of the Real Estate Council of B.C. to Professor Gideon Rosenbluth" (July 1975), p.1.

<sup>2</sup>Real Estate Board of Greater Vancouver, "Constitution and By-laws" (April 1974), p.5.

<sup>3</sup>Gideon Rosenbluth, "Real Estate Inquiry" (Vancouver, April 1976), pp.23-24.

<sup>4</sup>Real Estate Council of British Columbia, Salesmen's Pre-licencing Course Manual (Vancouver: Best-Printer Co., August 1976), p.9.

<sup>5</sup>Ibid., p.9.



## CHAPTER 3

### METHODOLOGY

Three surveys were conducted to obtain the desired information concerning the real estate salesperson and the real estate firm. Two of these were questionnaire surveys mailed to a randomly selected sample.

The first survey was a turnover study that follows the basic outline and construction of those administered in 1964, 1969, and 1973. The three previous studies measured the turnover rate of new salesmen by following their progress after they passed the salesmen's pre-licencing course. The 1975 study continues the observation and analysis, and compares turnover rates in the industry at the present time to previous years. The second and third surveys were mail questionnaires sent to real estate salesmen and firms in British Columbia. They are randomly chosen to fairly represent a cross-section of the industry. These two questionnaires are included here as Appendices I and II.

#### 3.1 Turnover Study

Of the fifteen Real Estate Pre-licencing courses offered in the years 1972 to 1974 inclusive, two courses from each year, totalling six, were chosen, from which a sample of 242 qualified salespersons was randomly selected. This 242 represented 19% of all qualified salespersons from the six courses, and 8% of all fifteen courses. Since the

sample was chosen from three separate years, the study period ranged from a minimum of 12 months for the 1974 courses, to a maximum of 36 months for the 1972 courses. (see Table 3.1 for Turnover Study (1975) sample statistics).

The follow-up information of the 242 salespersons subsequent to their "graduation" was obtained from the Real Estate Council, where change of employment and inactivity are closely recorded. Specifically, this study analyzed the rate of turnover among new salesmen within a certain time period since their course examination, using data such as the timing of turnover, changes in firm-size, drop-out rates and when drop-out occurred. This allowed a possible comparison to be made with earlier studies regarding the trend of real estate salesmen turnover within the firm and industry.

Sampling was performed completely at random by using a random digits table. Though a 19% coverage of the six chosen courses is not as large as the coverage in turnover studies previously administered, the data concerning the entire sample are believed to be extremely accurate since real estate agents operating in British Columbia are required to report all employee turnover to the Real Estate Council as stated in Section (10) of the Real Estate Act. Nevertheless, errors exist as in any survey with less than 100% representation. There is no guarantee of the homogeneity of salesmen's progress after examination, and a higher

TABLE 3.1  
1975 TURNOVER STUDY SAMPLE STATISTICS

Course	Sample	Total Enrolment	Total Writing Examination*	Total Passed*
72102	34	326	313	189
72103	46	450	413	249
73105	35	324	284	181
73106	60	613	597	302
74101	36	300	273	195
74102	31	279	244	145
Total	242	2,292	2,124	1,261

\*Also includes those who were not enrolled in the respective courses, but were rewriting the examinations at that point.

coverage of the census would naturally mean greater accuracy.

### 3.2 Salespersons and Firms Survey

#### 3.2-1 Sampling:

The data for these two surveys are based on two questionnaires sent to a randomly selected sample of salesmen and firms in British Columbia during the summer of 1975. Both samples were chosen from the membership of the seven largest organized real estate boards in the province. However, sampling of each of these seven boards was not in a direct ratio with the actual population of salesmen and firms, since in doing so, the smaller boards would not be fairly represented in the survey as a whole. Therefore, to render the surveys representative numerically of each board as well as of the province, a greater percentage of salesmen and firms were surveyed from smaller boards than from the larger ones.

Similarly, because over three-quarters of real estate firms in British Columbia employed five or less salesmen, and only 2% employed more than fifty, representation must be greater from larger firms than from smaller ones. Thus in total, those firms which employed less than five salesmen received less than their proportionate number in total sampling, and the very large firms (over 50 salesmen) received more than their proportionate share in total sampling.

### 3.2-2 Salespersons

Of the one thousand questionnaires sent to salesmen in British Columbia, 518 were returned. However, only 482 of these or 9% of the seven-board total were completed to a usable extent. Of the remaining 36, some were incomplete, some were returned from inactive salesmen, still others were inapplicable because the respondents were licensed in 1975, while several questions relating to their earnings referred to 1973 and 1974. Table 3.2 shows sample statistics of the Salespersons Survey.

### 3.2-3 Firms:

The total firm population of 847 as shown by Table 3.3 represented the total of the seven largest organized boards, and not of the entire province. However, according to British Columbia Institute of Technology's yearly statistical report on the province's sales force, the total real estate firms population in British Columbia by May, 1975 was 984. This means the present study's base of 847 firms represented 86% of the provincial total, and should therefore be statistically sound.

Questionnaires were sent to 156 or 18.4% of the total 847 firms, and 94 were returned. Again, as with the Salespersons Survey, some were invalid or incomplete, lowering the usable response to 73 or 8% of the seven-board total (see Table 3.3 for sample statistics of the Firms Survey).

TABLE 3.2  
SALESPERSONS SURVEY SAMPLE STATISTICS

Board	Approximate Actual Population (a)		Sample Size (b)		Sample as Percentage of Actual Population (b)÷(a)
Greater Vancouver	2500	46.3%	100	20.7%	4.0%
Westminster County	1092	20.3	95	19.7	8.7
Victoria	741	13.8	70	14.5	9.4
Okanagan	417	7.8	83	17.2	19.9
Vancouver Island	370	6.9	61	12.7	16.5
Cariboo	193	3.6	39	8.1	20.2
Kootenay	63	1.2	31	6.4	49.2
Unspecified			3	0.6	
Aggregate	5376	100.0%	482	100.0%	9.0%

SOURCE: membership lists obtained from the various real estate boards.

TABLE 3.3  
FIRMS SURVEY SAMPLE STATISTICS

Board	Approximate Actual Population (a)		Sample Size (b)		Sample as Percentage of Actual Population (b)÷(a)
Greater Vancouver	454	53.7%	14	19.2%	3.1%
Westminster County	115	13.6	18	24.7	15.7
Victoria	81	9.5	11	15.1	13.6
Okanagan	78	9.2	6	8.2	7.7
Vancouver Island	42	5.0	7	9.6	17.7
Cariboo	46	5.4	4	5.5	8.7
Kootenay	31	3.7	8	11.0	25.8
Unspecified			5	6.8	
Aggregate	846	100.0%	73	100.0%	8.6%

SOURCE: membership lists obtained from the various real estate boards.

Where a sampled firm had more than two branch offices operating in British Columbia, information was obtained from its entire provincial operation, rather than on one branch. By doing so, the survey revealed a more realistic and overall picture of the industry's concentration.

During the course of the Firms Survey, a problem arose of how to effectively compare firm data, particularly revenue, based on a common criterion. Obviously a large corporation employing a hundred salesmen could not be compared to a small proprietorship where the owner acted as agent and salesperson, especially where revenue and assets were concerned. Firm size, then, became an important controlling variable. All respondents were classified into one of five categories of firm sizes: those employing (1) five or less salespersons, (2) 6 to 10 salespersons, (3) 11 to 25 salespersons, (4) 26 to 50 salespersons, and (5) over 50 salespersons. From this point, revenue was calculated on a per-firm and a per-employee average under each firm-size category.

### 3.2-4 Estimating Procedure

To avoid over-representation of small boards and large firms where sampling had been greater than their proportionate numbers, some results were weighted according to the actual regional and size distribution in the province. For example, the Greater Vancouver Real Estate Board had 46.5% of the seven boards' population of salesmen. Thus when the

responses were tabulated, Greater Vancouver had 46.5% of the weight, regardless of the actual number of questionnaires distributed or returned from that area. Similarly, responses were also weighted according to the size structure of the province. Therefore, since firms employing over 50 salesmen constituted 1.8% of the seven-board total, this firm size was given 1.8% weight, even though 8% of the sample belonged in this category.

### 3.2-5 Accuracy

Apart from non-response errors mentioned above, the study also suffers from non-sampling and sampling errors which naturally accompany a mail questionnaire survey.

Non-sampling errors arise from incorrect reporting on the part of the respondents, and from misinterpretation and processing on the part of the surveyor. There had been no pre-testing prior to the actual survey, and in this regard the survey was subject to certain avoidable misinterpretation. However, attempts were made to minimize these non-sampling errors by (1) using a carefully drawn and executed survey plan, (2) careful designing of the questionnaires by an expert in the field, and (3) making efforts to use classifications and accounting terminology consistent with those used in the industry, and including a glossary of definitions of this terminology with the questionnaires.

Sampling error is the statistical difference between



the sample survey result and that which would have been obtained if a complete census had been conducted in the same manner. The usable response from the Salespersons Survey amounted to 9% of the seven-board total, while the usable response from the Firms Survey amounted to 7% of the provincial total.

## CHAPTER 4

### PROFILE OF THE REAL ESTATE SALESPERSON

There are two main components within the real estate brokerage industry - the salesperson and the agent or firm. It is to these two participants that this and the following chapter are devoted. What follows will be largely descriptive information derived from three surveys that hopefully will clarify the positions of the salesperson and firm within the overall industry structure. Particularly, this chapter will deal mainly with salesmen's work hours, turnover and earnings. The next chapter will give an account of the industry's size and income structure.

The past provincial government of British Columbia had raised some questions concerning the status of the real estate salesman that prompted the initiation of an inquiry into such matters as the earning levels of salesmen and the size and income structure of the brokerage industry.<sup>1</sup> Additionally, it was also concerned with salesmen turnover within the industry, and the size of the sales force. The then Attorney-General Alex Macdonald contended that an overly large sales force lowered average salesmen income to such an extent that many did not receive the provincial minimum wage. Because competition is inherently fierce where there are too many rivals, he believed a smaller, more professional sales force would improve service to the public by upgrading ethical and performance standards. The turnover and sales-

person studies were carried out with these specific questions in mind.

Much of the following data have been derived from the Salespersons Survey and 1975 Turnover Study, both performed during the summer of 1975. The data base for the Salespersons Survey is 482, and for the Turnover Study, 242.

#### 4.1 Composition

As of May 1975, there were 5835 licenced salesmen in British Columbia. Of these, 76% was male. Average age of the real estate salesman was in the late 40's. Table 4.1 shows that over three-quarters of the sales force was over forty years of age. Since salesmen had, on the average, been licenced for about six years, they probably entered the industry in their early 40's. This suggests that real estate brokerage is probably a second or even third career.

Of the 482 respondents who returned the Salespersons Survey questionnaires, 74% had finished high school and 47% had had post-secondary education. In 1974, 63% had taken post-licencing courses of some kind.

Fifteen percent of those surveyed had left and re-entered the brokerage industry subsequent to their first licencing date. Of these 15%, over half returned to the industry after one year. Only 4.4% of 482 respondents had been licenced outside of British Columbia.

Although the main source of new licencees is through

TABLE 4.1

## DISTRIBUTION OF B.C. SALESMEN BY AGE - 1974/75

Age	Percentage of Total
Under 30 years	4.49%
31-35 years	9.09
36-40	8.97
41-45	12.44
46-50	14.36
51-55	18.10
56-60	15.47
61-65	10.47
over 65	6.61
Total	100.00%

SOURCE: British Columbia Institute of Technology, "Statistical Survey of B.C.'s Licenced Real Estate Sales Force, 1975," (Vancouver, 1975)

TABLE 4.2

## SALESMEN STATISTICS (1975)

Year	Number passed (1)	New Applicants (2)	Estimated First-time Licencees (3)	Estimated Re-entrants (4)	Total Renewals (5)
1959/60	500	765	500	265	2753
60/61	. . .	460	. . .	. . .	2675
61/62	304	474	304	170	2312
62/63	468	722	468	254	2202
63/64	509	794	509	285	2265
64/65	559	883	559	324	2407
65/66	658	1187	658	529	2560
66/67	721	1574	721	853	2743
67/68	973	2113	973	1140	3080
68/69	1019	2166	1019	1147	3740
69/70	1027	2209	1027	1182	4238
70/71	835	1815	835	980	4549
71/72	1297	2580	1297	1283	4527
72/73	1327	3643	1327	2316	4997
NEW RECRUITMENT PROCEDURES INTRODUCED					
73/74	434	379	347	32	5690
74/75	916	944	733	211	5684 cont'd

SOURCE: Real Estate Council of British Columbia

TABLE 4.2-continued

Column (1) denotes number of people who passed the salesmen's pre-licencing course. Only these people are qualified to be licenced according to the Real Estate Act of the province.

Column (2) denotes the number of new applications received by the Real Estate Council for the designated year. This figure includes both first-time applicants and salesmen re-applying after being unlicenced for over six months.

Column (3): For the years up to and including 1972/73, first-time licencees are assumed to be equal to Column (1). For the years 1973/74 and 1974/75, licencing rate of those who passed is assumed to be 80%. This is an estimate based on Council's analysis of licence applications for 1973/74 which showed that of 434 candidates who passed the examination, 348 subsequently applied for a licence.

Column (4) is the difference between Columns (2) and (3).

TABLE 4.3

BROKERAGE EXPERIENCE OF REAL ESTATE  
SALESMEN IN B.C. 1971-1976

Years	1971	1972	1973	1974	1975	1976
one or less	20.1%	22.4%	23.0%	20.6%	13.8%	21.7%
2-3	27.5	24.7	22.4	25.0	31.7	24.9
4-5	16.4	16.8	18.2	15.9	15.2	15.7
five or less	64.0%	63.9%	63.6%	61.5%	60.7%	62.3%
6-9	13.4%	15.3%	16.6%	18.6%	19.7%	18.6%
10-15	14.1		9.7	8.7	8.9	8.9
16-20	8.5	20.7	7.0	7.4	6.6	6.2
21-25	0.0		3.1	3.9	4.1	4.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Actual Number						
Licenced	4586	4858	5185	5584	5835	5819
Average Years						
Licenced	5.9	6.3	6.0	6.1	6.2	6.0

SOURCE: British Columbia Institute of Technology, "Statistical Survey of B.C.'s Licenced Real Estate Sales Force," (Vancouver, 1971-1976)

passing the salesmen's pre-licencing course, re-entrants also constitute a large share of the new sales population. In fact, Table 4.2 shows that for the late 1960's and early 1970's before new recruiting procedures were introduced, the number of re-entrants actually exceeded the number of first-time licencees. The rate at which re-entrants leave and re-join the industry probably reflects real estate market conditions. Since re-entrants make up such a large component of new licencees, it would appear that any successful recruiting programme must deal with this segment of the sales force as well as first-time salesmen.

#### 4.2 Experience

As mentioned above, in 1975, British Columbia salesmen on the average have had six years experience in real estate brokerage. This had not altered significantly from previous years. Table 4.3 shows that since 1971, the average term of licence of real estate salesmen had remained close to six years. Newsrecruiting procedures introduced in 1973 had not changed the average, although the proportion of salesmen with one year or less experience had dropped slightly in 1974 and 1975.

In general, Table 4.3 indicates that over 60% of the real estate sales force had been licenced five years or less. Due to the suspension of three salesmen's pre-licencing courses in 1973, the percentage of salesmen with less

than five years experience had slightly decreased in 1974 and 1975, but had risen again in 1976.

The Salespersons Survey showed that male salesmen had been licenced about two years longer than their female counterparts. In addition, salesmen working for the largest firms (over 50 salesmen) tended to have the shortest licensing term (four years). There were also some regional differences, with Vancouver salesmen being the most experienced. However, the variations were not marked.

#### 4.3 Work Hours

Seventy-one percent of the 482 salespersons surveyed worked the entire twelve months in 1974. Only 15% worked less than ten months, and most of this 15% had only joined the real estate industry during that year. However, these results may not be portraying the working status of the entire sales force, since those salesmen who worked less than a full year may hesitate in returning the questionnaires.

The response for hours worked per month showed a tendency for over-work in the industry. Assuming an average work week to be composed of forty hours, the average respondent worked about 200 hours per month, or about 50 hours per week. Three variables appear to have some effect on salesmen's work hours. These are (1) firm size, (2) experience in real estate sales, and (3) formal education.

#### 4.3-1 Firm Size

Table 4.4 points out clearly that salesmen employed by large firms (over 50 salesmen) tended to have longer work hours than those employed by smaller firms. This strenuous schedule of about 65 hours per week may be the result of apparently heavier competition among salesmen working for very large firms, since there is necessarily more contact with other co-workers in these situations. Moreover, large firms tended to hire a larger percentage of new licencees who generally worked longer hours than experienced salesmen.

#### 4.3-2 Experience in Real Estate Sales

Quite predictably, salesmen who were most recently licenced worked the hardest (222 hours per month). Those who have had the most experience (over 10 years), on the other hand, had the shortest working hours of about 180 hours. However, even the latter exceeds the accepted normal work load of 40 hours per week.

Similarly, those who had been working for the same firm the longest (over 10 years) had the lightest work schedule of 169 hours per month. Salesmen who had recently joined their present firm (between 6 and 12 months ago) had relatively the heaviest work load of 213 hours per month.

According to Table 4.4, there is no concrete trend that experience in real estate sales is directly related to work hours, even though the evidence of the least and most expe-



TABLE 4.4

## SALESMEN'S AVERAGE WORK HOURS PER MONTH-1974

	0-5 Salesmen	6-10 Salesmen	11-25 Salesmen	26-50 Salesmen	Over 50 Salesmen
By Firm Size:	190.03	192.77	201.27	205.91	261.52
	Under one year	2 years	3-5 years	6-10 years	Over 10 years
By Experience:	222.12	195.98	196.88	207.16	182.35

TABLE 4.5

## REAL ESTATE SALESMEN STATISTICS 1964-1975

Year	Pre-licencing Course Enrolment	Number Writing	Number Passing*	GPR**	NPR***	Licence Renewals
1964/65	740	676	550	74.3%	81.4%	2407
65/66	1025	919	711	69.4	77.4	2560
66/67	1272	1000	720	56.6	72.0	2743
67/68	1648	1327	973	59.0	73.3	3080
68/69	1694	1373	1019	60.2	74.2	3740
69/70	1697	1375	1027	60.5	74.7	4238
70/71	1388	1099	835	60.2	76.0	4549
71/72	2059	1587	1190	57.8	75.0	4527
72/73	2866	2222	1493	52.1	67.2	4997

## NEW RECRUITING PROCEDURES INTRODUCED

73/74	888	659	459	51.7	69.7	5690
74/75	1654	1318	1018	61.5	77.2	5684
Aggregate	16,931	13,555	9,995	59.0%	73.7%	5684

SOURCE: Real Estate Division, Faculty of Commerce & Business Administration, University of British Columbia and Real Estate Council of B.C.

\*includes rewrites as well as those who registered and wrote for the stated year.

\*\*GPR is Gross Passing Rate: percent passing of those who registered for the course.

\*\*\*NPR is Net Passing Rate: percent passing of those who wrote the examination.

rienced salesmen would tend to support this.

#### 4.3-3 Formal Education

University graduates worked the shortest hours (186 per month) compared to all other classifications under educational background. As will be shown in the following section under earnings, they as a group also had the highest net income in 1974.

#### 4.4 Turnover<sup>2</sup>

Aside from creating inexperience within the industry which lowers performance standards and public opinion, high turnover also represents a waste of resources on the part of the industry, firm, and individuals involved. These costs are difficult to quantify, but exist in the form of lost time in interviews and training, lost money in advertising and salary or commissions, and general adverse effects of a poor selection on clients and the firm's own sales force.

##### 4.4-1 Entry to the Brokerage Industry

Table 4.5 shows that during the period 1964 to 1975, when 16,931 persons enrolled in the salesmen's pre-licencing course, only 13,555 actually wrote the examination. Of these, 9995 passed and thus were qualified to obtain their licence. The average gross passing rate during these eleven years was 59%, and the average net passing rate (percent

passing of those who wrote the examination) 74%.

The number of salesmen licenced in British Columbia increased by 3,277 from 2,407 in 1964 to 5684 in 1975. This increase represented only 33% of the 9,995 who were qualified for their licence. Presumably, the balance of 6,559 either did not choose to enter the industry or had acted as replacements for those salesmen leaving the industry. The following will summarize the movement of persons entering the industry within the past decade:

- A net increase of 100 salesmen in the industry...
- required 305 applicants to qualify for licencing...
- required 414 applicants to write the examination...
- required 517 applicants to register in the course.

On the one hand, the low net increase in licenced salesmen in relation to the number that registered in the pre-licencing course indicates a good screening process of those who did not meet industry standards and those who did not wish to make real estate brokerage their career. On the other hand, a net increase in the sales population of less than 20% of the original applicants represents a vast waste of human resources. Moreover, the individual firm must absorb losses of salesmen to other competing firms as well as those who leave the industry.

The 1975 Turnover Study attempts to define turnover and drop-out rates among new licencees by analyzing the progression of students of the salesmen's pre-licencing course from examination to employment to drop-out. This section on turnover is divided into seven sub-sections:

- (1) From examination to first job;
- (2) Turnover rates;
- (3) Comparison of turnover rates of past years;
- (4) Distribution of new licencees by firm size;
- (5) Some factors affecting licencing rate and drop-out rate;
- (6) Drop-out rates;
- (7) Comparison of drop-out rates of past years.

#### 4.4-2 From examination to the first job

Along with limiting maximum enrolment in the Salesmen's Pre-licencing Course, the new recruiting procedures imposed in 1973 also dealt with the manner in which new licencees were to be recruited. Prior to 1973, applicants for the course must be sponsored by an agent. This early screening process accounted for a high licencing rate 93.5% (1969 Turnover Study) of all qualified applicants within the first year. After 1973 when the sponsor system was abolished, anyone could register for the course, regardless of his interest in a real estate career. This effectively delayed the screening process until a later stage, when the qualified applicants began searching for a job themselves. In the 1975 Turnover Study which traced graduates of the 1972, 1973, 1974 courses, the licencing rate of qualified applicants within the first year had dropped slightly to 88.8% (see Table 4.6).

Note that between the first and fourth quarters, a further twenty of the 242 sampled, or 8.26%, became licenced. In the 1969 study, less than 1% were licenced between the same time lapse of the first year. The decreased speed at

TABLE 4.6

LICENCING RATE OF QUALIFIED APPLICANTS  
WITHIN FIRST YEAR OF GRADUATION\*

Quarter	Licenced	Unlicenced
1	80.58%	19.42%
2	84.71	15.29
3	86.78	13.22
4.	88.84	11.16

\*Licencing rates are only applicable for one year after course examination since Real Estate Council regulations require all qualified applicants to rewrite the examination if a licence was not obtained within the first twelve months.

TABLE 4.7

TURNOVER RATE OF NEW LICENCEES

Quarter	Percentage Remaining With First Agent*	Percentage Going to Second and Subsequent Agents	Percentage Leaving Industry	Total Number Licenced
Quarter	(1)	(2)	(3)	(4)
1	95.38%	4.10%	0.51%	195
2	86.83	9.76	3.41	205
3	82.86	12.38	4.76	210
4	74.42	15.81	9.77	215
5	60.65	21.29	18.06	155**
6	56.77	22.58	20.65	155
7	51.61	24.52	23.87	155
8	44.52	27.10	28.39	155

\*Columns (1), (2), and (3) add up to 100%, equal in number to column (4).

\*\*Quarters 5 to 8 are applicable to only four of the six course surveyed since those who wrote the 1974 examination had only been in the industry for one year (four quarters) at time of survey.

which qualified applicants became licenced from 1969 to 1975 indicates a longer search for appropriate employers. The lower turnover and drop-out rates recorded in the 1975 study for the first year of licencing probably reflects , this added care in search of employment.

#### 4.4-3 Turnover Rates

By the end of twelve months subsequent to the course examination, 89% (215) of the 242 sampled had applied for their licences. Table 4.7 shows that during the same period, about 25% of the 215 licencees had already left their original employers. By the end of the second year, only 45% of new licencees remained employed with their original firms. Many of those who left had gone on to second jobs, but as time progressed, more and more would drop out of the industry.

Of those salesmen who had left their original employer within two years, Table 4.8 shows more clearly the progression from the second to third and subsequent jobs. The study reveals that by the end of the second year, 7% of the original new licencees were working with a third or subsequent agent.

For the job transient, the term of employment from first to subsequent firms seemed to decrease. That is, there appeared to be a tendency toward successively shorter jobs as a salesman transferred from one firm to another. Table 4.9

TABLE 4.8

TURNOVER RATE OF NEW LICENCEES: SECOND,  
THIRD AND SUBSEQUENT JOBS

Quarter	Percentage Remaining With Second Agent* (1)	Percentage Going to Third and Subsequent Agents (2)	Total Number Applicable (3)
1	4.10%	0.00	8
2	9.27	0.49%	20
3	10.48	1.90	26
4	12.56	3.25	34
5	17.42	3.87	33
6	18.06	4.52	35
7	19.36	5.16	38
8	20.00	7.10	42

\*Columns (1) and (2) add up to Column (2) of Table 4.7, equal in number to column (3) of Table 4.8.

TABLE 4.9

AVERAGE TERMS OF EMPLOYMENT FOR TRANSIENT SALESMEN

Job	Average Term of Employment	Total Number Applicable
First	11 months	52
Second	9	16
Third	4	7
Fourth	6	3
Fifth	2.5	2

suggests that salesmen who were employed with more than two firms within their first two years of licencing generally had employment terms of six months or less.

#### 4. 4.4-4 Comparison of Turnover Rates of past years

The 1975 Turnover Study is a continuation of an ongoing survey of the industry's turnover rate. Thus, the study reveals the trend of the industry as well as the static situation of the time.

The data of Table 4.10 indicate that during the eleven-year interval between 1964 and 1975, turnover for first-time licencees within the industry had improved a great extent. From 1964 to 1975, the turnover rate after the first two years of licencing had improved by 80%. The change between 1973 and 1975 is less pronounced. Taken on its own merit, the 1975 figures show that more than half of the original number had left their first employers by the end of the second year, and more than 25% left the industry completely (see Table 4.7, column 3). Furthermore, though the turnover rate had declined between 1973 and 1975 in the first year after licencing, it had not improved in the second year.

The drop in new salesmen turnover in their first year of licencing might in fact reflect greater care in their search for employment, and might even show that new recruiting limitations were working successfully. However, the lack of change between 1973 and 1975 in turnover rates and



TABLE 4.10

COMPARISON OF TURNOVER RATES 1964-1975  
 (PERCENTAGE OF SALESMEN REMAINING  
 WITH THEIR ORIGINAL AGENTS)

Quarter	1964	1969	1973	1975
1	99.2%	99.2%	92.0%	95.3%
2	. . . <sup>a</sup>	75.1	81.3	86.8
3	63.0	66.4	73.2	82.9
4	40.2	57.8	66.6	74.4
5	. . . <sup>a</sup>	51.4	61.4	60.7
6	30.4	47.1	56.1 <sup>b</sup>	56.8
7	. . . <sup>a</sup>	44.2	. . . <sup>b</sup>	51.6
8	26.1	40.0	. . . <sup>b</sup>	44.5

<sup>a</sup>Not available.

<sup>b</sup>Not included in survey.

drop-out (as will be shown later) for the second year of licencing suggests that even with new recruiting procedures, the industry still may not be able to absorb the continuing influx of new salesmen. Moreover, the recruiting limitations apply only to first-time licencees, and do not discourage re-entrants from joining the sales force once again. Although Table 4.2 only shows estimated figures for first-time licencees and re-entrants, it is quite clear that re-entrants constitute a very large percentage of total "new" salesmen.

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#### 4.4-5 Distribution of new licencees by firm size

About 50% of newly licenced salesmen gravitated toward the larger firms (i.e. with 50 or more salesmen employed), and though on subsequent moves to second and third jobs tended to transfer to smaller firms, the overall distribution of new salesmen among the various firm sizes remained basically the same after two years. Table 4.11 illustrates this.

Table 4.12 shows that as of 1974, large firms (over 50 salesmen) employed about 30% of total sales personnel in the province. If Table 4.11 reflects the true distribution of new licencees every year, this means that large firms are attracting more than their share of new salesmen, and that there is a tendency for these firms to grow increasingly larger.

TABLE 4.11a  
DISTRIBUTION OF NEW LICENCEES' EMPLOYMENT -  
BY FIRM SIZE AND TIME PERIOD

Firm Size	6 months after examination	12 months after examination	18 months after examination	24 months after examination
0-5 salesmen	19.07%	18.42%	17.74%	15.79%
6-10	9.79	11.58	12.90	10.53
11-25	9.28	7.89	7.26	10.53
26-50	11.34	10.00	8.87	12.28
Over 50	50.52	52.11	53.23	50.88
Total	100.00%	100.00%	100.00%	100.00%
Total Number Applicable	194	190	124	114

TABLE 4.11b  
DISBRIBUTION OF NEW LICENCEES' EMPLOYMENT -  
BY FIRM SIZE AND SUCEEDING JOBS

Firm Size	First Job	Second Job	Third Job
0-5 Salesmen	18.3%	19.6%	18.8%
6-10	9.9	13.7	12.5
11-25	9.9	11.8	12.5
26-50	13.6	11.8	18.8
Over 50	48.4	43.1	37.5
Total	100.0%	100.0%	100.0%
Total Number Applicable	213	51	16

TABLE 4.12

ESTIMATED DISTRIBUTION OF REAL ESTATE AGENTS  
AND SALESMEN IN B.C. BY FIRM SIZE-1974

Firm Size	Estimated Proportion
0-5 salesmen	25%
6-10	20
11-25	13
26-50	13
Over 50	29
Total	100%

SOURCE: Gideon Rosenbluth, "Real Estate  
Inquiry," (Vancouver, April 1976) p.10, table 1.

TABLE 4.13

SALESMEN'S LICENCING AND DROP-OUT RATES BY AGE (1974)

	30 years and under	31-40 years	41-50 years	Over 50 years
Licencing Rate	87.8%	87.7%	95.7%	93.3%
Drop-out Rate	26.8	24.6	26.1	13.3

This may be an unhealthy trend since large firms are less responsive to changes in economic conditions. Neo-classical economics hold that in the absence of obvious scale economies (see Chapter 6), an industry composed of many small firms employing few or no employees is preferable to one that is composed of few large firms with many employees because the small firm has relatively little fixed cost and thus is very flexible.<sup>3</sup> Since small firms are more able to absorb cost fluctuations, they are also more prone to a flexible commission rate or fee structure.

#### 4.4-6 Factors affecting licencing rate and drop-out rate

One of the variables in the 1975 Turnover Study was the present status of the sample group. This was divided into four categories: (1) still working within the industry, (2) left industry, (3) did not apply for licence, and (4) became an agent. Since only one of the 242 sampled belonged to the last category, it was possible to eliminate him from this analysis. The factors which most affected the licencing rate and drop-out rate were: age, sex, education level, and previous employment experience.

##### (1) Age when entering the industry:

Table 4.13 shows that both licencing rate and drop-out rate for the older groups were better than those for the younger groups. That is, younger students tended to leave the industry at a higher rate while not entering the

industry as readily as do older students. Particularly noticeable is the evidence that only 13% of those over 50 years of age left the industry at time of survey, while 27% of those 30 years and under dropped out.

(2) Sex:

While the difference in the licencing rates between male and female students was negligible, the drop-out rate among females was 12% higher than that among males. Furthermore, a slightly higher percentage of women had changed employers two or more times at the time of survey than men. This is an apparent change over the results from the 1964 and 1969 surveys, where turnover and drop-out rates between male and female licencees were comparable.

(3) Formal education level:

Drop-out rates tended to be slightly higher for licencees with a college or university degree as well as those who had not finished secondary school. However, the difference was not significant. There was a more noticeable difference among licencees of various educational backgrounds with respect to licencing rate: approximately 13% of those who had attended or finished university did not apply for their licences, while this was true for only 2.3% and 7.4% of those who had a partial or complete high school education, respectively.

(4) Previous employment experience:

Of the sample group, only 16% have had previous sales

experience, but this experience appeared to have affected drop-out rate significantly. Only 6.3% of the licencees who had done sales work left the industry at time of survey, whereas 29.5% of those licenced but had not had sales experience dropped out after a comparable time period.

#### 4.4-7 Drop-out Rates

Of the 215 who were licenced from the sample of 242, the first drop-out occurred at three months subsequent to the course examination. The majority (70%) of those leaving the industry had worked with only one firm.

By the end of the fourth quarter subsequent to the course examination, 10% of those licenced had left the industry. Rather than decreasing from this point onward, the drop-out rate rose almost three-fold to 28% during the next year (see Table 4.7, column 3). Unfortunately, the study was discontinued after the two-year period; it would be of interest to note whether the drop-out rate eventually stabilized, and the time period at which this took place.

#### 4 4.4-8 Comparison of drop-out rates of past years

As with turnover rates, a comparison of drop-out rates over the past decade (Table 4.14) shows much improvement within the first year of licencing. However, the performance of the industry during the second year had not improved since 1969. This could be due to recruitment of new salesmen

TABLE 4.14  
COMPARISON OF DROP-OUT RATES 1964-1975

Quarter	1964	1969	1973	1975
1	3.2%	. . . <sup>a</sup>	1.3%	0.5%
2	14.2	6.5%	5.1	3.4
3	26.1	12.9	9.9	4.8
4	35.8	15.7	14.1	9.8
5	. . . <sup>a</sup>	18.5	17.5	18.1
6	42.2	21.4	20.7 <sup>b</sup>	20.7
7	. . . <sup>a</sup>	25.0	. . . <sup>b</sup>	23.9
8	49.4	26.4	. . .	28.4

<sup>a</sup>Not Available

<sup>b</sup>Not included in survey.



over and above the number needed, which would lead to low earnings for many inexperienced licencees. The 1969 Turnover Study showed that almost half (43%) of the surveyed salesmen leaving the real estate industry attributed insufficient income as the main cause.

#### 4.4-9 Summary of 1975 Turnover Study

In 1973 certain new recruiting procedures were introduced. They included the cancellation of three salesmen's pre-licencing courses scheduled for the fall, setting an enrolment ceiling of 1800 per year to the course, and imposing stricter advertising policies on agents.

Due to these new recruitment procedures, the proportion of salesmen with less than one year experience, licencing rate of qualified personnel, and, to a certain extent, turnover rates of new licencees had undergone some changes. Because recruitment was limited under the new procedures, the number of new licencees entering the industry was reduced, thereby reducing the proportion of the sales force that had less than one year experience by 9% from 1973 to 1975. (This reduction was short-lived as the proportion of salesmen belonging to the same experience category increased 8% from 1975 to 1976 - see Table 4.3!) Licencing rate dropped from 93.5% in 1969 to 88.8% in 1975 since students of the pre-licencing course were no longer bound to an agent/sponsor.

In comparison with previous years, this study showed

that both turnover and drop-out rates had improved for first-time licencees during the first year of licencing. However, drop-out had not improved since 1969, although turnover had decreased a little, for the second year. That is, during their first year of licencing, new salesmen did not change agents and drop out of the industry as readily as in previous years, but the condition worsened during their second year of licencing. By the end of the first 24 months, 27% of new salesmen changed employers and 28% dropped out of the industry. This left only 45% of the original licencees who remained with their original agents. In 1969, 34% of new licencees changed employers by the end of their second year, and 26% left the industry after a comparable time period.

In anticipation of the large turnover and drop-out rates, the real estate industry opens its doors to more new licencees each year. However, many of the 28% who dropped out inevitably return to the industry some years later when the real estate market improves or when other opportunities fail to materialize. These re-entrants make up a significant portion of the "new" salesmen who enter the industry each year, and their numbers should be taken into account.

The fact that turnover of new licencees had improved very little and that drop-out rates had improved not at all since 1969 may indicate that course enrolment restrictions are not as much of a panacea as the industry had hoped. Moreover, restrictions on enrolment discriminate against

those who are excluded and do not guarantee that the most potentially-qualified applicants will be accepted into the industry. If some control on recruitment must be imposed, it should be done after applicants have finished the course, and not before. The recruiting process then will take into account the actual qualifications of applicants (for example, how well applicants fared in the course) rather than relying on a first-come-first-serve system. Employers must use their discretion when hiring first-time licencees as well as re-entrants and salesmen from other firms. It appears that careful selection is rare among employers, hence the suggestion that they should have some financial commitment toward those hired. A turnover study conducted on new salesmen in 1969 showed that 23% of those surveyed left their sponsoring agent because of inexperienced or poor management.<sup>4</sup>

The 1975 Turnover Study showed that first-time licencees with previous sales experience had a much lower drop-out rate than those with no sales experience. Employers should take this into account when selecting new salesmen.

It should be remembered that high turnover and drop-out rates represent a waste of resources not only for the individuals but also for the firms and industry as a whole, and contribute to an inexperienced sales force. It is to the firms' and industry's advantage to employ a more selective recruiting programme for all new-comers.

#### 4.5 Earnings

Of the numerous questions asked in the questionnaire, ten variables could possibly have an influence upon salesperson income. These are (1) firm size, (2) years of experience, (3) work hours, (4) commission share between salesman and agent, (5) volume of sales activity, (6) source of commission, (7) formal education background, (8) post-licencing education other than that offered by employer, (9) practical training from employer, and (10) individual turnover, or the number of firms salesmen worked with in one year.

From the data assembled from the survey, two of the above variables did not have a noticeable influence upon salesperson income. They were post-licencing education and practical training from employer. This does not necessarily rule out the influence of the two variables on earnings, only that survey results did not show a strong correlation between them.

Prior to analyzing the effect each of the variables had upon salesperson income, a general overview of earnings within the province would serve as a preparatory note for the overall financial situation of British Columbia's real estate licencees.

Net earnings of real estate salesmen in British Columbia averaged \$1374 per month or \$6.82 per hour in 1974. The highest net income was received by salesmen belonging to the Cariboo and Vancouver Island Real Estate Boards. They received

TABLE 4.15

BREAKDOWN OF AVERAGE MONTHLY GROSS EARNINGS AND  
EXPENSES OF REAL ESTATE SALESMEN (1974)

<u>Income</u>		
Real Estate Commissions	\$1600	95.35%
Property Management Fees	8	0.48
Insurance Commissions	1	0.06
Appraisal Fees	8	0.48
Other Real Estate Income	61	3.64
Total Gross Income	\$1678	100.00%
<u>Expenses</u>		
Automobile	\$169	55.23%
Advertising	45	14.71
Other Real Estate Expenses	92	30.07
Total Gross Expenses	\$306	100.00%
<u>Net Income</u>	\$1372	. . .

an average of \$1512 and \$1507 per month, respectively. Salesmen in the Greater Vancouver Real Estate Board ranked fourth highest among the seven largest boards surveyed with an average of \$1422 per month. Earnings were lowest for Westminster County and Victoria salesmen, who received an average of \$1270 and \$1202 per month, respectively.

As indicated by Table 4.15, real estate sales commission was the main source of revenue for most salesmen. Income from other related activities such as property management and appraisal comprised less than 5% of gross income. Automobile expenses constituted over half of salesmen's total real estate oriented expenses in 1974. The noted expense items such as advertising are an integral part of the salesman's job. Unlike most other vocations, these expenses are incurred and paid for by the individual (and thus are tax-deductible). They represent an undeferrable cost to the salesperson from inception to closing of a property sale. Total real estate oriented expenses amounted to 18% of salesmen's gross earnings in 1974.

The average net earnings of \$1374 per month compared favourably to other non-professional occupations in 1974. On a per-week basis, salesmen's average earnings amounted to \$317. Weekly earnings for other industry groups were:<sup>5</sup>

Construction	\$284
Mining	259
Forestry	251
Transport and Utilities	219
Manufacturing	218

Trade	\$175
Financial Institutions	166
Services	138

Per-hour wages of many skilled occupations in 1974 compared closely to \$6.82 of the salesmen.<sup>6</sup> However, these occupations registered lower weekly earnings because standard work weeks usually averaged 40 hours or under, whereas British Columbia real estate salesmen worked about 50 hours per week on the average.<sup>7</sup>

Construction	\$8.08 (Canadian Average)
Welder-maintenance	6.57 (Vancouver Average)
Pipe Fitter-maintenance	6.54 ( " " )
Electrical Repairman	6.54 ( " " )
Plumber	6.53 ( " " )
Mining	6.49 (Canadian Average)
Carpenter	6.17 (Vancouver Average)
Manufacturing	5.73 (Canadian Average)
Hotels & Restaurants	3.37 ( " " )

There was also some discrepancy in earnings between male and female salespersons. Male salespersons on the average earned \$148 per month more than their female counterparts, though females in general worked about 6 hours more than male salesmen per month. The income discrepancy was not due to greater sales activity on the men's part since the number of sales and listings obtained were comparable between males and females. However, males had about one year more experience in real estate brokerage than females. In addition, a slightly higher proportion of males ventured into non-residential property transactions that generated higher commissions because of their higher property values.

#### 4.5-1 Work Hours, Firm Size and Earnings

Table 4.16 shows that there is a positive correlation between work hours and earnings, but also indicates that those who worked unusually long hours (over 300 per month) did not reap the largest rewards - pointing out perhaps that much of this time was used inefficiently. This is upheld by the evidence that salesmen with the least experience worked the longest hours. On the other end of the spectrum, those who worked comparatively short hours (less than 100 per month) did not receive the lowest salary of all groups. However, this may be attributed to unrepresentative sampling, since only 4% of respondents belonged in this category.

Although there was no direct relation between firm size and salesmen's earnings, one can deduce that salesmen employed by large firms (over 50 salesmen) had lower productivity than the others. While salesmen employed in the smallest agencies (0-5 salesmen) worked an average of 190 hours and earned an average of \$1438 per month, salesmen employed in the largest agencies (over 50 salesmen) worked an average of 262 hours and earned only \$1331 per month. Table 4.17 suggests that lower earnings among large-firm salesmen can be attributed to lower experience both within the firm and the industry, and lower commission share between the individual salesman and the firm. It is not known whether larger firms offer less training and supervision to their salesmen than the smaller firms. However, the 1975 Turnover Study



TABLE 4.16

## SALESMEN'S MONTHLY EARNINGS BY WORK HOURS (1974)

Work Hours	Gross Income	Net Income	Number of Responses
Under 100	\$1615.93	\$1218.28	21
101-150	1440.64	1186.86	64
151-200	1554.57	1296.83	219
201-250	1923.67	1602.66	86
251-300	2079.20	1671.85	55
Over 300	1642.43	1230.18	37

TABLE 4.17

SALESMEN'S MONTHLY WORK HOURS AND EARNINGS -  
BY FIRM SIZE (1974)

Firm Size	Work Hours	Experience Within Firm (months)	Experience Within Industry (years)	Commission Share	Net Earnings
0-5 Salesmen	190	41	6.3	58.6%	\$1438
6-10	193	46	6.4	59.2	1402
11-25	201	35	4.1	59.3	1283
26-50	206	46	4.8	57.7	1429
Over 50	262	30	3.9	55.9	1331

showed that about half the new licencees that entered the industry were hired by large firms (over 50 salesmen). This indicates that large agencies may be adding new salesmen to their employment at an excessive rate, and that they may not have the resources to properly supervise them.

#### 4.5-2 Sales Activity, Commission Share, Source of Commission and Earnings

The number of sales completed or listings obtained should be directly related to salesperson income since 93% of the respondents were remunerated by commission only. However, two factors may tend to change the direct relation between volume of sales activity and earnings. First, the percentage of commission that the salesman actually received varied from firm to firm, perhaps even among individuals within the same firm. Table 4.18 shows that a salesman with a higher commission share tended to have a higher income. Second, salesman income appeared to depend also upon the type of property sales in which the individual was engaged, though the evidence was not pronounced. Those who were primarily engaged in residential property sales, for example, earned less than those primarily engaged in commercial property sales. This seems to be self-explanatory since commercial properties usually have higher market values than residential properties, and the salesperson's commission is directly linked with the selling price of the real property. Moreover, commission rates for commercial properties are usually

TABLE 4.18

## 1974 MONTHLY EARNINGS BY SALESMEN'S COMMISSION SHARE

Commission Share	Gross Income	Net Income	Number of Responses
50% and under	\$1340.75	\$1080.60	77
51%-65%	1701.05	1404.72	351
66%-75%	1877.95	1499.79	31
76%-100%	1903.42	1552.12	19

TABLE 4.19

## 1974 MONTHLY EARNINGS BY SOURCE OF COMMISSION INCOME

Source of Commission Income	Gross Income	Net Income	Number of Responses
Over 50% Residential	\$1557.69	\$1277.53	360
Over 50% Commercial	2235.67	1792.53	21
Over 50% Industrial	1947.28	1601.06	2
Over 50% Farm or Ranch	2137.62	1714.40	10
Over 50% Recreational	2833.33	1666.67	1
Over 50% Other	2454.21	1954.08	7

higher than those for residential properties. However, Table 4.19 should be referred to with some reservation since the number of responses to all categories but the first ("over 50% residential") are too small to be representative of the industry.

#### 4.5-3 Experience and Earnings

The number of years that a salesman had been licenced directly contributed to his income, since practical experience and social plus business contacts increased with time. Table 4.20 points out the relationship between experience and earnings.

Salesmen with six to ten years of experience received the highest gross and net incomes in 1974. Salesmen with more than ten years of experience ranked second, though they had the shortest work hours of the entire sample. On a wage-per-hour basis, salesmen's earnings were directly linked with experience.

Although Table 4.20 shows a fairly positive correlation between experience and earnings, one other factor which may be influential to this correlation should be noted. As a salesman gained more experience, he also tended to depend less on sale of residential property for income. Table 4.21 indicates that the average salesman of one year experience obtained 86% of his commission earnings from residential property sales, whereas the average salesman of more than 10

TABLE 4.20  
1974 MONTHLY WORK HOURS & EARNINGS  
BY YEARS OF EXPERIENCE

Years of Experience	Work Hours	Gross Income	Net Income	Wage per Hour	Number of Responses
1	222	\$1178.95	\$ 954.72	\$4.30	72
2	196	1662.47	1387.12	7.08	92
3-5	197	1710.01	1383.17	7.03	155
6-10	207	1916.53	1568.89	7.57	111
Over 10	182	1760.69	1491.23	8.18	52

TABLE 4.21  
SOURCE OF COMMISSION INCOME BY YEARS OF EXPERIENCE

Years of Experience	Residential	Commercial	Industrial	Farm or Ranch	Recreational	Other	Number of Responses
1	85.8%	5.03%	0.21%	3.69%	2.92%	2.39%	71
2	76.4	9.76	1.36	7.23	2.57	2.56	91
3-5	77.5	8.64	1.87	4.63	3.27	3.26	153
6-10	70.8	13.06	1.62	8.61	3.70	2.18	109
Over 10	66.6	15.23	1.77	7.62	4.38	4.42	52

years experience obtained only 67% of his earnings from the same source. According to the evidence given in Table 4.19, the respondents who obtained the majority of their commission income from sale of residential property also had the lowest earnings. Although most salesmen depended upon residential property sales for the majority of their earnings, a greater percentage of those with longer experience ventured into commercial, industrial, farm, recreation and other types of property sales than salesmen with shorter experience. Therefore, it seems that though experience has a positive effect on income level, at least some of it is due to the de-emphasis of residential property sales for those with greater experience.

#### 4.5-4 Formal Education and Earnings

As mentioned previously, university graduates worked the shortest hours but also earned the highest income of all respondents. However, salesmen with a high school education earned on the average more than those with some post-secondary education obtained either from a university, technical school, or another form of institution.

Table 4.22 shows no simple relationship between formal education and earnings. This appears to indicate that although pre-licencing education is needed to acquaint the applicant with the real estate market and to protect the public from uninformed agents and salesmen, stricter formal

TABLE 4.22  
1974 MONTHLY WORK HOURS AND EARNINGS  
BY FORMAL EDUCATION

Education	Work Hours	Gross Income	Net Income	Number of Responses
Partial High School	197	\$1564.45	\$1285.54	117
Complete High School	209	1784.28	1464.03	129
Partial University	203	1646.33	1316.60	89
Complete University	186	1766.03	1536.54	63
Technical School	210	1623.14	1282.72	43
Other	199	1484.61	1180.70	19

TABLE 4.23  
1974 MONTHLY WORK HOURS, SALES VOLUME, AND EARNINGS AS  
AFFECTED BY SALESMEN'S INDIVIDUAL TURNOVER

Number of Employers	Work Hours per Month	Number of Sales	Number of Listings	Gross Income	Net Income	Number of Responses
one	199	1.97	1.58	\$1712	\$1402	422
More than one	216	1.43	1.14	1408	1178	57

education is not a necessity.

In California, higher educational requirements for real estate agents were recommended. They were to make the baccalaureate degree an eventual prerequisite for obtaining the broker's (agent) licence. Meanwhile, the privileges of the salesman licensee would be systematically downgraded with the ultimate aim of eliminating this class of licence entirely.<sup>8</sup> This means that entry to the real estate industry would be effectively closed to many who could become very successful at the business. Table 4.22 shows no direct correlation between level of education and income of real estate salesmen and suggests that making the baccalaureate degree as an educational requirement would artificially limit entry to the real estate industry.

#### 4.5-5 Turnover and Earnings

For convenience, salespersons were divided into two categories: those who worked with one firm during 1974 (88%), and those who worked with more than one firm (12%).<sup>9</sup> Table 4.23 shows that though the salesmen working with more than one firm during 1974 had longer work hours (216 hours per month compared to 199 hours of the other group), their sales activity and earnings were lower than those salesmen who stayed with one firm.

The 1969 Turnover Survey showed that 20% of respondents left their sponsoring agents because of insufficient income or higher income opportunities elsewhere. Low earnings



could also be a direct result of unstable employment.

#### 4.5-6 Summary of Salesmen's Earnings

Net salesperson income (after expenses) averaged \$1374 for 1974, over 95% of which was obtained from real estate sales commission. Expenses totalled about 18% of gross income. Average hourly wages in the real estate industry were generally comparable to those of many skilled workers such as welders, electricians and plumbers. However, average weekly earnings were higher for real estate salesmen because they usually worked longer hours.

Earnings depended largely on the salesman's experience, work hours, sales volume, commission share, source of commission income, and to a lesser extent, education background. Individual turnover, or the number of times a salesman changed employers, also affected overall income.

A salesperson's income was not directly associated with his or her sex.

It had been mentioned earlier that the past provincial government of British Columbia had questioned the adequacy of salesmen's earnings. According to survey data, earnings of real estate salesmen in British Columbia did not appear to be unduly low. Average monthly earnings (net) for a salesman in his first licenced year was \$955. Though these newly-licenced salesmen worked the longest hours, their average wage per hour of \$4.30 was still higher than the

provincial minimum at that time. Second-year licencees earned an average of \$7.08 per hour, and wages continually increased, but at a slower rate, with experience.

Although the real estate market appears to be supporting the brokerage industry satisfactorily, the variation in earnings between certain individuals within the industry is quite high. For example, the gap in wages of almost \$3 per hour between first and second year licencees is considerably greater than in other occupations.

Table 4.24 shows that there is a noticeable percentage of salesmen (16%) who made under \$6000 (or minimum wage and under) in 1974, while 14% of the sales force earned over \$25,000. It is also possible to deduce from Table 4.24 that the bottom 55% of the industry made only 33% of the total income, while the top 14% made almost an equal proportion (30%) of total income.

Thus while survey responses showed average salesmen earnings at a relatively high level of \$1374 per month in 1974, there was a considerable number of salesmen who might have faced economic hardship. Although the amount of time that a salesman devoted to his work naturally affected his income level, it did not account for the large income variations that exist within the industry. The last column of Table 4.24 shows this.

The lower end of the income spectrum probably belonged to salesmen with little or no experience in the industry.

TABLE 4.24  
 DISTRIBUTION OF B.C.'S REAL ESTATE  
 SALESMEN BY NET EARNINGS-1974

Net Annual Earnings (in Thousands) of dollars)	Percentage of Responses	Average Net Earnings per Month Worked	Average Hours Worked per Month
Under 6	16%	\$440	206
6-10	17	818	184
10-15	22	1082	201
15-25	31	1640	202
25-35	9	2552	219
35-50	3.5	3471	230
50-100	1.3	4930	192

SOURCE: Gideon Rosenbluth, "Real Estate Inquiry,"  
 (Vancouver, 1976) p.48, table 13.

The 1975 Turnover Study suggested that the incidence of turnover and drop-out among this group was particularly high, and that turnover and drop-out resulted usually because of insufficient income. The high turnover and drop-out rates and low earnings among new licencees point to either an overly competitive industry or a lack or deficiency of training and supervision on the employers' part, which imply that the latter must take on a more responsible role vis-a-vis their salesmen in order to fundamentally change a situation that is harmful to the industry as well as the individuals.

Notes to Chapter 4:

<sup>1</sup>Alex Young, "B.C. Real Estate Probe", pp.1,14.

<sup>2</sup>The term "turnover" is generally used to denote mobility of salespersons within the industry as well as the rate of entry-exit to and from the industry. In this chapter, it will be necessary to distinguish between the two. "Turnover" will be used to indicate the mobility of salesmen among real estate firms within the industry, while the term "drop-out" will be used to indicate exit from the industry-the surrendering of the salesperson's licence.

<sup>3</sup>Boris W. Becker, Economic Aspects of Real Estate Brokerage: Utilization, Performance, Structure and Price Competition (Berkeley: Centre for Real Estate and Urban Economics Institute of Urban and Regional Development, University of California, 1971), p.96.

<sup>4</sup>Stanley W. Hamilton, "1969 Study of the Turnover of Real Estate Salesmen in British Columbia" (Vancouver: University of British Columbia, 1973)

<sup>5</sup>Rosenbluth, "Real Estate Inquiry", p.38.

<sup>6</sup>Ibid., p.40.

<sup>7</sup>There might be a tendency for respondents of questionnaire surveys to report higher work hours than they actually experienced, in which case their hourly wages should be adjusted slightly upward.

<sup>8</sup>Becker, Economic Aspects of Real Estate Brokerage, p.10.

<sup>9</sup>The actual distribution of salesmen according to turnover per Real Estate Salespersons Survey was thus: 422 (88%) worked with one firm, 52 (11%) worked with two firms, 3 (0.6%) worked with three firms, 2 (0.4%) worked with four firms, and 3 (0.6%) declined to answer.

## CHAPTER 5

### PROFILE OF THE REAL ESTATE FIRM

The purpose of the Real Estate Firms Survey was to analyze the structure of the real estate brokerage industry. This chapter is divided into three sections, the first dealing with overall industry structure, the second with the relationship between salesmen and their agents, and the last with income structure of the firm and industry.

#### 5.1 Industry Structure

##### 5.1-1 Provincial Distribution

Almost half (46%) of the British Columbia population of real estate firms operate within the Vancouver area under the auspices of the Greater Vancouver Real Estate Board. Together with the Westminister County Real Estate Board, these two boards cover the entire Lower Mainland region and control 58% of the province's brokerage firms. Victoria Real Estate Board and Okanagan Real Estate Board each have about 8% of the provincial total (see Table 5.1).

##### 5.1-2 Size

Table 5.1 shows that small firms employing five or less salesmen comprised 78% of the total number belonging to the seven largest real estate boards in British Columbia. Only 9% of the firms employed more than ten salesmen.

The total number of real estate offices in British Col-

umbia had increased by 40% from 1970 to 1975. Much of this growth (18%) had occurred between 1970 and 1971, probably as a reflection of the large volume of property transactions taking place at the turn of the decade.

Table 5.2 shows that although the number of head offices was increasing, the number and proportion of branch offices were on the decrease from 1973 to 1976. Particularly, this decrease occurred during a period of tight market conditions and appears to support the theory (stated in Chapter 6) that small firms are more flexible during unfavourable economic times.

In the Firms Survey, 25% of the 73 firms sampled had one or more branch offices operating in British Columbia. These branch offices totalled 116 or 61% of the total 189 (73+116) offices sampled. Obviously, the present sample over-represented the multi-branched firms in British Columbia. This was purposefully done in order to give adequate representation to the smaller number of large firms (over 50 salesmen) which are virtually all multi-branched.

Sixty-eight of the 73 sampled firms (95%) had head offices in British Columbia. Their brokerage operations were mostly limited to within the province: only two respondents had branch offices operating outside of the province. This indicates that brokerage firms are extremely region-oriented. They rarely venture outside of their special area, unless the firm was sufficiently large to diversify into other markets.

TABLE 5.1  
INDUSTRY STRUCTURE BY FIRM SIZE AND REGION (1975)\*

Board/Region	0-5 Salesmen	6-10 Salesmen	11-25 Salesmen	26-50 Salesmen	Over 50 Salesmen	Total
Greater Vancouver	366	43	24	8	13	454
Westminster County	92	16	5	1	1	115
Victoria	49	21	7	4	0	81
Okanagan	59	12	6	1	0	78
Vancouver Island	31	10	0	0	1	42
Cariboo	35	9	2	0	0	46
Kootenay	30	1	0	0	0	31
Total	662	112	44	14	15	847

SOURCE: Membership lists from the real estate boards.

\*The actual provincial total of real estate firms in 1975 was 984 according to the yearly survey conducted by the British Columbia Institute of Technology. This total of 847 is based on the largest seven real estate boards.

TABLE 5.2  
NUMBER OF HEAD AND BRANCH REAL ESTATE  
OFFICES IN B.C. (1970-1976)

	1970	1971	1972	1973	1974	1975	1976
Head Offices	... <sup>a</sup>	...	...	848	915	984	1005
Branch Offices	...	...	...	190	221	156	172
Total	814	959	...	1038	1136	1140	1177
Increase over Precious year	...	17.8%	8.2%	9.4%	0.4%	3.2%	
Branch Offices as percentage of total	...	...	...	18.3%	19.5%	13.7%	14.6%

<sup>a</sup>Not Available.



### 5.1-3 Form of Organization

The majority (81%) of respondents were private corporations. Of the remainder, 11% were proprietorships, 3% partnerships, and 6% public corporations. There is no available data on the actual distribution of British Columbia's real estate firms according to the type of ownership, therefore it is not possible to measure sample accuracy with respect to this variable. In Ontario, unincorporated real estate firms, that is proprietorships and partnerships, comprised 58% of the industry.<sup>1</sup> By comparison, unincorporated firms in the present sample made up only 14% of the total.

## 5.2 Salespersons within the Firm

### 5.2-1 Ownership Sharing

Few of the sampled incorporated real estate firms had widespread ownership sharing plans. Twenty-one of the 63 incorporated firms (33%) replied that their salesmen owned no company shares. Twenty-six (41%) said their salesmen owned up to 10% of company shares. Only seven (11%) claimed that a major portion (50% or more) of company shares was held by their salesmen. All seven were small- to medium-sized firms, the largest of which employed twelve salesmen. Although survey results showed that salesmen of 41% of responding firms owned up to 10% of company shares, it is probable that the majority of these firms marked the "under 10%" category because there was no "zero" or "none" spaces

provided on the questionnaire (see Appendix II, question 9).

A real estate salesman's position vis-a-vis his employer is very different from most employee-employer relations. The firm which hires the salesman is not actually his employer in the regular meaning of the word in that no remuneration is being paid by the firm to the salesman. The firm is supposed to train its salesmen and supervise their work, but since no financial commitment is made by employers, this supervisory role is sometimes neglected. Salesmen, in turn, feel no obligations or much loyalty toward their employers. High levels of turnover within the industry ("firm-hopping") are due at least in part to the weak bond between salesmen and their employer firms.

Ownership-sharing is a traditional method of sharing firm profits with employees. It serves its purpose in encouraging higher work involvement among salesmen and creating a better relationship between salesmen and the firm. Salesmen who have commitments in their work places are less likely to change employers. Ownership-sharing also ensures a return commitment on the part of the employers which in turn enhances the position of the salesmen.

#### 5.2-2 Remuneration

Ninety-two percent of the sampled firms paid their salespersons by commission only. Only 3% had a form of remuneration which combined salary and commission. None paid by

salary only.

The majority of salesmen (73%) received between 50% and 65% of commissions resulting from a property listing or sale. The remaining commission accrued to the firm. However, there are a number of firms which have abandoned this conventional remunerating arrangement. They offer their salesmen 100 percent of commissions earned, retaining a fixed amount per month for facilities and services. The salesmen determine their own operational costs as well as work hours. Most of these "100 percent commission houses" charge \$200 per salesman per month, always paid in advance and regardless of whether the salesman has commission income or not.<sup>2</sup> As long as a salesman generates over \$500 a month, he is better off under the 100 percent commission scheme. It was estimated that a salesman can obtain as much as 90 percent of his commissions as income if he is familiar with the real estate market and if he can keep extraneous expenses, such as advertising, to a minimum.<sup>3</sup>

There have been arguments for and against the 100 percent commission. Those who oppose the scheme are mainly concerned that agents may not be properly supervising the operation of their salesmen. They further charge that in the cases where the agents or nominees do not have adequate control of the agency, each salesman is in effect acting as an independent agent without being so licenced. Their major contention is that \$200 per month is not an adequate amount

so as to ensure proper supervision for an individual salesman. The opportunity for abuse by agents, that is to "sell desks" to salesmen, is always present.

Those who are in favour of 100 percent commissions claim that their remunerating arrangement actually enables the agents to establish stricter supervision and control over their salesmen because they have no vested interest in the commission and thus are able to exercise an impartial judgement over operations. They further charge that in conventional remunerating arrangements the good salesmen subsidize the poor ones while contributing much profit to the firm.

Professor Gideon Rosenbluth, when conducting the recent "Real Estate Inquiry", felt that the probability of unethical conduct in 100-percent-commission agencies is not higher than in the conventional firms.<sup>4</sup> Furthermore, such a commission scheme would discourage marginal salesmen from remaining in the industry, while it would encourage the efforts of good salesmen.

### 5.2-3 Practical Training

A large majority (78%) of responding firms gave some practical training to their salesmen. Though pre-licencing education had been compulsory since the 1950's, practical knowledge had been left to the individual to acquire. Some firms offered practical training courses utilizing tapes and films, but most gave only informal guidance. The subject

matter also varied widely from mortgage financing and appraisal principles to general office practices. Eighteen percent of the sampled firms did not give any practical training to their salesmen.

### 5.3 Income Structure within the Firm and Industry

This section will include an outline of real estate firms' revenue sources and expenditure outlets, together with an examination of how size of the firm affected its earnings. There is also a brief account of the industry's income and asset structure as of 1974.

Table 5.3 shows average earnings and assets of real estate brokerage firms in each size category for the 1974 fiscal year.

#### 5.3-1 Revenue Sources

Over three-quarters of the 73 firms surveyed for 1973 and 1974 received over half of their earnings from real estate sales commission. Real estate sales commissions constituted 95% and 94% of the total revenue of these firms for the years 1973 and 1974, respectively. The few firms whose major source of revenue was other than real estate sales commission depended largely on several revenue sources such as appraisal fees, insurance commission, notary fees and mortgage brokerage fees. Table 5.4 depicts the extent that these two types of firms differed in their revenue sources.

TABLE 5.3  
AVERAGE YEARLY EARNINGS PER FIRM BY FIRM SIZE (1974)  
(in Thousands of Dollars)

	0-5 Salesmen	6-10 Salesmen	11-25 Salesmen	26-50 Salesmen	Over 50 Salesmen
Total Revenue	\$113.59	\$290.44	\$521.75	\$963.00	\$5,740.00
Total Expense	100.33	258.67	477.25	923.60	5,411.00
Net Income	13.26	31.78	44.50	39.60	329.00
Total Assets	66.37	201.10	171.74	259.63	2,672.01

TABLE 5.4  
REVENUE SOURCES AS PERCENTAGE OF TOTAL  
REVENUE - AN AVERAGE (1973-1974)

	Firms which depend on sales commission for over 50% of total revenue		Firms which depend on sources other than sales com- mission for over 50% of total revenue	
	1973	1974	1973	1974
Sales Commissions	95.20%	93.81%	28.24%	44.75%
Leasing Fees	0.01	0.08	0.0	0.0
Property Management Fees	0.41	0.41	3.40	1.86
Appraisal Fees	0.45	0.45	11.62	1.46
Insurance Commissions	1.02	1.15	22.21	3.37
Other Income	2.91	4.11	34.53	48.56
Total Revenue	100.00%	100.00%	100.00%	100.00%

In no case was "property development" singled out as the chief source of income, although 25% of the 73 firms surveyed were involved with land development.

There was significant variation among different sizes of firms with respect to commission income. Table 5.5 shows that this category of revenue constituted 77% of small firms' (five or less salesmen) total gross income, while making up 96% of the very large firms' gross income. This indicates that smaller firms obtained more of their revenue from other sources such as property management, appraisal, insurance, notary services and mortgage brokerage than the large firms. This may be attributed to larger firms' tendency to set up separate corporations for different activities.<sup>5</sup>

#### 5.3-2 Expenditures

Salesmen's commission and salary was by far the largest item in the expenditures of real estate firms. On the average, this single item constituted over half of total expenses (53%) and nearly half of total gross revenue in both 1973 and 1974. The next largest item was agents' or managers' commission and salary which constituted 13% and 12% of total expenses for 1973 and 1974, respectively. The third largest expenditure was "other expenses" which generally included such items as accounting and legal fees, bank charges and interest, office supplies, and employee benefits. They made up 12% of total expenses in both years.

When firms were divided into different firm sizes, survey results showed that larger firms spent proportionately more on salesmen's commissions than the smaller firms. Some economy of scale was shown for non-sales staff salaries and automobile and travel expenses. Table 5.5 also indicates that the very large firms (over 50 salesmen) spent almost twice as much, proportionately to total expenses, as all other sizes of firms on advertising and promotion.

On the whole, smaller firms had lower proportionate expenses to revenue than the larger firms. Net income after expenses and before income tax was about 10% of total revenue for firms employing under twenty-five salesmen, but only 5% for those firms employing over twenty-five salesmen.

### 5.3-3 Earnings and Assets

There has been genuine concern for the state of the small independent real estate firm in the industry. Some observers contended that small brokerage firms are losing ground to large multi-branched firms.<sup>6</sup> Under these premises, the present Firms Survey analyzed firm sizes in British Columbia and their relationship to real estate earnings and assets. These are the conclusions. First, although 78% of British Columbia's real estate firms are small (employing five or less salesmen), this category of firms earned in 1974 only 33% of total net revenue accrued to all real estate firms. On the other hand, the very large firms



TABLE 5.5

PERCENTAGE DISTRIBUTION OF REVENUE AND EXPENSES OF  
B.C. REAL ESTATE FIRMS (1974) - BY FIRM SIZE

	0-5 Salesmen	6-10 Salesmen	11-25 Salesmen	26-50 Salesmen	Over 50 Salesmen
<u>Revenue</u>					
Real estate commissions	77.2%	66.8%	84.7%	91.8%	96.3%
Leasing Fees	0.1	1.3	0.0	0.1	0.0
Property Management Fees	0.5	3.9	0.7	0.9	0.2
Appraisal Fees	4.8	1.0	2.7	0.0	0.0
Insurance Commissions	8.7	6.7	3.9	3.6	0.0
Other Income	8.7	20.3	8.0	3.6	3.5
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%
<u>Expenses</u>					
Salesmen's Commission and salary	48.7%	56.3%	64.7%	68.8%	61.3%
Agent and Manager Com- mission and salary	17.4	7.4	9.0	6.5	7.5
Other Staff Salary	10.9	13.2	4.5	8.6	7.6
Advertising & Promotion	4.4	4.5	4.9	4.8	9.0
Automobile and Travel	1.9	1.4	0.6	0.5	0.4
Telephone	1.7	2.4	1.1	1.5	2.1
Office Rent	3.2	3.8	2.8	2.6	2.3
Other Expenses	11.5	10.9	12.4	6.8	9.8
Total Expenses	100.0%	100.0%	100.0%	100.0%	100.0%
Ratio of Total Expenses to Total Revenue	88.3%	89.1%	91.5%	95.9%	94.3%

(employing more than 50 salesmen) constitute less than 2% of the provincial total number of firms. These same firms received 37% of British Columbia's total real estate income in 1974. The asset or wealth distribution is similarly disproportionate. According to the balance sheet data obtained from the questionnaires, the small firms (under 5 salesmen) in total owned 37% of the industry's assets, while the large firms (over 50 salesmen) owned 34% (see Table 5.6).

Second, on a "per-firm" basis, the larger firms on the average had higher earnings, but on a "per-employee"<sup>7</sup> basis, there was no economy of scale observed for the larger firms. In fact, large firms had the lowest pre-tax earnings on a per-employee basis. Firms employing six to ten salesmen had the highest earnings, while small firms employing up to five salesmen had the second highest (see Table 5.7).

According to the survey data, scale economies do in fact exist in the real estate brokerage industry, but only up to a certain firm size, that is six to ten salesmen. Beyond this point, diseconomies of scale actually take place. This supports Becker's analysis of cost functions in the real estate industry (Chapter 6) that scale economies exist at low levels of output. It is firms which employed ten or less salesmen, which had average gross revenue of under \$300,000 per year, that enjoyed the highest per-employee earnings. Total expenses of these firms were the lowest in relation to total revenue (89%). Firms which averaged \$1 million or more in

TABLE 5.6

INCOME AND ASSET STRUCTURE OF THE REAL ESTATE INDUSTRY -  
DISTRIBUTION BY FIRM SIZE (1974)

	0-5 Salesmen	6-10 Salesmen	11-25 Salesmen	26-50 Salesmen	Over 50 Salesmen	Aggregate
Distribution of Firms	78.2%	13.2%	5.2%	1.7%	1.8%	100.0%
Distribution of Revenue	32.7	14.1	10.0	5.9	37.4	100.0
Distribution of Assets	37.3	19.1	6.4	3.1	34.0	100.0

TABLE 5.7

AVERAGE REVENUE OF REAL ESTATE FIRMS PER  
EMPLOYEE BY FIRM SIZE (1974)

	0-5 Salesmen	6-10 Salesmen	11-25 Salesmen	26-50 Salesmen	Over 50 Salesmen
Total Revenue	\$27,160	\$29,180	\$25,990	\$17,010	\$22,620
Total Expense	24,190	25,560	23,240	16,890	21,820
Net Earnings Before Tax	\$2,970	\$3,620	\$2,750	\$120	\$800

gross revenue per year fared the worst in scale economies. They had higher expenses (94% to 96% of gross revenue) and lower per-employee earnings than the smaller firms. Measured by human resource input, firms employing 26 to 50 salespersons appeared to be least efficiently run as their earnings per employee were the lowest of all firms. It is uncertain whether large firms are sacrificing scale economy for other advantages such as stability. This would be an interesting point to pursue in future research.

In summary, we find the British Columbia real estate brokerage industry composed of many small-sized firms and few large ones. These few large firms own about one third of the industry's assets, and earn each year about one third of the industry's total revenue. Yet the small firm can exist and has existed beside the multi-branch corporations because it is essentially a more efficient size. The small firm enjoys scale economies that the large corporations have foregone. These findings do not warrant the rumours that small firms in the real estate industry are in danger of disappearing. In fact, the very structure of the large firms point to this. Rather than being concentrated in one central location, salespersons employed by large corporations are dispersed in smaller brokerage offices throughout a region or the entire province. Real estate brokerage is still mainly a local business. However, small firms lack the flexibility in service that large firms have acquired. Multi-branch

corporations are able to give their clients inter-regional as well as intra-regional service. They are able to use computer technology to increase speed and efficiency of services supplied. On the other hand, increased services and extraneous costs such as advertising add up to higher operating expenses that account for the loss of scale economies.

To counteract competition from large real estate corporations, a number of small, independent firms have been joining franchises in recent years. The real estate franchise concept was pioneered in California during the 1960's, and has been flourishing in both the United States and Canada. The independent firm pays a fee of about \$5000 to become a member of the enfranchising organization, and also remits a percentage, usually 6%, of its net commissions every year.<sup>8</sup> In return, the broker operates under a well-recognized name of the franchise, and receives free advertising and services which include professionally-supervised recruiting, sales training, and administrative aids.

As franchises, the small brokers are able to pool their resources and provide to clients the services which heretofore had been uneconomical to all but the large firms. The franchises have the dual advantages of maintaining small-business ownership of their agencies while being able to offer large-business services. Of course, the commitment of franchises to pay a fixed percentage of their commissions to the organization removes some of the flexibility that small firms usually enjoy.

The trend toward franchising and other types of cooperative networks among smaller firms probably reflects the gradual structural change within the real estate industry. In 1964, a survey conducted on 216 firms in the Vancouver Lower Mainland region showed that 93% of real estate firms employed ten or less salesmen, and only 1.3% had a sales staff of fifty or more.<sup>9</sup> The remainder were middle-sized, employing between ten and fifty salesmen. The current survey reveals a trend, though not a marked one, towards higher concentration within the industry. Smaller firms still dominate the industry, however their proportion had dropped by 2%. Firms employing over fifty salesmen had increased by 1.2%, and middle-sized firms had grown by 0.8%.

Although the above data shows that real estate firms in the Lower Mainland had been increasing in size, it is important to note that this change had been occurring within an eleven-year horizon. During the past decade, then, the size structure of the industry had been fairly stable in the urban areas of the province, with a slight tendency toward higher concentration. However, there is no data with which to base any comparative analysis of the industry's income structure, although the trend of real estate franchises suggests that large firms as a whole may be consuming more of the province's real estate revenues now than, say, a decade ago.

With the arrival of the franchises, the real estate

industry may find itself with a new structure-one that combines the cost flexibility of the small firms with the ability of large firms to provide sophisticated services.

Notes to Chapter 5:

<sup>1</sup>Ontario Ministry of Treasury, Real Estate Brokerage Firms in Ontario: Statistical Profile 1972.

<sup>2</sup>Len Taylor, "B.C. Realtors Split on Fee System: Partial Brokerage or 100%?" Vancouver Province, 20 January 1975, p.20.

<sup>3</sup>Ibid., p.20.

<sup>4</sup>Rosenbluth, "Real Estate Inquiry", pp. 49-51.

<sup>5</sup>Ibid., p.13.

<sup>6</sup>A. Richard Immel, "'Quiet Revolution': Real Estate Brokers Eye Chain Concept", Wall Street Journal (23 July 1974), pp. 1, 35.

<sup>7</sup>Employees include all licenced staff (salesmen and agents) and managerial personnel employed by the firm.

<sup>8</sup>A. Richard Immel, "Quiet Revolution", pp.1,35.

<sup>9</sup>Stanley W. Hamilton, "Critical Analysis of Organization and Management in the Real Estate Brokerage Business"



## CHAPTER 6

### CONDUCT OF THE REAL ESTATE INDUSTRY

#### 6.1 Introduction

In 1975, the provincial government of British Columbia commissioned Professor Gideon Rosenbluth of the University of British Columbia to inquire into several issues which were critical to the efficient operation of the real estate brokerage industry. These issues included the size of the existing sales force, salesmen turnover, commission rates, and the operation of the Multiple Listing Service by local real estate boards. It is important to understand how the industry has handled these problems to date, because its performance not only explains why an inquiry was needed, but also reflects the kind of service that is provided to the public.

This chapter will look at the brokerage industry's attempt to resolve the large sales population and high turnover problems by curbing personnel recruitment. It will also analyze the potential impact of the newly revised Combines Investigation Act on the structure of real estate commissions and the operation of the Multiple Listing Service. It appears from the industry's treatment of both the recruitment issue and the legislative change that it is reluctant to initiate comprehensive changes to resolve the above problems. Rather, it has been using incremental methods to cure symptoms of the problems.

The brokerage industry performs basically two functions. First, it acts as an information system which collects, interprets, and correlates data concerning the demand for and supply of real estate, about shifts and trends in prices and terms of sale, about land usage and related economic patterns. With this information, the brokerage industry acts as a central clearing house for the gathered data and attempts to minimize buyers' and sellers' uncertainty toward property negotiation.<sup>1</sup> Second, the brokerage industry facilitates property transactions between vendor and purchaser by relating its acquired knowledge of the real estate market to their specific needs.

These two functions imply that property transactions should be carried out quickly and economically, without unnecessary waste of resources to either the industry or its clients, that market information should be available with little or no time lag, and that both vendor and purchaser should be satisfied with their brokers' services.

Because the brokerage industry is a provider of service, its duties and responsibilities toward its clients should have the highest priority. The manner in which the industry handles internal problems such as recruitment or external problems such as legislative changes should reflect its concern for this priority.

Extensive recruitment of new salespersons is a tradi-

tional characteristic of the real estate brokerage industry. However, over-recruitment of salespersons leads to an overly large staff, and when the real estate market cannot support the numbers in the sales force, heavy competition and high turnover result. Excess competition can lead to lower professional and ethical standards, while high turnover creates an inexperienced work force. In 1973, the Real Estate Council of British Columbia attempted to reduce the number of new salesmen recruited into the industry by limiting enrolment in the salesmen's pre-licencing course. In addition, the British Columbia Society of Real Estate Salesmen recommended that real estate firms be required to pay new recruits a minimum monthly salary for a specified period. The Society believed that a financial commitment required of employers would discourage over-recruitment and ensure careful supervision in early months.<sup>2</sup> However, this latter suggestion was not adopted.

In 1974, both the federal and British Columbia provincial governments voiced their interest over the "fairness" of real estate brokerage commissions.<sup>3</sup> Both were concerned that the public may be overpaying real estate brokers for their services. Then in October 1975, the new Combines Investigation Act was passed, forbidding any form of price fixing, including minimum commission rates in the service industries. The new act may also consider the present system of multiple listing service as monopolistic and harmful

to competition, and membership in realtor's groups, such as real estate boards, as restrictive trade practices.<sup>4</sup> These events point to possible upcoming changes in the real estate industry's policies and practices.

The various points brought forth by the government statements and the new act cannot be novel to the industry. In 1974, a group of salespersons from the Greater Vancouver Real Estate Board sought to prevent the Board from operating the Multiple Listing Service because it was allegedly profiting from the service thus contravening the Societies Act under which the Board functioned. The salespersons also charged that the MLS created a restraint of trade against certain members of the brokerage vocation by limiting the service to board members.<sup>5</sup> The presiding judge ruled out both issues, but the case was decided before enactment of the new Combines Act.

In the United States, a number of suits have been filed during the past several years by the Department of Justice alleging violation of the Sherman Act (U.S. antitrust law) by local real estate boards for (1) allegedly controlling fee-sharing provisions of multiple-listing agreements, and (2) allegedly encouraging generally accepted brokerage commission rates. Many of the settlements and provisions were similar. Defendant boards were forbidden to fix or recommend commission rates, to fix any division of commission between a selling and a listing broker, or to take punitive

action against a fee-cutting member.<sup>6</sup>

In light of the legislative changes in Canada, the real estate industry may face serious transformations in both its structure and practice. However, these transformations may improve and update the industry, and give it the professionalism it seeks. There are basically two issues relating the industry to the new act. The first deals with minimum commission rates which are already forbidden. Ideally, enforcement of such a regulation would not only bring about competitive brokerage commissions, it could encourage a fee-for-service form of compensation that would heighten considerably the professional stature of the real estate brokerage industry. Such a system of compensation should be advantageous to both seller and buyer since on the one hand, the seller's fee would not necessarily be related to the selling price of the property but would reflect the value of the broker's services, and on the other, the buyer would receive the counselling as suited to his particular requirements. Under this system, both vendor and purchaser pay for the amount of the service rendered and consumed.

The other issue is the real estate boards' control of MLS operations. The exclusion of non-board members from using the MLS system may be deemed as monopolistic, but is still undecided by courts in Canada and the United States. The outcome may be that the MLS will be made available to all licenced agents and salespersons upon mere application.

Real estate boards fear that without the guarded use of the MLS through board membership, the industry may not be able to control ethical standards in its sales force. On the other hand, the industry itself admits that the MLS is a monopolistic system.<sup>7</sup> Furthermore, enforcement of ethical standards among agents and salesmen comes under the jurisdiction of the Real Estate Act, and is regarded as a public responsibility.

The industry realizes that real estate and housing are becoming political issues.<sup>8</sup> In order to avoid strong government intervention, it must display the self-regulatory abilities that it had shown in the past by analyzing its own effectiveness and viability, and by questioning its responsibility toward the public.

## 6.2 Recruitment

There are no legal restrictions upon the number of licences entering the real estate industry. The industry only requires that applicants qualify for their licences by passing a pre-licencing course given by the Faculty of Commerce at the University of British Columbia. Since most agents pay their salespersons by commission only, and thus have no financial commitment toward those hired, a larger sales force means potentially higher income to employers.

Prior to the establishment of new licencing and recruiting procedures in 1973, screening applicants appeared

uncommon, and real estate agents or firms sponsored almost anyone who showed an interest.<sup>9</sup> Furthermore, agents actively solicited for new salespersons and in many instances left the impression that all salesmen enjoyed exceedingly high incomes. Many new recruits were uninformed of the amount of time and energy needed to become a successful salesman. In a survey conducted by Professor Irwin Davis in 1971, as many as 27% of the respondents (254 of a total 948) felt that the industry and its opportunities had not been fairly represented to them before licencing.<sup>10</sup> The result of these indiscriminate recruiting programmes was an increase of 82% in the salesmen population from 1959 to 1973, while the population in British Columbia increase by only 43% (see Table 6.1).

The Real Estate Council of British Columbia was concerned that the industry would not be able to support such wholesale recruitment of new salesmen. Overcrowding in the industry produces heavy competition among brokers which could easily lead to lowering of ethical standards.<sup>11</sup> Moreover, errors in recruitment results in lower public confidence in the industry and higher turnover of the sales force. Declining public confidence may eventually lead to government intervention of licencing practices and numbers. High turnover represents a waste of resources (time, money, manpower) to both the industry and the new recruits. A turnover survey conducted in 1973 (before new recruiting and

TABLE 6.1  
GROWTH OF THE REAL ESTATE SALES  
FORCE IN B.C. (1959-1975)

Year	B.C. Population (in Thousands)	Number of Renewed Licences
1959/60	1567	2753
60/61	1602	2675
61/62	1629	2312
62/63	1660	2202
63/64	1699	2265
64/65	1745	2407
65/66	1797	2560
66/67	1873	2743
67/68	1945	3080
68/69	2003	3740
69/70	2060	4238
70/71	2128	4549
71/72	2184	4527
72/73	2247	4997
NEW RECRUITMENT PROCEDURES INTRODUCED		
73/74	2315	5690
74/75	2395	5684

SOURCE: Real Estate Council of British Columbia.



licencing procedures were introduced) showed that 21% of new licencees left the industry within eighteen months, and a further 23% had changed employers.<sup>12</sup>

In 1973, several methods to discourage excessive recruiting by agents were adopted by the Real Estate Council. Advertising guidelines were issued by the Council to agents because both agents and salesmen agreed that entry and turnover were inflated by advertisements placed in newspapers promising highly rewarding careers for new licencees. Agents were urged to adopt and enforce a stringent advertising code for recruitment purposes. Licence applications were delayed until applicants were qualified by passing the salesmen's pre-licencing course. This way, no one would feel compelled to take a licence merely because he had applied for one prior to taking the course. Applications were to be made directly to the Real Estate Council rather than through agents. Most importantly, enrolment for the salesmen's pre-licencing course was to be limited to 1800 per year. One recommendation that was rejected involved a guaranteed minimum income paid by agents to new salesmen for the initial period of employment. It appeared that such a plan could create hardship for some small agencies and that "licencees were generally opposed to any form of permanent guaranteed wage or income for real estate licencees."<sup>13</sup>

It may be true that compulsory financial obligation by agents would create hardship for some. However, such a

commitment is intended to discourage agents from recruiting new salesmen at random, without taking some responsibility in the hiring and training process. Responsible agents would not be penalized by a minimum income scheme. The statement that licencees were generally opposed to permanent guaranteed income is only partially true. A considerable number of salesmen would prefer some temporary guaranteed income for new licencees. Two events support this. First, Professor Davis' 1971 statistical survey showed that only 32% of sampled salesmen believed new licencees should be paid by commission only. Sixty-three percent thought a minimum salary or a salary plus a portion of commission would be more suitable for new salespersons of under one year experience. The salary would help new salespersons to get established and cover living costs as well as discourage indiscriminate hiring.<sup>14</sup> Second, the British Columbia Society of Real Estate Salesmen was still recommending a minimum salary for new licencees in 1975 - two years after new recruiting and licencing procedures were introduced.<sup>15</sup> They believed that a financial commitment from agents would ensure adequate supervision for new recruits.

It should be remembered that excessive recruitment per se is not the major issue. Rather, it is the problems caused by excessive recruitment such as heavy competition and high turnover that weaken the industry's professional and ethical standards and undermine public confidence.

Programmes which curb recruitment numerically but leave heavy competition and high turnover untouched cannot be considered as solutions. It is this writer's contention that controlling physical entry is only a superficial method of resolving these problems.

The 1974 Turnover Study (see Chapter 4) showed that 28% of new licencees left the industry after two years. In 1969, the drop-out rate after two years was 26%. The 1975 study also showed a further 27% of new licencees left their original employers in two years, which was slightly lower than the 34% of 1969.

These rates could indicate several things. First, those who dropped out may have become dissatisfied because they were not suited to their work. This means there was a basic lack of communication between the hiring agents and the recruited salespersons over the nature of the industry. Second, those who dropped out or changed employers may have become dissatisfied with the amount of remuneration. This could either mean these salespersons were not motivated in their work, or that insufficient remuneration was due to heavy competition and lack of guidance from employers. Third, the rate of intra-industry turnover (or firm-hopping) indicates a lack of allegiance to any particular employer. Monitoring and controlling salespersons' activities and ethical standards become more difficult than if licencees "belonged" to a firm.

While limiting enrolment in the pre-licencing course lowers the number of new licencees entering the industry, it does not directly control the level of competition or the rate of turnover. Furthermore, these problems appear to be related to the industry's remunerating system. The consequences of paying a sales force entirely by commission are highly competitive selling, weakness of control over the activities of salespersons, the hiring of excessive numbers of salespersons, and the reduction of the quality of new entrants.<sup>16</sup>

The idea of guaranteed minimum wage had been discussed for some time. A survey conducted in 1964 found that large income disparities within the industry (25% of the Greater Vancouver sales force earned 55% of the income while the bottom 50% of the sales force earned only 25% of total income<sup>17</sup>) stemmed mainly from an excessive sales population. The industry admitted that this contributed not only to insufficient income for many, but to a lower degree of professionalism as well, which no doubt affected the quality of service provided by the industry. A suggestion made at that time to curb flagrant hiring by requiring agents to pay licencees a minimum wage was dismissed<sup>18</sup>, as the same suggestion is being dismissed now.

From the agent's point of view, the present remunerating arrangement seems ideal. New salesmen are hired at little cost to the agent since the former are paid strictly

by commission. With little or no financial commitment on the part of the agents, they are not compelled to recruit with care or to give new licencees the necessary amount of guidance and training to overcome the initial difficulties of the job.

The real estate brokerage industry has been slow in changing its remunerating policies because the decision-making power lies with the agents. The real estate boards, meant to "advance and promote the interests of those engaged in the Real Estate business as brokers, agents, salesmen"<sup>19</sup>, have a voting membership composed mainly of agents. Similarly, the Real Estate Council of British Columbia is composed of fifteen agents or nominees. The majority of salesmen have access only to salesmen's divisions of real estate boards or other salesmen organizations such as the British Columbia Society of Real Estate Salesmen, whose powers are basically advisory. In short, salespersons may recommend, but ultimately decisions are made by a minority group whose economic interests in maintaining the traditional arrangement between agents and salesmen may override its concern for both the salespersons' and the public's welfare.

In order to bridge the gap between agents and salesmen, and at the same time to increase the professionalism of the industry, suggestions have been made to eliminate the difference in educational requirement between agents and salesmen.<sup>20</sup> Underlying this recommendation is the premise that

salesmen at present come into contact with vendors and purchasers as much as, if not more than, the agents themselves. Salesmen should therefore be as well equipped as agents when dealing with their clients. Furthermore, the single educational requirement would eliminate the present status distinction between agents and salesmen, since salesmen would be eligible to apply for agent status once they have fulfilled their experience requirement. With the majority of salesmen licenced as agents, representation of this segment of the industry would be more equitable on local boards as well as provincial institutions.

It was also recommended that the single educational requirement should be higher than what is presently needed to become a salesman, but not as high as that needed for an agent. Although higher educational standards for salesmen would benefit both the industry and the public, excessively high requirements would serve to limit entry to the industry. Therefore, it was suggested that educational requirements should be set at a level sufficient for salesmen to adequately serve and protect the public, but not so high that it would reduce the supply of salesmen artificially.

Although a higher educational requirement for salesmen may lower the rate of entry of new personnel into the brokerage industry, agents should nevertheless become more discriminating in selecting their salesmen. Agents should recruit only the most qualified applicants through a stricter

selection process rather than employing any potential licensee as is generally the case presently.

The brokerage industry has chosen to cure the large sales population and high turnover problems in an incremental way. It must expect to make many other small incremental changes in the future because limiting enrolment will not resolve high turnover, heavy competition and unethical practices. The other alternative is to engage in wholesale renewal that will make the industry more efficient, more professional, and better respected. In light of recent legislative changes brought forth by the Combines Investigation Act, it may be a good time for the industry to question some of its traditional practices such as remuneration by commission and indiscriminating employment.

### 6.3 Combines Investigation Act

In 1971, when the proposed Competitions Act, Bill C-256, was creating much fervor within business circles, the real estate industry was among those who protested against the bill's potential influence.<sup>21</sup> Bill C-256 was not passed, but its revised version, which contained many of the same amendments, has been passed as the new Combines Investigation Act. The new Act's definition of product includes services such as real estate brokerage, and specified that fixed commission rates would be deemed to be a form of price fixing and hence illegal. Barring access to the Multiple

Listing Service to non-members of real estate boards could also be considered as restricting trade. Thus the very operation of the Multiple Listing Service by real estate boards may also be considered as conspiracy to prevent or lessen competition.

Acting upon these legal requirements would mean substantial changes to many of the industry's policies. The real estate boards have so far refrained from recommending or setting fixed commission rates, but apart from this, the industry has not actively instigated any reforms. The remainder of the chapter will discuss the need for certain changes suggested by the new Act, and the advantages that accrue with these changes.

#### 6.3-1 Multiple Listing Service

One of the main functions of the brokerage industry is to facilitate property transactions in an efficient manner. Because of the fragmented and local nature of the real estate market, the brokerage industry is composed largely of small firms. This has inhibited the establishment of a centralized exchange in the fashion of the commodity or stock markets. However, a form of information exchange has been developed throughout the years to what is now widely known as the Multiple Listing Service (MLS) system, which provides the many small real estate offices with a diversified inventory of properties intended to meet the needs of



the average purchaser.

The MLS system in British Columbia is directly associated with the real estate boards: its operation is controlled by rules and regulations supplied by the boards. Consequently, any broker who does not belong to a board, or any broker who violates the board by-laws thereby invoking expulsion, is not entitled to use the MLS.

The policy of restricted MLS usage was made with good intentions. Since real estate salespersons are usually very independent (one consequence of remunerating entirely by commission), their activities and ethical standards are difficult to control. Limiting participation in the MLS to real estate board members is a strategic disciplinary tool used by the industry to concert acceptable behaviour from individual salesmen.<sup>22</sup> Until recently, one form of acceptable behaviour was maintaining minimum commissions and fees, not only for transactions involving the MLS, but for virtually every category of property negotiation.<sup>23</sup> Specifically, if any individual was found engaging in unethical practices or fee-cutting, the boards could deny him access to the MLS.

### 6.3-2 Competitive Commission Rates

Critics of the fixed commission system believe that it contributes significantly to inefficiency of the real estate market.<sup>24</sup> Particularly, a system of fixed compensation condones more participants than one of competitive rates. In

a truly competitive system, the commission rate charged will approach an equilibrium level which will represent the cost of the actual transaction. In a system where commission rates are fixed at a higher level than this equilibrium, more inefficiencies are tolerated. An excessively large sales force is one of these inefficiencies. Marginal salesmen who are able to survive under a fixed rate system will be forced, under competitive rates, to improve their services or to leave the industry.

Excessive transaction costs in the form of commission rates may reduce the willingness of vendors to sell, since a high commission lowers the net return received by the vendor. In the short run, transaction costs have an effect on housing turnover and indirectly, housing cost, given that demand conditions do not change. Therefore, where brokerage commissions do not reflect true transaction costs, they will hinder the efficient operation of the real estate market.

The industry defends the present system of fixed commissions because it was designed to protect the public from predatory practices and price gouging.<sup>25</sup> However, the rules and regulations set to enforce these intentions appear to contradict them, since the real estate boards' by-laws invariably specify minimum rather than maximum rates.

Hopefully, freeing commission rates will create greater competition in the pricing structure of the real estate

brokerage market. More importantly, competition will not only eliminate inefficiencies, but will provide a wider variety of services than was available in the past. The present fixed rate system gives the property vendor and purchaser two and only two alternatives: either to buy or not to buy the brokerage service. Either he dispensed with a salesman, which meant he also dispensed with the wide market exposure offered by listing services, or he purchased an expensive package of services. (A \$65,000 home would merit a 7% MLS rate of \$4550, or a 5% exclusive rate of \$3250.) The seller who wants the market exposure and the buyer who only wants information about the property being sold, or consultation with an informed intermediary, are generally unable to purchase these services without purchasing also the entire package. Initiating a system of flexible commission rates and fees may encourage brokers to offer such intermediate services.

At present, brokerage commissions are usually borne by property vendors. Since the purchaser is not charged with any direct costs, his needs may be placed secondary to those of the vendor. A system of fee-for-service would be more equitable to both parties since each would be paying for his own contracted service.

Spokesmen for the brokerage industry doubt whether commission rates will decrease, even under the ruling of the Combines Investigation Act.<sup>26</sup> They maintain that present

rates are needed to support the brokerage firms's cost of operation. However, there are indications that the industry's set commission rates are not as necessary as suggested. For example, exclusive listings had been fixed by the Greater Vancouver Real Estate Board at 5% of the property's sale price, but one financially sound brokerage firm charged only 3.5%.

There is also indication that smaller firms are more able to reduce commission rates than larger firms. Greater Vancouver Real Estate Board has noticed some tendencies for smaller agencies to charge slightly lower rates since the act had been passed, although commission rates remained the same for larger firms.

According to Preston and Keachie's study of cost functions,<sup>27</sup> if scale economies exist in this industry, they exist at very low levels of output. Larger firms may have low unit costs not because of any efficiencies associated with their size, but rather because of their experience. As small firms gain experience, it is suggested, the optimum level of output in terms of scale economies is shortly reached. As real estate brokerage firms grow very large, however, their variable costs may grow at a faster rate than their marginal revenue because of a greater variety of services offered, thus increasing overhead and operating expenses. This concept of scale economies in the brokerage industry is further supported by the British Columbia Real

Estate Agents and Firms Survey administered in 1975 (Chapter 5).

If it is true that a greater mix of services provided by large real estate firms contribute to their diseconomy, then a fixed commission rate that enables these large firms to operate at higher costs must be inequitable for the purchasers of only one service. The purchaser of brokerage services should not be paying, whether directly or indirectly, for the extra costs that large firms have incurred by offering other services.

Unfortunately, the existence of the new Combines Act does not guarantee that commission rates will become competitive. Although some small firms have reduced their rates, the majority of firms in the Greater Vancouver and Westminster County real estate boards have not followed. If the experiences of these two boards are representative of how other boards and agents will react, then the conclusion is quite clear: though the fixed rate is not mandatory, it will be observed. Where the brokerage industry could not be called an oligopoly, its pricing structure resembles one: each firm's demand curve is kinked as if it is part of an oligopolistic system. No firm will raise its commission rate even where costs have risen for fear that others will not follow suit. Thus the firm does so at the risk of being undersold and consequently losing its market share. Similarly, no firm dares lower its commission rate even

where legislation has discontinued the fixed rate agreement, for fear that all others will also follow the reduction trend. In this case, not only does the leading firm fail in attempting to underbid its competitors and gaining their market share, but its revenue will be lowered as well because of the commission reduction. These kinds of assumptions that a real estate brokerage firm makes may tend to keep price changes to a minimum, and would contribute to a rigid pricing structure.

Primarily, competition should be encouraged between persons offering services to the public because firstly, users of services are often unable to calculate its eventual total cost at the time of purchase, and price competition between brokers implicitly promise greater communication between broker and client, at least in the area of cost. Secondly, once service is contracted, the purchaser is bound to take it without option of return or resale. The purchaser who has a price option or choice among various sellers of the service prior to the contract will feel more secure about the contract. Thirdly, unlike commodities such as automobiles, if services are overpriced due to lack of competition, there is not the same opportunity for foreign competition to lower domestic rates.<sup>28</sup>

It appears that the tradition of non-price competition has existed for so long in the brokerage industry that even the belated Combines Investigation Act is quite powerless

to change it. What remains to be seen at this point is the willingness of industry leaders to encourage competitive commission rates and the fee-for-service concept.

### 6.3-3 MLS as a Monopoly

Freeing commission rates and instigating a contractual form of remuneration is only the first step toward transforming the brokerage industry into a more credible and viable one. Aside from prohibiting fixed pricing, the Combines Investigation Act also forbids conspiracy to prevent or lessen competition.

Even before the bill was passed, a group of real estate salespersons filed suit against the Greater Vancouver Real Estate Board for allegedly operating the MLS as a monopoly. The judgement purported that the MLS did not constitute a monopoly even where the service was available exclusively to board members. The presiding judge felt that since a salesperson's operation did not depend on his board membership or use of the MLS, qualified use of some listings did not restrain trade.<sup>29</sup> As mentioned above, the rule of restricted MLS usage is stipulated so that the boards may enforce certain by-laws, most particularly those dealing with ethics, standards of business practice, and, until recently, minimum commissions and fees. Those who contravened the by-laws are expelled from the boards, and consequently barred from use of the MLS.

Though the presiding judge of the Shaw et al v. Real Estate Board of Greater Vancouver case was correct when he said an agent's operation did not depend on use of the MLS, he did not mention that denying him access to the MLS means depriving him of much of the local market. Not only does restriction to the MLS have the effect of stifling competition, it in fact causes pecuniary damage to non-board members, especially if these non-members operate very small offices, as many in the industry do. True, the MLS is established by real estate boards, but a board of this nature is merely an organization of the industry's work force, and the concerted refusal of a group of brokers to deal with another qualified colleague is, or should be, illegal.

Using the MLS as a disciplinary tool against unethical practices had been necessary prior to the creation of the Real Estate Council. Now the laws concerning ethics and business standards, and the disciplinary action that arise from their administration, are covered under the Real Estate Act of British Columbia. They should therefore be carried out by public rather than private bodies. Moreover, with the advent of the Combines Investigation Act, any scheduled minimum commissions or fees will be illegal, further reducing the boards' justification of limiting MLS usage to members. In any case, if there are such rules and regulations which must be observed by MLS users, they can be equally applied to members and non-members of real



estate boards alike.

In 1966, the New Jersey Superior Court ruled that the Board of Realtors of the Plainfield Area, by prohibiting the sale of MLS property through non-members, had the effect of stifling competition.<sup>30</sup> Though U.S. law differs a great deal from Canadian law, their principles of economics and competition are similar. The defendant board was prohibited from operating the MLS in its present form of organization. A new MLS could be established, but it must conform with certain court specifications. These new rules include indiscriminate and compulsory participation by board members and non-members alike, which means all brokers who use the MLS will receive all information concerning listings, but must also forward all their listings to the MLS circulation. The new MLS would charge as an operational fee a percentage of commission from all users.<sup>31</sup> This ruling has tremendous potential impact: if individual brokers who circulate listings among themselves were treated in the same manner, the result may be the virtual elimination of exclusive listings as they exist today. Though this would limit the freedom of the individual property vendor to enter into an exclusive contract with one broker, it would undoubtedly create a more inclusive, and consequently more efficient real estate market.

The MLS system was created for a very specific purpose: to increase the efficiency of the real estate market by

combining the resources of many real estate agents. This reduces the uncertainty in property transactions since MLS provides greater exposure for vendors and more choice for purchasers. However, in order to achieve maximum market efficiency, any cooperative listing service must be accessible to all property sellers and buyers or their agents. The present MLS system that operates in British Columbia is not accessible to all agents. Furthermore, the information disseminated by the MLS is not organized in any manner and must be studied, sorted, indexed and filed in every agency. This repetition of the same duties in every real estate firm is costly and time-consuming, and reduces the efficiency of the brokerage market. Recommendations have been made concerning the usage of computers to centralize, organize and store such information.<sup>32</sup> This means there would be a single computer listing service for each market area that would include all properties offered for sale. This service would be open to all agents on payment of a user charge based on the cost of operation.

In the real estate market place, the availability and flow of information is pertinent to its function. The present MLS system provides a medium for such information exchange, but both the rules and method of its operation are outmoded. The exclusion of certain agents and salesmen from participating in the MLS creates a fragmented and inefficient information system. The lack of a single

centralized exchange that sorts and stores the information also contribute to inefficiency of the real estate market. This is ultimately reflected in higher operational (transaction) costs.

Notes to Chapter 6:

<sup>1</sup>Park Weaver, Jr., "Real Estate Firms Must Sell Themselves", Real Estate Review, Vol.4, no.4 (Winter 1975)

<sup>2</sup>"Stable Real Estate Force Reflects Local Market", Victoria Times, 1 August 1975.

<sup>3</sup>Young, "B.C. Real Estate Probe"; "Danson to Look at Realtor fees", Vancouver Province, 9 November 1974, p.6.

<sup>4</sup>"Realtors Warned on Credibility", Vancouver Sun, 18 May 1976.

<sup>5</sup>Len Taylor, "Realty Feuders Hoping to Bury Hatchet in '75", Vancouver Province, 28 December 1974, p.16.

<sup>6</sup>Thomas W. Dunfee, "Real Estate Boards, Brokerage Commissions, and the Antitrust Laws", Bulletin of Business Research, Vol.47, no.12 (December 1972)

<sup>7</sup>"New CREA President Calls Proposed Competition Act Destructive", Toronto Globe and Mail, 22 October 1971, p.B3

<sup>8</sup>"Realtors Warned on Credibility".

<sup>9</sup>Real Estate Council, "Submission to Professor Gideon Rosenbluth", p.23.

<sup>10</sup>Irwin Davis, Real Estate Survey - A Statistical Study in Respect of Salesmen's Needs (Vancouver: Faculty of Commerce & Business Administration, University of British Columbia, 1972),

<sup>11</sup>Real Estate Council, "Submission to Professor Gideon Rosenbluth".

<sup>12</sup>Stanley W. Hamilton, "1973 Study of the Turnover of Real Estate Salesmen in B.C." (Vancouver: University of British Columbia, 1973)

<sup>13</sup>Real Estate Council, "Submission to Professor Gideon Rosenbluth", p.27.

<sup>14</sup>Davis, Real Estate Survey, p.4.

<sup>15</sup>"Stable Real Estate Force Reflects Local Market".

Notes to Chapter 6 (cont'd)

<sup>16</sup>Philip H. White, "Report to the Organization study Committee of the Canadian Association of Real Estate And the Canadian Institute of Realtors" (August 1968), p.13.

<sup>17</sup>Stanley W. Hamilton, "Critical Analysis of Organization and Management in the Real Estate Brokerage Business" (MBA thesis, University of British Columbia, 1965)

<sup>18</sup>"Women, Retired Cut Salesmen's Pay", Vancouver Sun, 1 February, 1966.

<sup>19</sup>Real Estate Board of Greater Vancouver, "Constitution and By-laws", p.5.

<sup>20</sup>Rosenbluth, "Real Estate Inquiry", p.71.

<sup>21</sup>"New CREA President Calls Proposed Competition Act Destructive".

<sup>22</sup>Ibid.

<sup>23</sup>Real Estate Board of Greater Vancouver, "Constitution and By-laws".

<sup>24</sup>"Shake-up Set For Realtors", Vancouver Sun, 3 February 1975.

<sup>25</sup>Ibid.

<sup>26</sup>Ibid.

<sup>27</sup>Lee E. Preston and E.L. Keachie, "Cost Functions and Progress Functions: An Integration", The American Economic Review, Vol.54 (March 1964), pp. 100-107, cited by Becker, Economic Aspects of Real Estate Brokerage, p.91.

<sup>28</sup>Peter Watts, 1974 Real Estate Guide (Vancouver, 1974)

<sup>29</sup>Taylor, "Realty Feuders Hoping to Bury Hatchet", p.16.

<sup>30</sup>Becker, Economic Aspects of Real Estate Brokerage, p.108.

<sup>31</sup>Ibid., p.109.

<sup>32</sup>Rosenbluth, "Real Estate Inquiry", pp. 75-79.

## CHAPTER 7

### CONCLUSION

This chapter will give a brief review of the findings of the present study. Some policy recommendations are forwarded with regard to the role and conduct of the real estate brokerage industry. Finally, because the present study only touched upon a small aspect of the real estate industry, this chapter suggests further research topics relating to this field.

#### 7.1 Synopsis

The object of the present study was to clarify the structure and performance of the real estate brokerage industry in British Columbia by analyzing the two major components of the industry - the salesperson and the agent. To this end, three surveys were conducted during the summer of 1975 so that a statistical profile of the salesman and agent could be compiled. These surveys served as a major source of information for the present study.

The real estate industry is characterized by many firms of diverse sizes, ranging from firms with few employees to those which employ hundreds, from proprietorships to public corporations. Because of the local and fragmented nature of real estate, over three-quarters of the agents operating in British Columbia are small (employing five or less salesmen). Although size is considered syn-

onymous with efficiency in many industries, the same cannot be said for the real estate industry. The characteristics of real estate has rendered small and localized agencies the most efficient. Even very large corporations are not centralized, but are composed of many small, dispersed offices located in various neighbourhoods. The Real Estate Agents/Firms Survey had discovered that smaller firms in the brokerage industry tended to enjoy greater scale economies than the larger firms. The diseconomy associated with large firms may be due to their expanded services and higher overhead plus other expenses that increase disproportionately with size.

The number of real estate offices have been on the increase from 1970 to 1975, although this period saw both the escalation and decline of the real estate market. The industry showed only variations in the magnitude of change in the number of firms; there was always a positive growth rate within the industry regardless of market trends.

Although the size structure of the industry is such that small firms of five or less salesmen made up over 75% of the total brokerage firms in British Columbia, their relative share of real estate revenue in 1974 constituted only one third of the provincial total. On the other hand, very large corporations which employed over fifty salesmen made up only 2% of the firms but also earned one third of the provincial real estate revenue in 1974. There is no

way of knowing whether the above finding reflects a change in the distribution of real estate revenue in British Columbia. However, a study conducted in California in 1971 showed that in 1966 proprietors as a whole were earning a smaller share of total real estate revenues than in 1960.<sup>1</sup> During the period between 1960 and 1966, proprietors' share of business receipts had dropped 6% while that of corporations had increased by 8%, although their proportionate numbers had changed by only 2%. This could indicate a trend toward higher concentration in the real estate brokerage industry with respect to revenues.

Since the real estate agent or firm receives most of its revenues from real estate sales commissions, the salesperson should be its most valuable resource. The relationship between agent and salesman should reflect this close economic tie. However, the study discovered that, in general, bonds between the salesman and his agent are very weak because of the way that salesmen are paid. Remunerating strictly by commission severs the usual bond between employer and employee, and encourages higher turnover within the firm. In his study of organization of the real estate industry, Philip H. White explained that there are certain consequences of paying salesmen entirely by commission. The lack of financial commitment on the part of agents has led to highly competitive selling, weakness of control over the activities of salesmen, the tendency for employers



to hire excessive numbers of salesmen, reduction of the quality of new entrants, and the tendency for many salesmen to work only part-time and not to regard real estate brokerage as a career. Particularly, many salesmen agree that paying new licencees by commission causes much economic hardship.

These characteristics of high turnover, wasteful competition, excessive numbers and so on are interrelated. The large sales force is a result of indiscriminate hiring by agents, who do not feel a direct responsibility to employ strict recruitment and screening procedures. Too many salesmen in the market leads to competitive selling (which must not be confused with competitive pricing). The lack of a screening process prior to employment also tends to lower the quality of new licencees. Finally, because of heavy competition and the lack of allegiance of salesmen to their agents, there is the problem of high turnover and drop-out rates which serve to de-stabilize the industry's standards of performance. The industry hoped that by introducing new recruiting procedures, which set a maximum yearly enrolment in the salesmen's pre-licencing course, the number of new licencees entering the industry each year would be lowered, thereby reducing salesmen turnover. However, turnover and drop-out rates had changed very little for new licencees between 1969 and 1975. Although new licencees tended to stay longer at one job near the beginning of their

licencing terms, by the end of twenty-four months, the most recent turnover study found that in 1975 almost as many salesmen were changing agents and leaving the industry as in 1969. By the end of their second year of licencing, 28% of the surveyed group had left the industry, and a further 27% had changed agents. Only 45% remained with their original employers. High turnover is generally recognized as detrimental to the industry, firms and individuals involved because it lowers morale, wastes resources, and creates inexperience within the work force that reduces performance standards and public confidence.

Of course, remunerating by commission is not the only contributing factor to many of the industry's problems. The manner in which the industry has approached the issue of minimum commission rates, for example, has a direct effect on some of the problems mentioned above. By not endorsing competitive commission rates even after passage of the new Combines Act, real estate boards are not allowing market forces to dictate an equilibrium commission rate. An excessive commission rate or fee encourages larger numbers of new licencees to enter the industry than needed. Rather than compete on a price level, agents and salesmen try to utilize better and more effective "salesmanship" to induce potential sellers and buyers to list and purchase from them. This type of competitive selling lowers the industry's professionalism.

In addition, the present system of cooperative listing exchange operated by real estate boards is becoming outmoded. The efficiency of the Multiple Listing Service is curtailed on the one hand because the MLS is not totally comprehensive of all potential transactions, and on the other because there is no centralized system for the organization, storage and dissemination of information. This inefficiency is translated into higher operational cost for the industry and higher transaction cost for real estate sellers and buyers.

The present study has attempted to examine the real estate brokerage industry's organization and structure, and in doing so, also to raise some questions concerning the ability of the industry to analyze itself. Although the real estate industry operates within a legal framework, it is largely self-regulatory. Its future viability will depend upon how well it can regulate itself according to professed goals. As it is a service industry, its main objective should be to improve its service to the public. This not only means that external systems such as the MLS must be revised and improved, but also the industry's internal structure and organization must lend itself to efficient delivery of brokerage services. Presently, its remunerating policies lead to other ills which affect the industry's service provision. Its rigidity toward a flexible pricing scheme prevents it from becoming profes-

sionalized. The concentration of decision-making authority on the agents leaves the majority of the industry's participants - the salesmen - powerless to change their position. The commissioning of the provincial inquiry has shown that the government is ready to act on some of the issues discussed here. It is now up to the industry - particularly the real estate boards and agents - to undertake some comprehensive changes of its operations.

## 7.2 Policy Recommendations

1. Real estate boards should encourage competitive commission rates among real estate agents. Competitive pricing will bring commission rates closer to the actual transaction costs by reducing inefficiencies in the brokerage process. Eventually, commission rates should give way to a fee-for-service type of remuneration that will reflect the value of the agent's or salesman's service rather than value of the property.

2. The status of the real estate agent and salesman should be equalized by introducing a single educational requirement. This will give the majority of participants a voice in real estate trade associations which currently do not represent salesmen. The single educational requirement should be set at a level that would contribute to a higher level of performance, but not so high that it would

constitute an artificial barrier to entry. The single status would give real estate brokers a greater autonomy in their work and the opportunity to form cooperative agencies that can be jointly owned by all who work within them. This would give salesmen more involvement in their firms and would reduce turnover considerably.

3. The Multiple Listing Service should be made accessible to all agents and salesmen. In time, the industry should seriously consider opening the MLS to all sellers and buyers as well on payment of a user charge based on cost. Although this would reduce some demand for the services of agents and salesmen, it would also eliminate the wasteful competition to solicit listings from potential sellers and would bring real estate fees closer to the actual transaction cost.

4. Information organization and storage in the Multiple Listing Service should be centralized by a computer system that would eliminate the repetition of such processes by individual agencies and increase overall efficiency of the system. In addition to the present information which list properties for sale, the MLS could also add comparable data for properties recently sold so that potential buyers would be as informed as possible about the segment of real estate market in which they are dealing.

5. More responsibility should be placed on firms when new salesmen are recruited. Obviously not all qualified personnel make competent salesmen; firms should recognize this and employ more discretionary judgement when selecting their staff. For their first year licenced, salesmen should receive a guaranteed wage that might be discounted from their regular commission earnings. This would encourage employers to be more selective when hiring and to give more supervision and advice to the inexperienced licencees.

6. Enrolment limitations should be lifted since they are inequitable to those who are rejected on the basis of an arbitrarily-imposed cut-off point. If an artificial limit must be imposed on entry, the selection should be based on qualifications of the applicants after fulfillment of the educational requirement.

### 7.3 Suggestions for Further Research

Although the present study hopes to partially correct the paucity in real estate brokerage research, more questions were implied than answered in the research process. Five topics are suggested here for possible further studies.

1. The present study had undertaken to determine the revenue and wealth structure of the real estate brokerage industry in British Columbia on gross estimates of data

received from the Real Estate Firms Survey. Further validations of the results are needed. Moreover, the concept that smaller firms in the industry enjoy higher economy of scale should be ratified. It is important to note the trend of the size, income and wealth structures of the industry so that any extraordinary concentration of power could be detected. Other questions relating to structure and efficiency of the industry are raised by the study. For example, to what extent do large firms dominate specific local real estate market areas? Do local monopolies exist?

2. From the large increases in sales population over the past two decades, it is evident that freedom of entry into the real estate brokerage industry exists. However, what are the forces that influence fluctuations in the number of real estate salesmen? Specifically, is the supply of real estate salesmen responsive to variations in demand conditions? Discovering the actual lag would help the industry to coordinate recruitment of new licences to demand. If there is no clear relation between supply of salesmen to economic fluctuations in the real estate market, then what are the causes of the increases and decreases within the real estate sales force?

3. Since real estate brokerage is a service, it is important to survey, from time to time, the reactions of the

users of the service to better assess whether certain needs are being met by agents and salesmen. The survey should inquire sellers and buyers their reasons for using or not using an agent's services, whether the amount of commissions influenced this decision, and what precisely they value in terms of an agent's services. Qualitative studies of this type can increase agents' and salesmen's understanding of their roles and duties toward their clients.

4. Although a large portion of property transactions are executed through the MLS, many others are carried out by exclusive listings and contracts, and still others did not utilize the services of real estate agents at all. The efficiency of a cooperative listing service such as the MLS depends in part upon the comprehensiveness of the information. Furthermore, the likelihood of the creation of a centralized information system will depend upon how centralized listing information is at present. Therefore, research on market penetration of the MLS is a necessary prerequisite to understanding real estate brokerage.

5. The 1975 Turnover Study that was conducted for the present paper is part of a continuous research of salesmen's turnover rates. This should be continued but with additions. The Turnover Study sampled only new licencees from the time of their application for the salesmen's pre-



licencing course to two years after their licencing date. It accurately assessed turnover for new salesmen, but unfortunately did not measure overall turnover of all salesmen in any one year. A more comprehensive turnover study would also calculate the proportion of re-entrants to first-time licencees and total salesmen, and compare their turnover rates to those of first-time licencees. It would also be interesting to conduct a cross-industry turnover survey of other service industries.

Notes to Chapter 7:

<sup>1</sup>Becker, Economics of Real Estate Brokerage, pp. 76-78.

# APPENDIX I

1 2 3 4

## Survey of Real Estate Licenced Sales Persons in B.C. (1975)

(If you are not an active member, please disregard and return questionnaire).

1. Please indicate the Real Estate Board located closest to your office.  
\_\_\_\_\_ 5
2. Please indicate sex: Male \_\_\_\_ Female \_\_\_\_ —
3. Please indicate present age: \_\_\_\_ years —
4. Please indicate marital status: Married \_\_\_\_ Widowed \_\_\_\_  
Divorced \_\_\_\_ Single \_\_\_\_ —
5. As of December 31, 1974, how many sales persons worked with your firm (or branch of firm)?  
\_\_\_\_\_ sales persons. (Exclude agents). — — —
6. How many real estate firms did you work with during 1974?  
\_\_\_\_\_ firms. — —
7. How long have you been working with your present employer?  
\_\_\_\_\_ months. — — —
8. As of December 31, 1974, how long had you been licenced to sell real estate in B.C.? \_\_\_\_\_ years. — —
9. Prior to becoming a licenced sales person in B.C., were you involved in real estate sales in another area?  
Yes \_\_\_\_ No \_\_\_\_ —  
If yes, for how many years? \_\_\_\_\_ years. — —
10. Since you were first licenced in B.C., have you ever left the real estate industry?  
Yes \_\_\_\_ No \_\_\_\_ —  
If yes, for how long? \_\_\_\_\_ years? — —
11. During 1974, how many months were you actively involved in the real estate vocation?  
\_\_\_\_\_ months. 27

12. Approximately how many hours do you work in an average month?  
\_\_\_\_\_ hours.

13. Sales Activity during the calendar year 1974

28 29 30

- a) How many real estate sales did you complete during 1974? \_\_\_\_\_ sales
- b) How many real estate listings did you obtain during 1974; that you sold yourself? \_\_\_\_\_ listings

That another realtor sold? \_\_\_\_\_

\_\_\_\_\_ listings

14. During 1974, did you receive a salary \_\_\_\_ or commission \_\_\_\_ or both \_\_\_\_ ?

15. What share of sales commission do you receive? \_\_\_\_\_ %

16. For your 1973 and 1974 Income Tax Years, what was your dollar revenue from:

	1973	1974	
Real estate sales commission	\$ _____	_____	_____
Real estate Property Management	\$ _____	_____	49
Insurance Commissions	\$ _____	_____	53
Appraisal fees	\$ _____	_____	69
Other real estate oriented revenue	\$ _____	_____	79
Total Real Estate Oriented Gross Revenue	\$ _____	_____	14
			26

See Glossary of Terms for revenue and expenses attached.

17. For your 1973 and 1974 Income Tax years, what was your dollar expense (for tax purposes) for:

	1973	1974	
Automobile	\$ _____	_____	_____
Advertising	\$ _____	_____	34
Other (specify)	\$ _____	_____	42
			50
Total Real Estate Oriented Expenses	\$ _____	_____	60

18. What percent of your 1974 estate sales commission was obtained from:

Residential sales	_____ %	61 62
Commercial sales	_____ %	--
Industrial sales	_____ %	--
Farm or ranch sales	_____ %	--
Recreation property sales	_____ %	--
Other	_____ %	--

19. What is your formal education?

Partial high school	_____	--
Complete high school	_____	--
Partial college or university	_____	--
Complete college or university	_____	--
Technical school	_____	--
Other (specify)	_____	--

20. During 1974 did you attend any real estate oriented courses?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, please specify.

21. Have you been given any on-the-job training by your present employer?

Yes \_\_\_\_\_ No \_\_\_\_\_

By former employers? Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, please specify.

GLOSSARYRevenue

1. Real estate sales commission - (the portion of) monies or income received from the agent or firm for selling real estate either listed by the firm or by another firm, and for listing real estate under the firm.
2. Real estate property mgmt. - income received for the management of any real property.
3. Insurance commissions - income received from the selling of any insurance policies.
4. Appraisal fees - income received for estimation or evaluation of real property either in a freehold or less than freehold estate.

Expenses (for tax purposes)

1. Automobile - expenses incurred by yourself for the purpose of conducting business.
2. Advertising - any expenses incurred by yourself for advertising, promotion, or public relations, including business cards, radio, television, newspapers, magazines.
3. Other - may include travelling, entertainment, telephone and other costs incurred for the purpose of conducting business, that are legitimately deductible.

## APPENDIX II

1 2 3 4

### Survey of Real Estate Agents and Firms in B.C. (1975)

1. Please indicate the Real Estate Board located closest to your office.  
\_\_\_\_\_ 5
2. Is your firm a sole proprietorship \_\_\_\_\_  
Partnership \_\_\_\_\_  
Corporation - private \_\_\_\_\_  
- public \_\_\_\_\_
3. Do you have branch offices? Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, how many branch offices in B.C.? \_\_\_\_\_ Elsewhere \_\_\_\_\_
4. Is your head office in B.C.? Yes \_\_\_\_\_  
No \_\_\_\_\_  
If no, where? \_\_\_\_\_
5. Were you in operation for 12 months in 1974? Yes \_\_\_\_\_ No \_\_\_\_\_  
If no, how many months were you in business during 1974?  
\_\_\_\_\_ months.
6. How many salesmen did you employ at this office in  
January 1974 \_\_\_\_\_  
December 1974 \_\_\_\_\_
7. How many agents or branch managers did you employ at this  
office in January 1974 \_\_\_\_\_  
December 1974 \_\_\_\_\_
8. How many unlicenced staff did you employ in January 1974 \_\_\_\_\_  
December 1974 \_\_\_\_\_
9. If your firm is incorporated, do your salesmen hold a major  
portion of the shares in your firm?  
less than 10% of shares \_\_\_\_\_  
11 - 20% " " \_\_\_\_\_  
21 - 49% " " \_\_\_\_\_  
50% + " " \_\_\_\_\_
10. During 1974, did you pay your salesmen by salary \_\_\_\_\_ commis-  
sion \_\_\_\_\_ or both \_\_\_\_\_ ?

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11. Do you give or have you ever given in the past, on-the-job training to your salesmen?

Yes \_\_\_\_\_  
No. \_\_\_\_\_

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If yes, what kind?

12. In addition to real estate sales, leasing, insurance, appraisal, and property management, are you involved directly (in your firm's name) in land development?

Yes \_\_\_\_\_  
No \_\_\_\_\_

13. For the calendar years 1974 and 1973, will you please complete the following income and expense data. Note: if you report your income tax on other than a calendar year, please specify the year end used and report for your tax year ending closest to December 1974 and December 1973. You may wish to simply attach your year end statements instead of completing this form.

A Glossary of Terms is included for your convenience.

		1973	1974	
A. Revenue	Commission Sales Income	\$ _____	_____	45
	Leasing Fees	\$ _____	_____	55
	Property Management Fees	\$ _____	_____	65
	Appraisal Fees	\$ _____	_____	75
	Insurance Commissions	\$ _____	_____	14
	Other Income to Firm (Specify _____)	\$ _____	_____	24
	Total revenue	\$ _____	_____	36
B. Expenses related to revenue reported above.	Salesmen's Commission or Salary	\$ _____	_____	44
	Agents & Managers Commission or Salary	\$ _____	_____	52
	Non-licenced Staff Salaries	\$ _____	_____	60
	Advertising & Promotion Expenses	\$ _____	_____	68
	Auto and Travel Expenses	\$ _____	_____	76
	Telephone Expenses	\$ _____	_____	12
	* Office Rent	\$ _____	_____	20
	** Other Expenses	\$ _____	_____	28
	Total Expenses	\$ _____	_____	38

\* If you own your own building, include as "rent" 10% of the estimated market value for that portion of the building. If you rent your building, please



indicate the current gross rental value. If you feel the rent paid is appreciably below market rents, please indicate current rental value.

\*\* Please separate and itemize any individual expense greater than 5 percent of the salesman's commission and salary.

14. Please estimate the market value of assets, as of December 1974, including cash reserves but excluding goodwill required for the operation of your firm. Please isolate real property used for the real estate office.

Cash or Bank Account	\$ _____	_____	46
Accounts Receivable	\$ _____	_____	<del>54</del>
Fixed Assets other than Real Property	\$ _____	_____	62
Inventory and Supplies	\$ _____	_____	70
Others	\$ _____	_____	12
Total	\$ <u>          </u>	_____	21

GLOSSARYRevenue

1. Commission sales income - income derived from the selling of real estate by agents, nominees, or sales persons employed by the firm either of real estate listed by the firm, or by another firm, and of real estate listed by the firm but sold by agents, nominees, or sales persons employed by another firm.
2. Leasing fees - income derived from leasing or renting residential or non-residential real estate, either freehold or less than freehold.
3. Property management fees - the management of any real property.
4. Appraisal fees - income derived from estimation or evaluation of real estate either freehold or less than freehold.
5. Insurance commissions - income derived from the selling of any form of insurance.

Expenses

1. Salesmen's commission or salary - monies paid out to licensed sales persons employed by the firm for either selling or listing real estate.
2. Agents & managers commission or salary - monies paid out to licensed agents and managers employed by the firm.
3. Non-licensed staff salaries - monies paid out to all non-licensed personnel employed by the firm.
4. Advertising and promotion expenses - monies expended by the firm only on any form of advertising promotion or public relations, including newspapers, magazines, billboards, signs, business cards, calendars, television, radio.
5. Auto and truck expenses - expenditures of the firm on any company vehicle or vehicles employed by the firm for business purposes.
6. Telephone expenses - includes expenditures on local and out-of-town long distance calls either by employees for the purpose of conducting business, or by clients or potential clients.
7. Office rent - see questionnaire
8. Other expenses - see questionnaire

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