

WHY PEOPLE ENTER THE REAL ESTATE SALES BUSINESS

by James R. Webb & Michael J. Seiler

INTRODUCTION

Turnover in the real estate sales business is reputed to be one of the highest in all job categories. Estimates from interviews performed with real estate brokers range from 50 percent within two years to 98 percent within five years.

While no studies have attempted to accurately estimate the turnover of real estate sales people, all agree that it is very high. The purpose of this study is to ascertain why people enter real estate sales. Since so many people exit in a relatively short period, it would seem that their expectations upon entering are not met and are, perhaps, not realistic. If this is true and expectations upon entering can be altered, then the high turnover rate can possibly be reduced.

ABOUT THE AUTHORS

James R. Webb is a professor of finance and director of the Center for the Study of Real Estate Brokerage and Markets in the James J. Nance College of Business at Cleveland State University in Cleveland, OH. [REDACTED]

Michael J. Seiler is an associate professor of finance at Hawaii Pacific University in Honolulu, HI. [REDACTED]

LITERATURE REVIEW

House(1977) suggests that high turnover in real estate sales can be attributed, in part, to the non-routine, problematic, and irregular work hours involved. He argues that real estate agents must be ready to see prospective clients at almost any time. This, coupled with the commission-based pay structure, which makes income irregular and uncertain, leads to a low success rate for new agents.

Wotruba(1991) contributes high early failure rates to the "sink or swim" philosophy followed by most real estate firms. The marginal cost of providing desk space and secretarial service for a new salesperson is

low and so too is the time spent screening and training new agents. If the new agent becomes successfully established, the company profits. If the agent fails, the firm can easily and inexpensively hire a new recruit to replace him/her. Moore, Eckrich, and Carlson(1986) suggest that early failure rates could be greatly decreased by implementing basic screening procedures. They studied the skills and characteristics needed to be successful in sales and produce a hierarchy of importance among 82 sales competencies.

Since failure rates are so high, why then do so many individuals seek to become real estate sales agents? Barth(1964) explains that many new real estate sales people are primarily entrepreneurs that are willing to work hard for a living, but lack formal education and financial capital, which are necessary to be successful in other careers. Other explanations for real estate sales entry include ease of entry, low screening procedures, and the independent nature of the work [House(1977)].

RESEARCH DESIGN

The research design was a questionnaire. Fourteen questions, (13 closed-ended and one open-ended) were mailed to 1,500 randomly selected people who recently entered the real estate sales business in the state of Ohio. (Entering real estate sales people were defined as those who recently received sales licenses in the state of Ohio.)

The surveys were accompanied by a self-addressed return envelop and a cover letter emphasizing the importance of the study in an attempt to raise the response rate. *Appendix A* contains a copy of the questionnaire used.

A second group, consisting of 1500 individuals who recently exited the real estate sales business, was also mailed questionnaires. The attempt was to learn, ex post, of the relationship between expectations when entering real estate sales and the realization once exiting. Unfortunately, a parsimonious response rate of only 1.1 percent (17/1500) rendered the comparisons unattainable.

RESULTS

Entering Real Estate Sales

Of the 1500 surveyed, 418 people returned useable questionnaires. This is a response rate of 27.9 percent. *Exhibits 1 - 6* show the geographical location, affiliation, gender, age, education level, and household income, respectively, of the respondents.

As would be expected, the larger response rates are from the population centers and the highest response rate is from the source of the survey (north-east Ohio). Southeast Ohio is sparsely populated, when compared to the other parts of Ohio, thus contributing to its low frequency of responses. (*See Exhibit 1.*)

Almost all of the respondents (395/418) were affiliated with the REALTOR® association (95.0 percent). The other 5 percent were Realtists and non-affiliated people. The survey was generic and sent to randomly selected real estate sales licensees, so the high response rate from REALTORS® was not expected. In Ohio only about 65 percent of the real estate sales licensees are affiliated with the REALTOR® group. Perhaps being part of the REALTOR® trade group influenced people to respond, since the cover letter used made reference to the National Association of REALTORS®. (*See Exhibit 2.*)

The study respondents entering real estate sales were almost evenly divided between male (47.1 percent) and female (52.9 percent). In addition, a third of the respondents were 26-35 years old and over 70 percent were 45 years old or younger (*Exhibits 3 & 4*). Only two of the respondents did not have a high school diploma, while 29 (6.9 percent) had completed an advanced college degree. Nearly 40 percent of the respondents had at least a bachelor's degree. (*See Exhibit 5.*)

Exhibit 6 shows household income from all sources, not just real estate sales. Many times real estate sales people enter on a part-time basis. As expected, the frequency observed in each household income category increased up to the \$30-40,000 per year range, then decreased thereafter.

Expectations

When asked "Why they entered real estate sales" (*Exhibit 7*), almost half (45.2 percent) indicated they did so because of flexible work hours. However, the two responses which were almost tied for second were "to earn a little `extra money' " (24.1 percent) and "chance to earn lots of money" (18.1 percent). No one thought the work was easy and almost no one thought that it was easy to get a job or that little education was required.

Exhibit 8 shows a cross-tabulation of age and how long the respondents expect to be in real estate sales. Almost 19 percent expect to be in real estate sales 10 years or less while 26.8 percent expect to be in it over 30 years. Undoubtedly, age of

Exhibit 1 - Geographic Location

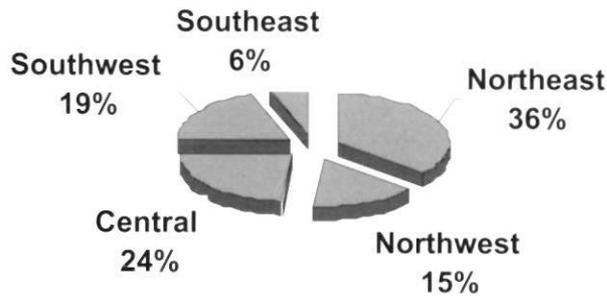


Exhibit 2 - Affiliation

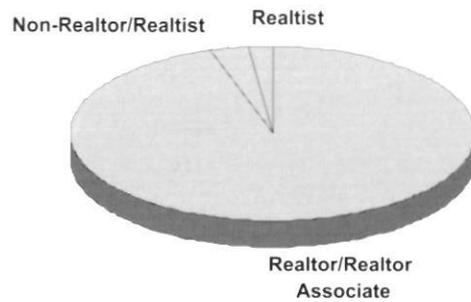


Exhibit 3 - Gender

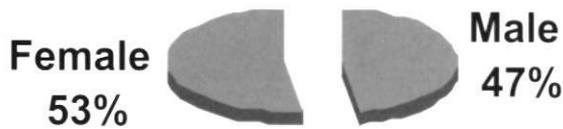


Exhibit 4 - Age

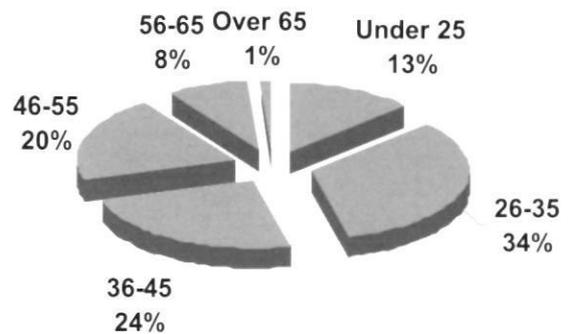


Exhibit 5 - Education

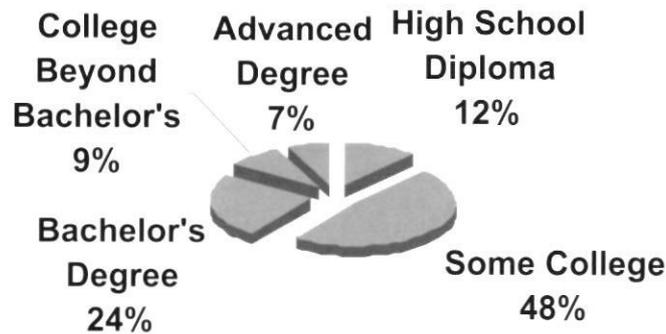


Exhibit 6

Annual Household Income from All Sources

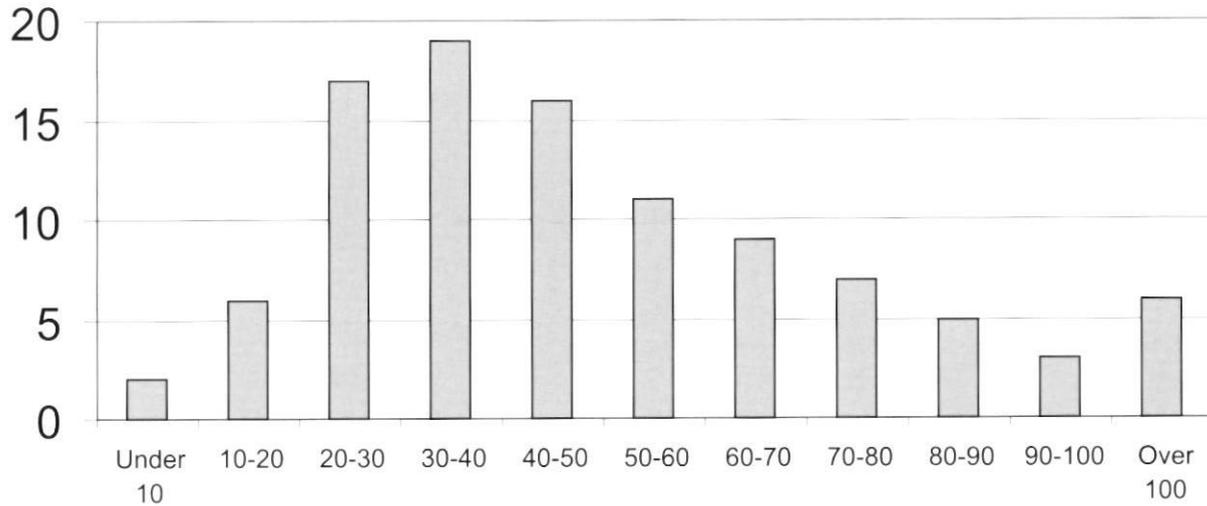


Exhibit 7

Why Did You Enter Real Estate Sales?

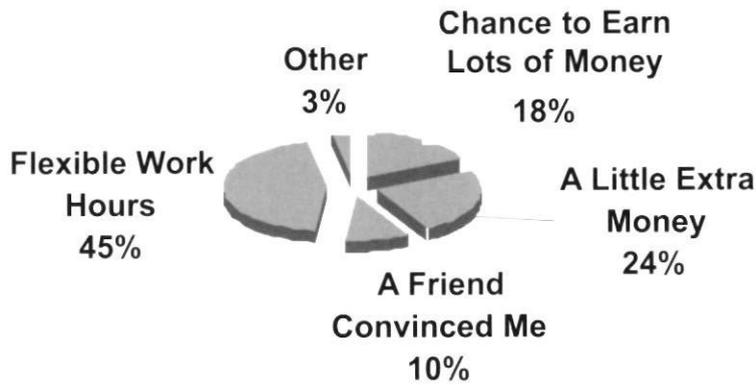


Exhibit 8

Cross-tabulations of Age by Length of Time the Respondent Expects to be in Real Estate Sales

	1-2	3-5	6-10	11-15	16-20	21-25	26-30	30+	Row Total
Under 25	1	6	3	5	2	4	8	23	52
26-35	1	4	13	12	14	18	15	55	132
36-45	2	1	5	9	17	31	13	17	95
46-55	1	0	10	29	17	7	6	12	82
56-65	1	5	17	7	2	1	0	1	34
Over 65	0	0	3	1	0	0	0	1	5
Column Total	6	16	51	63	52	61	42	109	400

* Columns represent the Length of Time Left in Real Estate Sales (in years).

Exhibits 9 - 11

Exhibit 9

How Many Hours a Week Do You Currently Work?

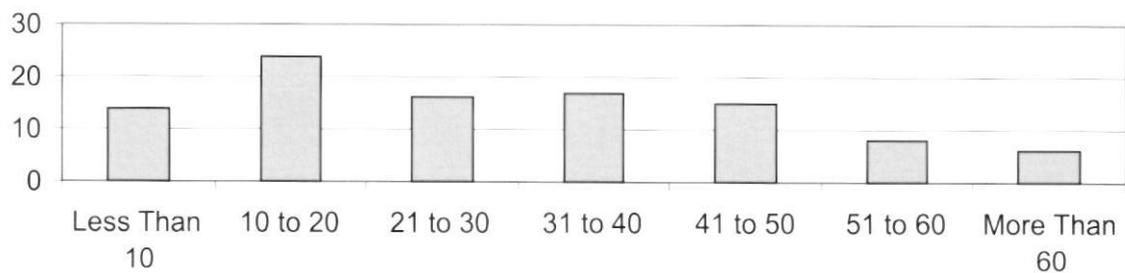


Exhibit 10

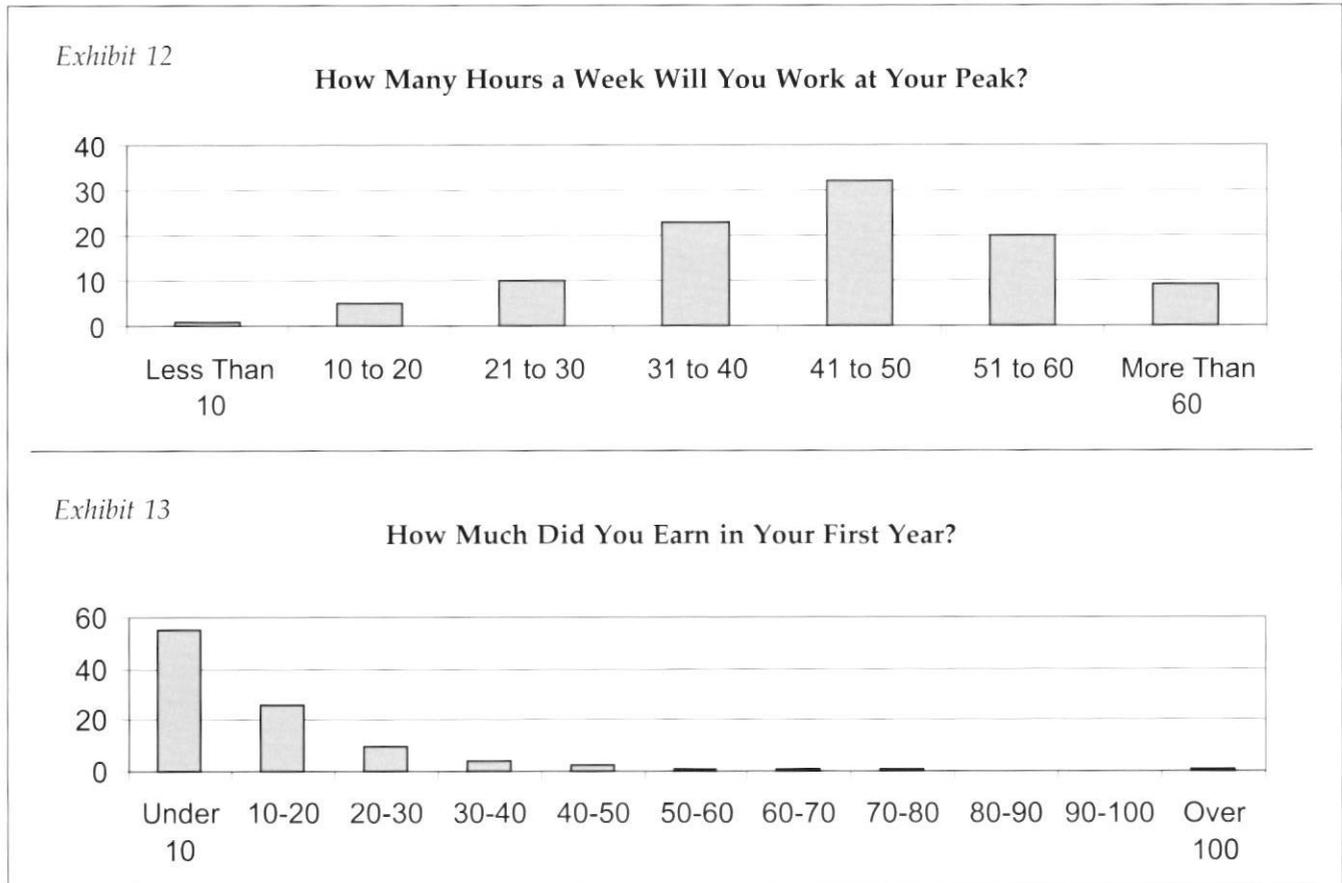
How Long To Reach Peak Earnings?

Response	Frequency	Percent
1 to 2 years	36	8.9
3 to 5 years	225	55.7
6 to 10 years	111	27.5
11 to 15 years	16	4.0
16 to 20 years	9	2.2
21 to 25 years	1	0.2
26 to 30 years	2	0.5
Over 30 years	4	1.0

Exhibit 11

How Much Do You Expect To Earn At Peak?

Response	Frequency	Percent
\$10,000 or Less	9	2.2
\$10,001 - \$20,000	31	7.7
\$20,001 - \$30,000	35	8.6
\$30,001 - \$40,000	50	12.3
\$40,001 - \$50,000	44	10.9
\$50,001 - \$60,000	42	10.4
\$60,001 - \$70,000	30	7.4
\$70,001 - \$80,000	36	8.9
\$80,001 - \$90,000	15	3.7
\$90,001 - \$100,000	20	4.9
Over \$100,000	93	23.0



the respondent has a major influence on length of stay. The cross-tabulation reveals that, on average, new real estate agents expect to leave the real estate sales industry when they near age 65.

Exhibits 9 & 10 show how many hours a week the respondents currently work and how many years they believe it will take them to reach their peak earnings, respectively. Of respondents, 38.4 percent indicated that they work less than 20 hours per week. This high percentage of part-time employment is not nearly as common in other careers. Over two-thirds (71.3 percent) indicated that they currently work 40 hours a week or less.

Exhibit 10 shows that almost two-thirds (64.6 percent) of the respondents indicated that they would reach their peak earnings in five years or less. This is clearly an optimistic estimate when the respondent's current level of income is compared to the income they expect to earn at their peak. Only 7.9 percent of the respondents believe it will take over 10 years to reach their peak earnings.

Exhibit 11 shows how much respondents expect to earn at their peak. As expected, the frequency

rates increase to the \$30-60,000 range and then decline until the over \$100,000 category. Of respondents, 23 percent expect to earn over \$100,000 per year at their peak. This is an extremely optimistic and unrealistic expectation.

As shown in Exhibit 12, over a third (39.4 percent) of the respondents feel they will need to work 40 hours a week or less at peak earnings. This clearly points to a discrepancy between expectations and reality. However, about 29 percent believe they will have to work 51 or more hours per week. Unlike the disparity between current income and income at peak earnings, respondents seem to be aware that many additional work hours will be needed to substantially increase income. Still, while there is a high correlation between peak earnings and expected hours worked at peak earnings ($\rho=.4971$; $p=.0001$), the number of hours necessary to earn these levels of income seems to be substantially under-estimated by the respondents. (See Exhibit 13.)

Over half of the respondents (55.5 percent) earned less than \$10,000 in their first year of real estate sales and almost all of them (91.4 percent) earned less than \$30,000 during their first year.

Year 1 income from real estate sales is regressed against other survey questions based on the following equation:

$$Y1_i = \alpha_i + \beta_1 LN_i + \beta_2 CR_i + \beta_3 YP_i + \beta_4 IP_i + \beta_5 HP_i + \beta_6 RG_i + \beta_7 AF_i + \beta_8 GN_i + \beta_9 AGE_i + \beta_{10} ED_i + \epsilon_i \quad (1)$$

where,

- Y1_i = first-year income for respondent i
- LN_i = length of time expected to stay in RE sales for respondent i,
- CR_i = current number of work hours for respondent i,
- YP_i = years until respondent i expects to reach peak earnings,
- IP_i = expected income at peak for respondent i,
- HP_i = hours worked at peak for respondent i,
- RG_i = region of respondent i,
- AF_i = affiliation of respondent i,
- GN_i = gender of respondent i,
- AGE_i = age of respondent i,
- ED_i = education level of respondent i,
- α_i = intercept term,
- β_i = regression coefficient,
- ε_i = error term

Not surprisingly, a significant relationship exists with current number of work hours and expected earnings at peak. Further, a negative and significant relationship is observed between first-year earnings and length of time necessary to reach peak earnings. All other variables are insignificant.

CONCLUSIONS

It is apparent from these surveys that people of all ages enter real estate sales and do so for a variety of reasons. However, some results do seem worthy of note. These include the following.

1. Earnings expectations upon entering seem to be much too high. Almost one-fourth (23.0 percent) of those respondents entering real estate sales expected to earn over \$100,000 per year at their peak.
2. The length of time expected to reach peak earnings is too low. Over 92.1 percent of the respondents expected to reach their peak earnings in 10 years or less.
3. While many liked "flexible hours" when entering, they did not seem to realize that this meant working weekends and evenings. Many eventually left

real estate sales due to schedule conflicts with their spouses and/or children.

4. Real estate agents expect to leave the real estate sales business, on average, prior to age 65 as evidenced by a cross-tabulation in *Exhibit 8*. This is consistent with the entrepreneurial concept set forth by Barth(1964).

While the accuracy of expectations concerning what life will be like as a real estate salesperson are hard to quantify, one significant observation does stand out. Although most new real estate agents have prior sales experience, over half (55.5 percent) earned less than \$10,000 in their first year of real estate sales. Further, 81.5 percent earned under \$20,000, and 92.0 percent earned under \$30,000.

In addition to low and uncertain income, high early failure rates can be attributed to the "sink or swim" philosophy adopted by almost all real estate companies. The implied low levels of screening, ease of entry, and low educational requirements allow individuals to engage in a career that they may not be qualified to perform.

Future research should be directed towards ways in which new agent expectations can be made more realistic. Only then can the high turnover rate be reduced.^{REI}

REFERENCES

Barth, Fredrik, 1964, *The Role of the Entrepreneur in Social Change in Northern Norway*, University of Oslo Press, Oslo, Norway.

House, J.D., 1977, *Contemporary Entrepreneurs: The Sociology of Residential Real Estate Agents*, Greenwood Press, Inc., Westport, Connecticut.

Moore, James R., 1986, Donald W. Eckrich, and Lorry T. Carlson, A Hierarchy of Industrial Selling Competencies, *Journal of Marketing Education*, Spring, 8, 79-88.

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See Appendix "A" on next page.

*Real Estate Salesperson Questionnaire
Real Estate Research Center
Cleveland State University*

Appendix A

Real Estate Salesperson Questionnaire Real Estate Research Center, Cleveland State University

I. Expectations

1. Why did you enter the real estate sales business?

- Easy to get a job
- To earn a little "extra money"
- A friend convinced me to try it
- Flexible work hours
- Chance to earn lots of money
- Work appeared to be easy
- Little education required
- Other (Please explain) _____

2. How long do you intend to be in the real estate sales business?

- 1 to 2 years
- 3 to 5 years
- 6 to 10 years
- 11 to 15 years
- 16 to 20 years
- 21 to 25 years
- 26 to 30 years
- over 30 years

3. How many hours a week do you work NOW in the real estate sales business?

- less than 10 hours per week
- 10 to 20 hours per week
- 21 to 30 hours per week
- 31 to 40 hours per week
- 41 to 50 hours per week
- 51 to 60 hours per week
- more than 60 hours per week

4. How many years will it take you to reach your peak earnings?

- 1 to 2 years
- 3 to 5 years
- 6 to 10 years
- 11 to 15 years
- 16 to 20 years
- 21 to 25 years
- 26 to 30 years
- over 30 years

5. How much do you expect to earn **per year** at your peak?

- less than \$10,000
- \$10,000 to \$20,000
- \$20,001 to \$30,000
- \$30,001 to \$40,000
- \$40,001 to \$50,000
- \$50,001 to \$60,000
- \$60,001 to \$70,000
- \$70,001 to \$80,000
- \$80,001 to \$90,000
- \$90,001 to \$100,000
- over \$100,000

6. How many hours a week (on average) do you expect to be working when you achieve your peak earnings?

- less than 10 hours per week
- 10 to 20 hours per week
- 21 to 30 hours per week
- 31 to 40 hours per week
- 41 to 50 hours per week
- 51 to 60 hours per week
- more than 60 hours per week

7. How much did you earn (or expect to earn) in your first year of real estate sales?

- less than \$10,000
- \$10,000 to \$20,000
- \$20,001 to \$30,000
- \$30,001 to \$40,000
- \$40,001 to \$50,000
- \$50,001 to \$60,000
- \$60,001 to \$70,000
- \$70,001 to \$80,000
- \$80,001 to \$90,000
- \$90,001 to \$100,000
- over \$100,000

II. General Information

1. What is your geographic location?

- Northeast Ohio
- Northwest Ohio
- Central Ohio
- Southwest Ohio
- Southeast Ohio

2. What is your affiliation?

- Realtor/Realtor Associate
- Realtist
- Non-Realtor/Realtist

3. What is your gender?

- Male
- Female

4. What is your age?

- under 25 years old
- 26-35 years old
- 36-45 years old
- 46-55 years old
- 56-65 years old
- over 65 years old

5. What is the highest education level you have attained?

- Do not have a high school diploma
- Have a high school diploma, but no college
- Some college, but no degree
- Bachelor's degree
- Some college beyond the Bachelor's degree
- Have completed an advanced college degree

6. What is your annual household income from ALL SOURCES?

- less than \$10,000
- \$10,000 to \$20,000
- \$20,001 to \$30,000
- \$30,001 to \$40,000
- \$40,001 to \$50,000
- \$50,001 to \$60,000
- \$60,001 to \$70,000
- \$70,001 to \$80,000
- \$80,001 to \$90,000
- \$90,001 to \$100,000
- over \$100,000

III. Other

Please use this space to communicate any and all opinions you have about your expectations upon entering the real estate sales business that have not been adequately covered (or to make any comments you wish). _____