When I bought a home a few months ago, my real estate agent handed me a check worth tens of thousands of dollars — a rebate on his commission. Windfalls like that could become more common if home buyers demand better deals.

Typically an agent earns a commission of perhaps 2.5 to 3 percent of the value of the home you buy, and the agent for the seller pockets a similar sum. So if you buy a million-dollar home, your agent earns around $30,000 for what might be only a few dozen hours of work.

When the stakes are this high, it's worth shopping around.

I called local Michigan real estate agents, asking whether they would work on a fee-for-service basis. Jon Boyd of the Home Buyer's Agent of Ann Arbor agreed.

He charged $120 per hour, which added up to nearly $7,000. But he passed along the additional commission he otherwise would have received. (To preserve his privacy and mine, I won't say exactly how much, but it was a lot more.)

This arrangement was a good deal for me: The check furnished my house. It was good for Mr. Boyd, too, although to see why, you need to appreciate how wasteful our current system is.

The problem, as an important study shows, is that the market for real estate agents is broken.

The study is “Can Free Entry Be Inefficient? Fixed Commissions and Social Waste in the Real Estate Industry,” by the economists Chang-Tai Hsieh, a professor at the University of Chicago, and Enrico Moretti, a professor at the University of California, Berkeley. They pointed out that the total in commissions paid for selling a home — as much as 6 percent, when agents for both sellers and buyers are taken into account — appears to be stuck at a high rate.

When I teach Economics 101, I tell my students that in a well-functioning market, high prices — like the commissions paid to most agents — rarely persist for long, because competitors will offer discounts to attract more customers.

But for the most part, that doesn’t appear to have happened for real estate agents. That’s because the house seller typically sets and pays the commission that goes to the buyer’s agent. This arrangement appears to have neutered competition over commission rates.

It ensures that relatively few individual sellers deviate from the norm of paying high commission rates, because if they did, buyers’ agents might respond by steering clients toward someone else’s house. So while sellers would like to cut commission rates, it’s generally not in an individual’s interests to be the first to do so.

Some homeowners opt out of the whole system and sell their homes without agents, but most stick with the high-commission norm. As a result, competition has done little to reduce real estate commissions.

But the high commissions haven’t made most real estate agents rich: The median agent earned $48,690 in 2018, according to the Bureau of Labor Statistics.
Instead, the commissions have created a bloated and unproductive sector. That’s because the possibility of earning enormous commissions is so powerful an incentive that it has led thousands of people to become real estate agents. When lots of agents chase a limited number of deals, many of them end up underemployed, working on only a handful of deals annually.

For example, the 2,773 New York City real estate agents employed by Douglas Elliman Real Estate closed 5,979 transactions last year, an average of only two deals per agent. (These numbers come from the annual report of Vector Group, Douglas Elliman’s parent company.)

Informal industry estimates suggest that agents generally spend only a few dozen hours working on each deal and doing the things that home buyers value, like showing houses, evaluating prices, negotiating with sellers and coordinating inspections.

Even if the agents in the New York example worked as many as 100 hours on each of their two deals, they would have spent only a small fraction of their time directly helping their clients.

Instead, by most accounts, real estate agents generally spend the bulk of their time trawling for fresh business.

From a broad economic perspective, much of this is wasted effort. Agents are like gold miners panning for a big nugget — a buyer purchasing an expensive home! — that will make their year. Just as some prospectors get rich, so do some agents. But most spend their days in a fruitless search for pay dirt.

That’s why Mr. Boyd was happy to work for an hourly fee. I asked him, in effect, to take a few hours off prospecting in exchange for a guaranteed hourly rate. He said he was better off earning $120 per hour from me than sitting in his office hoping for a new client to call.

I’ve been unable to determine how common such arrangements are. Rich Harty, president of the National Association of Exclusive Buyer Agents, said, “It’s very unusual.” I asked other agents whether they would work on a fee basis, and many refused. Smaller independent agents and agents who represented only buyers (“exclusive buyers agents”) were more receptive.

The antitrust division of the Department of Justice has long encouraged this sort of competition, and it reports that rebates like the one I received are legal in 40 states, including Michigan, California, Texas, Florida and New York.

Yoreevo, a Manhattan start-up, says it rebates two-thirds of the commission it earns in home real estate deals, while providing the same services as other agents. James McGrath, the company’s founder, said he could afford to do this because “the cost of the service is not that significant.” Instead, he added, for most brokers, “the real cost is client acquisition.”

If successful, his business model could upend the industry. “The lower commission allows you to get more clients,” he said, “and more clients allows you to get away with a lower commission.”

For home buyers, that could mean better deals. Indeed, if you look hard, those deals may already be out there.

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