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The Impact of Prohibiting Pocket-Listings on the NVAR Region

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A rule that prohibits “pocket listings” was scheduled to go into effect in January of this year. Pocket listings, also known as Off-MLS listings or office-exclusives, are listings that are not put on the MLS.¹ The board of directors for the National Association of Realtors voted in November 2019 to ban the practice starting January 1st this year, but the ban was delayed until May 2020.² The rule requires that all listings be submitted to the MLS within one business day of being advertised. As this rule requires all listings be submitted to the MLS, one would expect an increase in the number of listings and a decrease in the number of Off-MLS sales.

New Listings and Off-MLS Sales

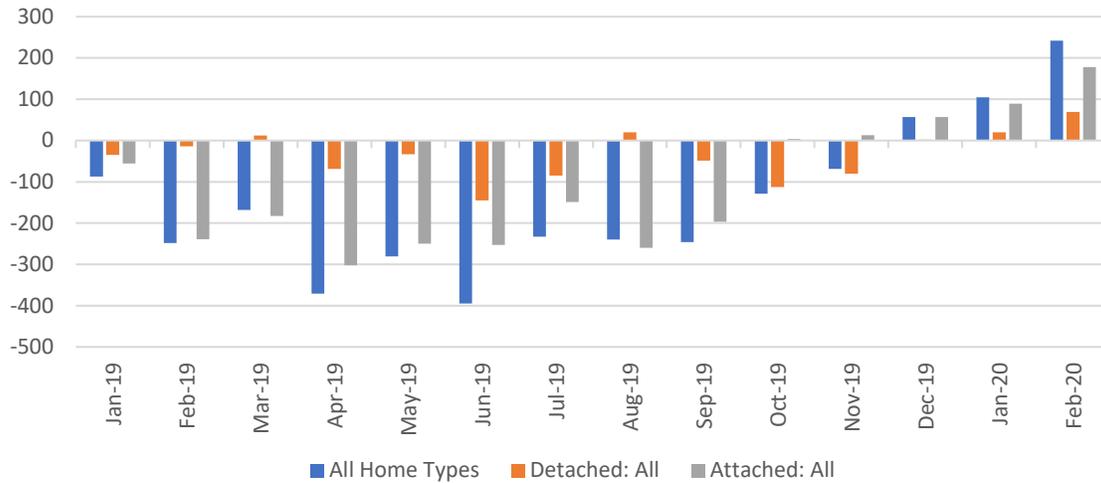
The Center for Regional Analysis at George Mason has been watching inventory listings closely in early 2020. Our interest is partly due to our partnership with the Northern Virginia Association of Realtors (NVAR) for conducting market forecasts, and partly because the real estate market remains a bellwether for most every other sector of the regional economy. Throughout the majority of 2019, the number of new listings coming onto market had continued its multi-year decline (see Figure 1). The largest year-over-year decrease in the number of new listings in the NVAR region was in June of 2019 with 395 fewer new listings compared to June of 2018. The decrease in new listings throughout 2019 was concentrated primarily in attached homes. While the number of new listings of detached homes were also down, the decline was less severe than for attached homes. However, just in time for the holiday season, there was an uptick in December new listings compared to the previous year

In our 2020 GMU/NVAR Market Forecast discussions with local real estate leaders, it was suggested that the pocket listing policy change that was voted on in November may result in the *appearance* of an increase in inventories. Reported inventory grew notably in January and February of 2020. The total number of new listings increased 105 units from 1,534 in January of 2019 to 1,639 in January 2020. The gains accelerated in February with 242 more units on the market in February 2020 compared to February 2019 at 2,222 and 1,980 units, respectively. This was the largest year-over-year gain since May of 2017. Was the Northern Virginia housing market starting to open up, or was this gain just a matter of better market metrics through more accurate Bright MLS listings?

¹ https://www.virginiarealtors.org/wp-content/uploads/2017/02/Legal_Lines_Commonwealth_Summer_2014.pdf

² <https://www.housingwire.com/articles/nar-bans-pocket-listings/>

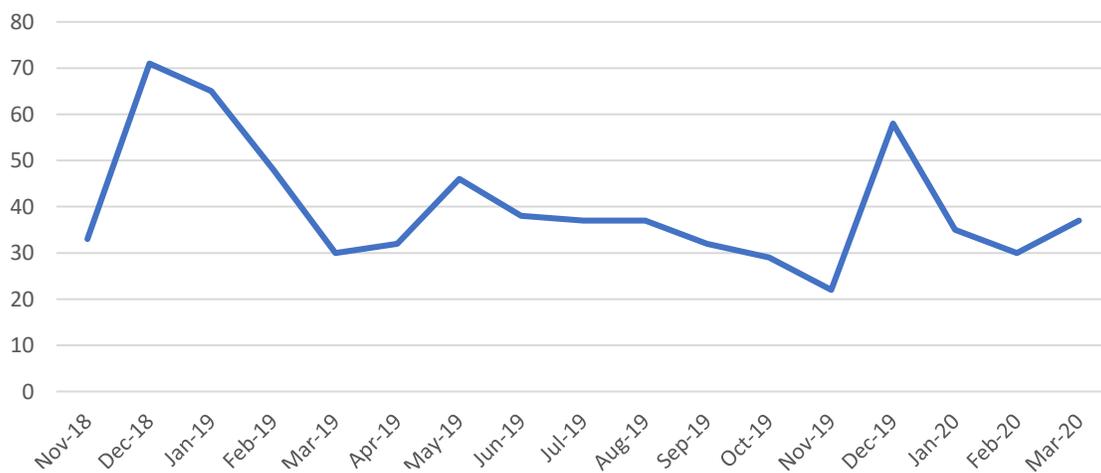
Figure 1. Number of New Listings - Change from Previous Year



Source: MarketStats by ShowingTime

To determine if the number of pocket listings has decreased, versus a real rise in total units on the market, we estimated Off-MLS sales using Bright MLS data. We examined closed sales in the NVAR region from November 2018 through February 2020. Specifically, the analysis identified Off-MLS sales as: a) closed sales in which the close date was *prior* to the MLS list date, and b) the listing shows as a “comparable” sale. At first, the number of Off-MLS sales does not appear to have been impacted significantly by the new rule change. From November 2018 to March 2020, there were 680 Off-MLS sales that were eventually recorded in the MLS. While there was a downward trend throughout 2019, there was a sharp increase in the number of Off-MLS sales in December 2019. Following the December 2019 increase, the number of Off-MLS transactions did not fall to zero as expected.

Figure 2. Number of Private Sales in the NVAR Region

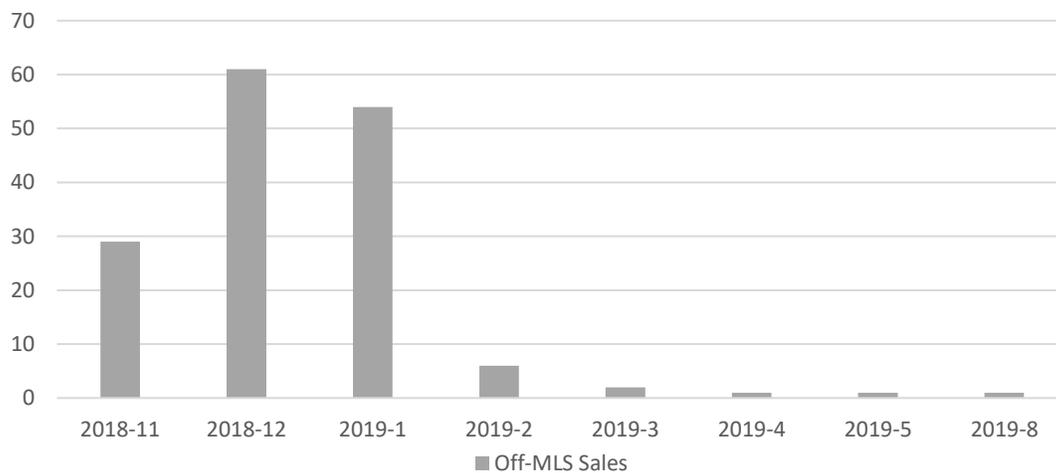


Source: Bright MLS and GMU Center for Regional Analysis

While the number of Off-MLS listings appears to have been unaffected by the new NAR rule, it is not necessarily the case that NVAR realtors are not in compliance. Among the 680 Off-MLS sales that were subsequently recorded on the MLS, more than 80 percent were from agents listed as a “Non-Member” or “Non-Subscriber.” More importantly, the number of off-MLS sales by member-agents declined throughout 2019 before falling to zero in September 2019, two months before the vote to ban the practice. In fact, there have been no Off-MLS closed sales in the NVAR region whose listing agent was a member since August 2019.

While it seems likely that the new rule resulted in some listings of what would otherwise have been a private sale property, it does not explain the notable increase in new listings over the past few months. In recent months, December 2018 and January 2019 recorded the most Off-MLS transactions, but the total count for Northern Virginia was only 61 and 54 Off-MLS sales, respectively. In comparison, the year-over-year increase in total new listings in January 2020 and February 2020 was 105 units and 242 units.

Figure 3. Off-MLS Closed Sales with a Member Listing Agent



Source: Bright MLS and GMU Center for Regional Analysis

Conclusion

The number of new listings in the NVAR region began to rise in December 2019 and continued to rise for the first two months of 2020 – an unexpected turn in market trends. In this data review, we tested the possibility that this uptick in residential property listings resulted from the new NAR rules against Off-MLS sales. Our analysis provides little evidence that the new rule explains the increase in new listings. First, the increase in the number of new listings is greater than the decline in Off-MLS sales. Second, the number of Off-MLS sales began to decline early in 2019, well before the new rule was voted on, and stayed low. The recent rise in the number of new listings appears to be based on improving market conditions, which is good news moving in the high season for housing sales. Unfortunately, the unforeseen impacts of the COVID-19 pandemic have shifted the real estate market in ways we cannot yet measure.