

Abstract: [\[Edit\]](#)

The objective of this work is to investigate the scope of informational rents in the French real estate market, and to assess in particular the impact of Internet on brokers' commission rate and housing's transactions.

A quasi-natural experiment on housing transactions will be conducted in close collaboration with one the main players in the Internet industry, *meilleursagents.com*, in order to exploit exogenous changes induced by the development of local price information on internet. Indeed, some subsets of France's regions benefited from positive informational shocks, e.g. sudden availability of more detailed hedonic price information (per area, per cities, or even per districts or streets). This is in particular the case in the area of Paris (Ile de France) in 2009, where housing information available on Internet became more accurate for Paris's district whereas no similar change happened in close suburbs. A model of differences in differences will be used in order to infer the impact of information on housing transactions and brokers' fees. In a second step, a theoretical approach will be undertaken in order to build a model fitting the French real estate brokerage market and more generally to better understand markets where intermediaries act on behalf on the seller in order to support efficient price discovery. Ultimately, the building of a larger database on housing transaction may allow us to extend the empirical analysis on other geographical areas.

Project description [\[Edit\]](#)

Project Outline:

The objective of this research project is to investigate the scope of informational rents in the French real estate market, and to assess in particular the impact of Internet on brokers' commission rate and housing's transaction. In France, households suffer indeed till recently from a nearly complete lack of information on housing's prices: no regularly updated public dataset was available in order to make a rough real estate appraisal depending on the location (city district). This situation progressively changed with the arrival of Internet technology, until the appearance of French free internet providers of local hedonic housing prices. On the other hand, real estate agents selling residential property generally charge in France a fee equal to about 6% of the sales price, which is very close to what has been observed in the US (when taking into account both buyer and seller agent's commissions). Such a price level in the US has been considered a puzzle since classical principal agent theory predicts that such a fixed-percentage commission is suboptimal as soon as home sellers cannot perfectly monitor real estate brokers' effort and should instead put more incentive on brokers. Different explanations have been explored, in particular some refinements in agency models that take into account competition between agents. Part of the explanation may also lie in the above-mentioned asymmetry of information, detrimental to broker's clients who are less informed about the value of the house than the real estate agent.

A quasi-natural experiment will help determine the impact of information transparency and competition on brokerage fees and housing transaction. This empirical study will be based on a rich database including brokerage fees, concentration ratios, and socio-economic characteristics of buyers and sellers. An exogenous change induced by the development of local price information on internet will be used to identify subsets of France's regions that benefited from positive informational shocks (e.g. availability of detailed hedonic price information per districts or streets in some cities). Collaboration with the main French free internet providers of local hedonic housing prices (i.e., *meilleursagents.com*) will allow us to identify different stages in the development of price information. This offers a nice laboratory to assess the impact of exogenous information shocks on broker's commission, transaction volume and prices. In a second step, a theoretical approach will be undertaken in order to build a model fitting the French real estate brokerage market, and test the above mentioned assumption on the role of informational rent. The target is to determine the optimal menu of contract that arises when buyers and sellers are risk averse and uninformed, and try to induce brokers to search for information and reduce price uncertainty.

This work will allow us to better understand the role of information in the real estate market, and its impact on prices and transaction during the recent period. Ultimately, it might help expressing some policy recommendations aimed at reducing distortions in the real estate brokerage industry and improve price information transparency. Beyond the realm of real estate, this work will also allow us to better understand market structures in which intermediaries are not just here to match agents, but also to search for information in order to reduce price uncertainty. To this respect, the French industry of real estate brokerage has the advantage of having a very simple structure, which is itself partly a consequence of the regulatory environment. Fees from brokers are not regulated, apart from some disclosure requirements in accordance with the Consumer Code (Order of June 29th 1990). However, the market structure is relatively homogeneous with brokers acting on behalf of sellers and a decentralized search markets where buyers and sellers can meet. Comparison with other intermediated markets will be undertaken, in particular taking into account what has been done in the finance literature, namely regarding the equity issue process and the role of underwriters who may use book-building procedure in order to support efficient price discovery.