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Labor Shortages Abound, Not So For Realtors Chasing Robust Pricing

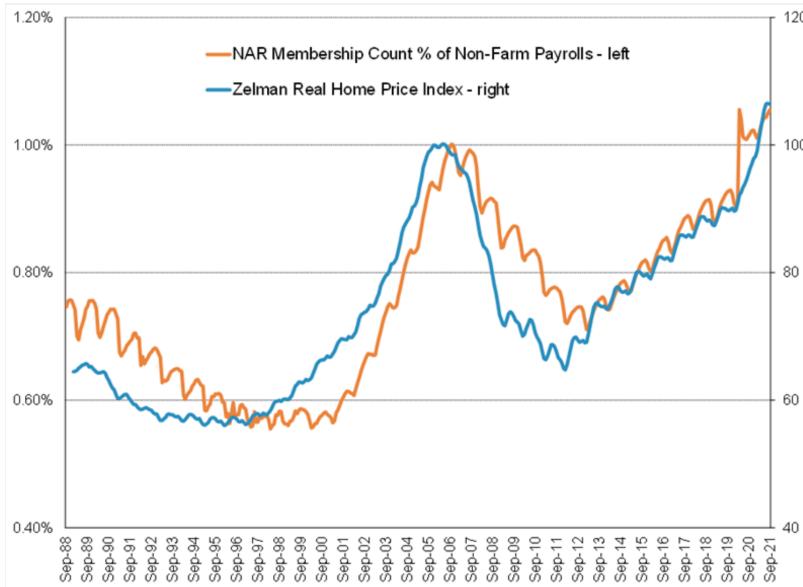
October 27, 2021 by Ryan McKeveny

With severe labor shortages throughout the economy, including in the construction sector, **one area seeing fairly unfettered expansion is the real estate agent community**, encouraged by the housing market's strength over the last 18 months and low barriers to entry. The National Association of Realtors' membership, a rough proxy for industry-wide agent count, has reached its highest level ever, with 8-9% year-over-year growth each of the last six months also representing the strongest rate of expansion since 2006. **Through a broader lens, NAR membership count expanded to 1.1% of total non-farm payrolls in the U.S. in September, a record high and well ahead of the 0.7% average since 1980.**

While somewhat shocking on the surface, it is understandable given that real estate agent count growth and the rate of home price appreciation show a very high correlation. Since 1980, the correlation is 91% when lagging agent count to price growth by six months. **In short, sharply rising home values always bring more agents into the profession. The cautionary consideration is whether this recent surge in agent count is another signal of peak sentiment and activity, as it was last cycle.**

On a related note, industry agent count has continued to grow at a much faster clip than home sale transactions for numerous years. This has driven industry-wide productivity (sales per agent) on a downward trend each year since 2016 and more broadly over the last two decades. 2021 will be no different. We expect existing home sales to grow at a mid-single digit rate and reach the second highest annual level on record, trailing only 2005; yet given the larger increase in industry agent count, average productivity is set to weaken to less than eight transactions per agent. This will be the lowest productivity ratio since 2012.

To be sure, many strong agents and leading brokerages are rightly focused on enhancing their sales productivity, but the data widely suggests that for the industry at large, incremental agent recruitment remains the name of the game in efforts to spur growth. **As we look ahead to 2022, we expect existing home sales to decline at a low-to-mid single digit rate. Favorably for homebuyers and sellers, with more agents battling over fewer transactions, we believe commission rates charged to consumers are likely to continue their decade-long contraction.**



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