

How a contract detail keeps DC Bubblicious

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I'm trying to buy a house. My lease for this USD900/month tree house is over in a month, so I thought I'd give it a try.

My first problem is that housing prices in DC are absurdly high. For what my brother paid for his large house in the 'overheated' San Diego market, I could buy a crackhouse in Southeast. A fixer-upper with an up-and-coming location, the broker would tell me.

You can look up price of last sale on washingtonpost.com, and it makes me want to cry. The house I'm most interested in sold for \$200,000 two years ago. The asking price now, after the owners installed a new fridge and the passage of time stained the carpeting: \$600,000. It's a small enough market that I guess a bubble is easy to form.

The key fact in all of this is that the seller pays both brokers 3% of the closing cost of the house. [Formally, 6% is paid to the selling broker, who splits it with the buying broker. So if there's no buying broker, it's still a 6% charge.] The selling agent has a strong incentive, therefore, to get the highest possible price for the house. Meanwhile, the buying agent has a strong incentive to, um, get the highest possible price for the house.

Which brings me to a general rant about real estate brokers. The few that I've met have been on par with the stereotypical used car salesman. The online listings mess up the address to put it in the wrong neighborhood. 'Oh, we meant NE, not NW. Easy mistake, ha ha. When can you come out for a showing? Can I send you some other listings?' I went to see one guy so that he'd show me a house or two that his company lists, and wound up in a windowless room in the basement of the agency, as he worked on convincing me that I should be his buying agent, and why the market is not a bubble despite house prices doubling over the last few years (I'm told 98% profits in five years, on average).

The system is a really beautiful one in a number of ways. There are only a hundred or two brokers in DC, and they all know each other. When a house is listed, pretty much every broker in the area gets the listing at once, and one will always be happy to give you the phone number of another. Everybody has the key to every lockbox.

So, as an economist: the home buying system is collegial, impressively organized, and perfectly designed to get as much cash out of the buyer as possible. The fact that the seller pays both agents and that every agency is on both

sides of the market at once makes for a fucked system—and within the limits of Columbia, it is extra-fucked.