OCCUPATIONAL LICENSING CHANGES AND THEIR IMPACT ON THE REAL ESTATE MARKET

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ABSTRACT

The significant changes that Illinois implemented in its real estate licensing standards from 2010 through 2012 provide for a natural examination of changes in occupational licensing and market responses. From a licensing perspective, that rewrite of the Illinois Real Estate License Act of 2000 increased requirements on education and experience while also retiring the salesperson license and creating a managing broker license. These changes were intended to better protect consumers and raise the industry's professional standards. This study shows that the number of disciplinary actions increased during the transition period for some licensing categories but decreased in the post-period. The post-transition period also saw declining proportions of disciplinary actions as compared to total sales among relevant license categories. Both of these results support the legislation as a catalyst for change. A secondary finding is that the changes did not lower the overall exam pass rates at the broker and managing broker levels, which was expected with the increased standards. Over 92% of the broker and managing broker exams given the first full year had a managing broker level of difficulty, with a failure rate of 43%, which was not different from pre-legislation passing rates. Unfortunately, disciplinary actions as compared to the quantity of licensees showed conflicting results. The broker category showed constant improvement (a decline in disciplinary actions), but the managing broker category showed a continual increase in disciplinary actions as compared to the number of licensees. While the general pool of licensees improved post-legislation, the immediate benefit of a constant decline of disciplinary actions across all categories was not observed.

INTRODUCTION

Occupational licensing is intended to create a barrier to entry, which is expected to improve the industry and ultimately its services for customers/clients. However, regulatory barriers have also been speculated to increase the income of those with licenses and ultimately increase costs for consumers. This paper aims to examine occupational licensing in the real estate industry. While previous research has looked at real estate licensing in broad terms, this paper examines how market participants respond to significant changes in licensing requirements and how consumers benefit as these changes take effect. Specifically, this research examines the changes in real estate licensing law in Illinois between 2007 and 2014. Illinois licensing laws went through significant changes over this period, impacting the majority of licensees and providing an environment for a natural examination of changes in occupational licensing regulations.

The changes to the real estate licensing laws in Illinois, embodied in Senate Bill 1894, were signed by Governor Pat Quinn on December 31, 2009 (Illinois Government News Network, 2009). The bill included a rewrite of the Illinois Real Estate License Act of 2000. State lawmakers rewrote the act to better protect consumers and raise the industry's professional standards. The modifications directly impacted practitioners without making changes to the enforcement division, which continues to require one investigator for every 10,000 licensees and one prosecutor for every 20,000. Additionally, the composition of the disciplinary board remains unchanged, and they continue to be compensated based solely on their expenses. These constants are significant since they provide for a clean examination of how licensing standards impact the marketplace.

Given the number of changes made as a result of that rewrite, a table of all the changes related to license holders is included in Appendix A. One of the most notable changes was that the state eliminated the entry-level salesperson license, which required only 45 hours of education, and reclassified it as a broker license, which required 120 hours of education plus 12 hours of continuing education every two years. The bill also created the licensure category of managing broker. Brokers who sought to become managing brokers now needed to fulfill a work requirement and complete 165 hours of education and 24 hours of continuing education every two years. Additionally, both the broker and managing broker licenses began requiring an interactive component. The courses were provided in a format that produced an interaction between the instructor and the students. The interactive course created for managing brokers was intended to provide participants with the skills and methods to train, to implement sound real estate business practices, and to manage their offices according to the requirements of the Real Estate License Act. The broker interactive course focused on applied real estate practices. As with all courses, an exam was required to ensure proficiency in the subject matter.

Legislators stated that the education requirements were altered to guarantee that agents were trained and updated on the laws and homebuyer protections. However, education is provided by not just one type of institution. Currently, the Illinois Department of Finance and Professional Regulation (IDFPR) has a list of 53 approved schools, which ensure consistency in the curriculum. Most of these schools are independently licensed and at times tied to a particular brokerage house. In fact, only 18 of these schools are community colleges, and none is housed at a four-year university. The IDFPR individually approves courses, schools, and instructors. Each approved person, firm, association, and corporation can apply to be a pre-licensing school or continuing education school. While this study does not examine the impact of the law on the education partners, it seems this group has benefited greatly given the substantial increases in education across all license types.

Proponents of licensing would endorse increased requirements since these would eliminate practitioners who are likely to provide low-quality or inferior services. If the increased standards in fact result in improvements, we expect an advancement in those who practice real estate under the firmer regulations. This paper seeks to quantify this improvement among practitioners by examining pass rates and disciplinary actions against licensees. Since the senate bill forced action on nearly all licensees at some level or other, we expect to see an improvement in the industry as a whole. Additionally, licensees were pushed to observe stricter requirements, which should reduce the likelihood of agents' becoming advantaged or entrenched and should effectively improve service across all levels, ultimately reducing the supply of agents. This study begins with a literature review briefly discussing relevant research, followed by a description of the data and findings and a discussion of the implications of these findings.

LITERATURE REVIEW

The rationale for licensing is often consumer protection, but a number of studies have also linked occupational licensing to reduced competition and increased professional earnings. Zerbe, Carroll, and Gaston (1979) and Maurizi (1974) present correlations that suggest licensing does raise agent incomes. They find that pass rates on licensing exams and agent incomes are negatively correlated. Specifically, test pass rates are low when the brokers' incomes are high. This confirms that the power of licensing boards is often used to extend the period of high incomes. Conversely, Johnson and Loucks (1986) dismiss the view that restricting the number of real estate agents through licensing raises their average income. Jud and Winkler (2000) analyze how the examination pass rate and the educational requirements set by the state impact the numbers and incomes of real estate agents. They find that the supply of agents is elastic in relation to agent earnings. This finding can help explain some of the peaks in Illinois licensing issuances during the real estate upturn in as recently as 2007. However, this finding can also confuse this examination of the licensing changes because less experienced licensees may have left the marketplace after the real estate boom, causing a natural improvement in the marketplace that had nothing to do with the increased standards. This study will look at not only the licensing trends but also whether pass rates impact the quality of licensees.

In relation to changes in licensing laws, Gaines (2013) focuses on the Texas market and examines the number of licensees and sales in the late 1980s. He theorizes that the collapse of the real estate market coupled with license law changes and expanded educational prerequisites caused the number of licensees to plummet and effectively increased the barriers to entry and entrenched licensees. The significant changes brought by the signing of Senate Bill 1894 in Illinois along with the collapse of the real estate market may cause a similar plummeting of the number of licensees in the state. However, since nearly all licensees in Illinois are required to act in response to the license law changes, the likelihood of entrenchment may be reduced and thus improve the quality of service offered to participants.

The choice proxy in determining the quality of service and ultimately the quality of licensees is the recorded disciplinary actions against licensees. Shilling and Sirmans (1988) examine whether licensing increases the quality of services by real estate brokers. They demonstrate that occupational licensing may improve the quality of services provided to the public as measured by a reduction of complaints against agents. Guntermann and Smith (1988) relate the number of complaints against licensees to state licensing standards regarding education and enforcement. They find that minimal pre-licensing requirements reduce complaints, but additional requirements do not lead to further reductions. They conclude that the most significant way to reduce complaints is vigorous efforts at compliance and enforcement. Those authors also find that Illinois appears to be sending a clear message through enforcement versus pre-licensing requirements. The data suggests that the probability of discipline given a complaint can be used as a policy tool to deter misconduct. Similarly, Johnson and Loucks (1986) examine the barriers in the brokerage industry to determine the effect of differing state entry requirements on the supply of practitioners, earnings, and the quality of service provided. One of their applicable findings is that consumers benefit from real estate pre-licensing regulation.

The current paper is unique since it goes beyond the single-period analyses described above and examines changes over multiple years. It also focuses on a state that has changed licensing laws significantly, permitting an examination of how the industry as a whole has responded to these changes, while holding other factors, such as enforcement changes, constant.

DATA AND METHODOLOGY

With the signing of Senate Bill 1894, real estate practitioners in Illinois were given 28 months, until April 30, 2012, to complete the transition and comply with the new rules and regulations. To review not only the transition period but also periods of consistent policy both before and after, this study spans eight years, 2007 through 2014. This equates to approximately two years before the bill was signed and two years after the transition was completed. While two years of post-data is not substantial, the elimination of the lowest level of agents and the significant increase in education should result in some marketplace benefits that can be visible over the combined transition and post-change periods. The primary data examined was assembled from two sources that did not alter compilation methods over the length of the study. The data comprises disciplinary actions, the number of licensees, pass rates, and the number of real estate sales. While licenses expire mid-year, the data collected from the Association of Real Estate License Law Officials (ARELLO) and IDFPR are often categorized annually. Therefore, this analysis follows a calendar-year basis.

ARELLO publishes an annual report of their survey of real estate licensing laws and standards in the United States and Canada. While this survey is not always answered in its entirety, the data generated is relevant and did contribute to some interesting secondary findings. For the current study, the annual report provides not only the number of licensees but also the number of licensing exams completed and the pass rates. Though the number of active licensees can be found in the survey through 2014, the data is incomplete, so the complete figures are instead collected directly from the IDFPR (See Table 1 below.).

Table 1 Active Licensees from 2007 to 2014 This table shows the total number of active licensees for each category as reported by the Illinois Department of Financial and Professional Regulation.								
License Type	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Managing Broker	—	—	—	—	2,629	17,279	17,036	17,153
Leasing Agent	1,335	1,468	1,892	1,711	2,357	2,133	2,745	2,944
Broker	29,767	31,433	28,792	29,563	27,191	35,026	40,738	44,511
Salesperson	64,527	58,036	59,930	55,131	49,396	36,047	—	—
Total	**95,629**	**90,937**	**90,614**	**86,405**	**81,573**	**90,485**	**60,519**	**64,608**

Table 1 shows that, as expected, licensing peaked around the real estate bubble (2007), when attention to real estate was at its peak. Additionally, the numbers of licensees in the two years after the transition are markedly lower than that in 2012 (down by 33%). This reduction may have resulted from not just one factor. It may have been caused by the loss of salesperson licensees, who were not recovered at the broker level. However, it may also be explained by the fact that the real estate boom had ended and less experienced licensees no longer had the incentive to remain in the marketplace and would have left regardless of the standards changing. Leasing agent licensees were the only group not directly impacted by the changes in legislation, providing for a related comparison group. However, leasing agent licenses cannot be directly compared to the other licenses since they permit licensees to represent clients only in the leasing process, while the other license categories permit representation in both leasing and sale transactions.

The IDFPR is the primary source of data on disciplinary actions. The information it reports is on a monthly basis. A total of 1,326 disciplinary actions were reported in the examined period. However, to provide a clear picture of the disciplinary actions that impact the marketplace, the data is further inspected, and those disciplinary actions that resulted from violations that were unlikely to influence the marketplace are omitted. These omissions can be seen in Appendix B, and the resulting total of 1,113 disciplinary actions, divided by license type, can be found in Table 2 below. The three categories omitted in the examination of the relationship between disciplinary actions and licensees are licensees who failed to pay (1) child support, (2) education loans, and (3) taxes. The remainder of the cases directly impacted or would directly impact the marketplace. Many of these included falsification of applications, failure to account for funds, fraud, unlicensed practice, and dishonest dealings. Though unlicensed agents, leasing agents, and corporation licensees' disciplinary actions are not influenced by the updated legislation, they are included here to represent all disciplinary actions reported. The inclusion of leasing agent licensees will also permit a comparison to them. Additionally, while the data in Table 2 is limited, managing brokers consistently increased in number and even received the most disciplinary actions during the last year, 2014. Also, although 2007 had the highest number of licensees, the original licensing requirements that year resulted in the lowest number of disciplinary actions. However, since the table merely summarizes the disciplinary actions, no conclusions can be drawn from the data. This means that the downtrend of disciplinary actions since 2012 does not indicate improved legislation. The relationships between licensees, disciplinary actions, and sales are depicted in Tables 4, 6, and 7.

Table 2
Summary of Disciplinary Actions from 2007 to 2014
These disciplinary actions were gathered from the monthly reports provided by the Illinois Department of Financial and Professional Regulation.

License Type	2007	2008	2009	2010	2011	2012	2013	2014	Total
Unlicensed	5	0	5	11	82	26	22	17	**168**
Salesperson	51	23	61	121	43	22	7	—	**328**
Broker	13	194	14	78	100	40	35	16	**490**
Managing Broker	—	—	—	—	0	2	24	34	**60**
Corporation	3	2	0	0	11	3	12	16	**47**
Leasing Agent	0	1	0	2	3	9	0	5	**20**
Total	**72**	**220**	**80**	**212**	**239**	**102**	**100**	**88**	**1,113**

To gauge the number of disciplinary actions related to activity in the market, total sales are also examined. Data on home sales are collected from the Illinois Association of Realtors. While this data omits for-sale-by-owner parcels, this omission does not impact the findings since this study concerns the licensing changes, and the data focuses on multiple listing service sales, which are the primary source for licensed professionals. The sales statistics are summarized in Table 3 and further analyzed in Table 4. Although sales peaked in 2013, disciplinary actions continued to trend down, implying that the pool of practitioners was possibly improving.

Table 3
Property Sales from 2007 to 2014
This table summarizes the property sales in terms of both quantity and value as reported by the Illinois Association of Realtors.

	2007	2008	2009	2010	2011	2012	2013	2014
Total Sales (#)	139,803	109,195	107,901	105,401	105,087	129,119	153,397	146,659
Median Price	$201,250	$183,900	$157,500	$151,700	$137,500	$138,500	$150,000	$160,000

A common test statistic utilized in this paper is testing for a significant difference between proportions. The null hypothesis is that there is no difference between the two proportions (i.e., p1 = p2). It is intended only to determine whether the proportion from one year is significantly different from that of the following year. The pooled estimate is computed as follows:

$$\hat{P} = \frac{\hat{p}_1 n_1 + \hat{p}_2 n_2}{n_1 + n_2}$$
(1)

The standard error is computed as follows:

$$SE_0 = \sqrt{\frac{\hat{p}(1-\hat{p})}{n_1} + \frac{\hat{p}(1-\hat{p})}{n_2}}$$
(2)

Finally, the test statistic is computed as

$$Z = \frac{(\hat{p}_1 + \hat{p}_2) - 0}{SE_0}$$
(3)

When a significant statistic is generated, the two proportions are significantly different from each other.

RESULTS

The analysis of the data begins with examining the relationship between the disciplinary actions imposed on salespersons, brokers, and managing brokers as compared to total sales. Leasing agents were omitted since they cannot represent clients in the sale of real estate. Table 4 shows that on average the ratio of the number of disciplinary actions to the number of sales transactions was 0.12%, or 1.2 disciplinary actions per 1,000 transactions. The lowest ratios—0.04% in 2014, or 0.4 disciplinary actions per 1,000 transactions, and 0.047% in 2013—were achieved in the years following the stricter regulations. Additionally, comparing 2011 (the last full year before the legislation took effect) to 2013 and 2014 produces a significant difference at the 1% level. These observations around 2013 and 2014 may help to justify the implementation of the new regulations in 2012. This is further visible given that the proportions varied greatly prior to the legislation change, but following it, from 2012 through 2014, a downward trend can be observed. This reduction in disciplinary actions can be viewed as an improvement of the marketplace and may support the increased regulations.

Table 4 This table summarizes the relationship between disciplinary actions and sales. The test statistic compares the disciplinary actions imposed on salespersons, brokers, and managing brokers to the total sales from one year to the next. The test statistic for 2007 is blank because the 2006 Disciplinary Actions / Total Sales data is not available.								
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Disciplinary Actions / Total Sales	0.061%	0.201%	0.086%	0.202%	0.233%	0.077%	0.047%	0.040%
Test Statistic	—	-9.915*	-7.069*	-7.080*	1.527	9.801*	-3.228*	0.919

*Significant at the 1% level

Presenting the examination data available from ARELLO, Table 5 shows that the number of broker exams administered markedly declined over the years studied except the single year when the salesperson license expired and the corresponding licensees were forced to secure a broker license. Though this is not a primary finding, it is interesting. Additionally, the number of managing broker exams given was significantly greater than that of broker exams in any year, but this was likely a result of existing brokers being forced to acquire the new license to manage an office. This same observation may also explain why the broker exam was given in such low frequency during the final timeframe: brokers were applying for managing broker licenses instead.

Table 5 This table shows the number of exams given and passed over the examined period. The data comes from an ARELLO Digest survey. This information is not provided in calendar years, in contrast to the other information gathered.					
	11/05–10/06*	**11/07–10/08**	**12/09–11/10**	**12/11–11/12**	**12/12–12/13**
Broker Exams Given	3,508	2,638	2,403	2,576	632
Broker Exams Passed	2,119	1,425	1,057	—	316
Pass Rate	60.40%	54.00%	44.00%	—	50.00%

Managing Broker Exams Given	7,734
Managing Broker Exams Passed	4,408
Pass Rate	57.00%

*ARELLO provides no information for 11/06–10/07, 11/08–11/09, or 12/10–11/11.

The pass rates are also shown in Table 5. Note that passing the exam does not necessarily translate into obtaining a license. Therefore, the pass rate is not equal to the number of additional licensees in 2013 (See Table 1.). More specifically, after passing an exam, applicants have one year from the date of their receipt of their score to file an application. This application is not electronic and can thus take four to six weeks to process, creating even greater discrepancy between the number of students that pass an exam in a given year and the number of licenses issued in that year. Given these facts, the quantity of those that pass in any given year will likely never equal the change in licensees.

The pass rates for the managing broker exam (See Table 5.) were available for only a single period. This pass rate was slightly higher than that for the same-year broker exam, but this was likely a result of existing practitioners who were transitioning. The pass rates for the managing broker license exam also fell within the range of the broker exam pass rates recorded. However, given that all brokers had to sit for the managing broker license exam in order to continue managing offices, this can be viewed as a selection tactic which kept 43% of unqualified brokers from earning a managing broker license. Whether this 43% later repeated the exam and passed is unknown, but this failure rate may signal that a large portion of existing brokers were unable to meet the new exam requirements.

If changes in legislation in fact kept unqualified managing brokers from earning their license, then they did improve the marketplace. Some may question whether those brokers were just gaming the system and taking the exam because they could always retake it if they failed. However, this was not the case. In fact, agents who are able to pass the transition exam on the first try have the benefit of not being forced to participate in the 30–45 hours of education required to take the exam a second time. Therefore, not only is there a nominal cost associated with the exam itself, but there is a cost associated with the additional coursework and the amount of time required to complete it before being permitted to sit for the exam again. These details are elaborated on in Appendix A.

Table 6 below examines the disciplinary actions in relation to the number of licensees. If licensing increases the quality of workers, an improved marketplace marked by fewer disciplinary actions, fewer workers, and higher wages should be expected. The data in Table 6 includes all disciplinary actions and does not differentiate whether a particular infraction is considered potentially hazardous to the marketplace. Table 7 further explores the data to make this distinction.

Table 6
This table examines the ratio of the disciplinary actions to the number of licensees as provided by the IDFPR. The test statistic indicates the difference between the values in the years in question.

License Type	2007 (%)	Test Stat 07–08	2008 (%)	Test Stat 08–09	2009 (%)	Test Stat 09–10	2010 (%)	Test Stat 10–11	2011 (%)	Test Stat 11–12
Salesperson	0.11	4.26*	0.04	4.15*	0.11	4.73*	0.22	0.13	0.23	4.73*
Broker	0.04	3.13*	0.62	10.65*	0.09	5.69*	0.30	3.26*	0.47	6.98*
Managing Broker	—	—	—	—	—	—	—	—	0.00	0.96
Leasing Agent	0.00	0.95	0.07	1.14	0.00	1.49	0.12	0.09	0.13	2.33
Sum	0.09	−8.22*	0.24	−7.20*	0.10	−7.38*	0.25	2.16**	0.30	8.29*

License Type	2012 (%)	Test Stat 12–13	2013 (%)	Test Stat 13–14	2014 (%)
Salesperson	0.10	—	—	—	—
Broker	0.17	2.57	0.10	2.68*	0.05
Managing Broker	0.03	3.58*	0.15	-1.31	0.21
Leasing Agent	0.52	3.77*	0.00	-2.72*	0.27
Sum	0.12	0.06	0.12	1.07	0.10

License Type	Test Stat 11–13	Test Stat 11–14
Salesperson	—	—
Broker	9.64*	11.94*
Managing Broker	2.00***	-2.35**
Leasing Agent	1.87***	-1.11
Sum	7.20*	7.19*

*Significant at the 1% level
**Significant at the 5% level
***Significant at the 10% level

Table 6 shows that over the years examined, the proportion of disciplinary actions per active licensee was under 1%, ranging from 0.9 disciplined licensees per 1,000 licensees in 2007 to 3 in 2011. The total difference from one year to the next was significant for all years except that between 2012–2013 and 2013–2014. These significant swings imply that the quality of licensees was inconsistent. Clearly, disciplinary actions decreased in the broker category after the legislation but increased among managing brokers. This appears to indicate that the change in licensing requirements has had only a slight impact on the industry as a whole, and that the increased standards for managing brokers do not reduce these brokers' contributions to the total disciplinary actions reported.

The second panel of Table 6 also directly compares the last full year before the deadline, 2011, to the first two years after the transition, 2013 and 2014. For both comparisons, the broker difference and sum difference were significant at the 1% level, which may imply that this pool of practitioners improved. Notably, the level of disciplinary actions related to salesperson licenses was only marginally different from those related to other licensing categories, implying that the retiring of that category was not driven by the disciplinary actions and that the lower education standards the salesperson license held did not translate into more violations and thus disciplinary actions. Further, leasing agents need to adhere only to the lowest of standards, but these licensees generated the lowest proportion of disciplinary actions for four of the eight years examined, which seems to conflict with the notion that increased education improves the marketplace.

For a better understanding of those infractions that are likely to impact customers and clients, certain non-essential violations have been omitted (See Appendix B.). Another category that is not omitted but observed to have occurred is the failure to meet continuing education requirements. While this failure arguably has no direct impact on the marketplace, the state claims that the increased education is intended to be a catalyst for an improved marketplace. Additionally, this failure to meet education requirements was often coupled with falsification of an application, which is considered a main offense. Table 7 below shows the ratio of disciplinary actions to the total number of licensees with the non-essential violations shown in Appendix B (failure to pay child support, taxes, and education loans) that are omitted.

Table 7

This table examines only the disciplinary actions considered relevant to the market participants as a proportion of the total number of licensees as provided by the IDFPR. The test statistic indicates the difference between the values in the years in question.

License Type	2007 (%)	Test Stat 07–08	2008 (%)	Test Stat 08–09	2009 (%)	Test Stat 09–10	2010 (%)	Test Stat 10–11	2011 (%)	Test Stat 11–12
Salesperson	0.08	3.21*	0.04	−4.15*	0.11	7.57*	0.22	6.66*	0.09	1.36
Broker	0.04	−12.21*	0.62	−10.80*	0.09	−5.09*	0.26	2.21***	0.37	6.62*
Managing Broker	—	—	—	—	—	—	—	—	0.00	−0.68
Leasing Agent	0	−0.95	0.07	−1.14	0	−1.49	0.12	0.09	0.13	−1.91
Sum	**0.07**	**−9.68***	**0.24**	**−7.20***	**0.10**	**−6.85***	**0.23**	**−2.42****	**0.18**	**5.63*****

License Type	2012 (%)	Test Stat 12–13	2013 (%)	Test Stat 13–14	2014 (%)
Salesperson	0.06	—	—	—	—
Broker	0.11	−1.24	0.09	2.89*	0.04
Managing Broker	0.02	4.22*	0.14	-1.35	0.20
Leasing Agent	0.42	−3.41*	0	-2.16**	0.17
Sum	**0.08**	**−1.71*****	**0.11**	**1.12**	**0.09**

License Type	Test Stat 11–13	Test Stat 11–14
Salesperson	—	—
Broker	8.08*	10.56*
Managing Broker	-1.93***	-2.30**
Leasing Agent	1.87***	-0.37
Sum	**3.38***	**3.81***

*Significant at the 1% level
**Significant at the 5% level
***Significant at the 10% level

The results in Table 7 follow a similar pattern to that of the complete dataset in Table 6. Again, the ranges of proportions are only marginally different between the pre-change and post-change periods, implying that the legislation did not have an immediate impact. The second panel, which compares 2011 to 2013 and 2014, shows similar results to the complete sample. The broker difference and the sum difference are both significant at the 1% level, implying that the legislation may have had an impact on the marketplace. Additionally, we still see no justification for the retirement of the salesperson license in relation to disciplinary actions, and leasing agent licensees still produced the lowest level of disciplinary actions (4 out of the 8 years examined) even though they maintain the lowest level of licensing requirements. As in Table 6, we observe that the disciplinary actions against managing brokers increased annually, significantly so (at the 1% level) between 2012 and 2013, and then again in 2014, though the difference then was not significant. This makes the managing broker license the category with the most disciplinary actions in 2013 and 2014, which may provide initial evidence that the changes have not provided substantial or at least immediate results across all categories. This is not to say that a long-term improvement may not surface, but given the level of changes implemented, it would seem reasonable to expect an immediate improvement in the marketplace as measured by disciplinary actions.

CONCLUSION

In most scenarios, the real estate broker is the initial point of contact for participants in the real estate market. Though real estate brokers are qualified only in some aspects of the transaction, they often act as a liaison for much of it. Due to this public reliance on brokers, all 50 states have governmental agencies that are responsible for licensing real estate agents and monitoring residential real estate transactions. A primary goal of these agencies is consumer protection, but many disciplinary actions do not result in a suspension or revocation. Given this, it is often the responsibility of customers/clients to complete their due diligence on a prospective agent. Much of the basic data regarding disciplinary actions is publicly available, and since many brokers who have been disciplined are still practicing, it is up to market participants to search and determine if they are working with a professional with an adequate record. The findings here exemplify how regulations are put in place to improve the marketplace, but as shown by the lack of consistent results, legislation can go only so far, leaving responsibility to the participants.

As discussed in this paper, a primary tool implemented by regulating agencies is licensure, which aims to eliminate low-quality participants while continually increasing the quality of existing participants with education and experience requirements. In this regard, it becomes clear why licensing laws and changes to them are significant. Illinois has proven to be a prime testing ground with the recent significant changes in its licensing laws. An initial review of the impact of the rewrite shows that

1) The quantity of disciplinary actions increased immediately after the signing of the legislation. However, the years following the enactment (post-transition) showed an annual decline from 2012 through 2014. This suggests that the legislation is successfully reaching its goal of an improved marketplace.
2) The quantity of disciplinary actions against salespersons, brokers, and managing brokers in relation to the total sales improved after the new regulations. The post-transition period, 2012–2014, experienced declining proportions. This also confirms that the new requirements may be on the right track of achieving their goals.
3) The results are not as favorable when it comes to the quantity of disciplinary actions in relation to the total number of licensees. Among managing brokers, a single-year reduction was evident during the transition year, but this was followed by an immediate increase rather than a continued improvement over

the next three years. The opposite relationship is seen in the broker license, which shows improvement from 2012 to 2014. Additionally, justification for the new requirements is not clear from the data examined since the retired license category (salesperson) was less prone to disciplinary actions. Also, leasing agent licensees often experience the lowest level of disciplinary actions even though they adhere to the lowest of standards.

4) The changes did not result in lower overall pass rates, which may have been expected with the increased standards on education and experience. The pass rates continued to fall within the range they had prior to the regulation rewrite.
5) Over 92% of the broker and managing broker exams given over the first full year were at the managing broker level. The failure rate of 43% is concerning since most of the test takers were already practicing in the industry. From this viewpoint, we may see an immediate improvement in the marketplace. However, the immediate reductions in lower-quality licensees were not reflected clearly by the numbers of disciplinary actions earned by managing brokers, which climbed annually post-transition.
6) From an entrenching perspective, those who were part of the transition period arguably had it easier than those who have sought a managing broker's license since. This is a result not only of the increased education requirement but also of the requirement to hold a real estate license for two of the last three years before being permitted to sit for the managing broker exam. Whether this entrenching results in less competition and higher, or stable, fees for customers will need to be examined over time. Of concern to consumers are reports such as those completed by the Government Accountability Office (GAO). A testimony at GAO cites that commission rates have remained relatively uniform regardless of market conditions, home prices, or the efforts required to sell a home (Wood, 2006). This uniformity reduces competition in the marketplace and hinders consumers from benefiting from increased competition.

In summary, it appears that the increased requirements produced marginal benefits based on a comparison of disciplinary actions to sales and even on a comparison between several licensee categories over the examined period. A concern is that the managing broker category did not recognize such results and instead trended upwards. Finally, based on the broad review of disciplinary actions, there seems to be no justification for retiring the salesperson license. This license category only slightly differed from the other license types, as measured through the disciplinary actions, even though the licensees were practicing in the profession with only 45 credit hours of education. If this is further compared to leasing agent licensees, who adhere to the lowest standards, it would seem that more rigorous standards do not ensure an improved marketplace as gauged through disciplinary actions since this group maintained the lowest number of disciplinary actions for half of the years examined.

These simple facts alone raise the question of whether such considerable increases in education requirements are a necessary step to improve the pool of practitioners and ultimately the marketplace for customers and clients. Another conflicting factor may surface as a result of the time these changes were implemented, 2009–2012. Jud and Winkler (2000) find an elastic relationship between licensees and earnings. If licensees entered the marketplace during the real estate boom, as seen in 2007, in hopes of high earnings they may have naturally left the marketplace during the real estate decline. In other words, the decreasing number of licensees may be the result of a declining industry and not a function of the changes implemented over this period. Of course, examining this possibility requires directly communicating with each of the licensees to determine why they did not obtain a license under the new rules. Whether licensees chose to leave the market or were forced out as a result of the changes may never be known with certainty, but we can definitely conclude that the marketplace marginally improved over that period.

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Note: The photograph is by Carole E. Scott**.**

APPENDIX A

This appendix provides additional details related to the changes resulting from the signing of Senate Bill 1894. The table outlines some of the key differences in terms of costs, education, and other requirements. The information that follows the table outlines the transition requirements.

Table A1

This table presents several key differences that resulted from the rewrite of the Illinois Real Estate License Act of 2000. *Pre* and *Post* refer to before and after the rewrite, respectively.

	Pre Leasing Agent	Post Leasing Agent	Pre Salesperson*	Pre Broker	Post Broker	Post Managing Broker
Application Fee	$75	$75	$125	$125	$125	$150
Renewal Fee	$100	$100	$100	$150	$150	$200
Education Requirement	15-hour leasing agent course	15-hour leasing agent course	45 credit hours	- 120 credit hours a - 45 hours for Real Estate Transaction Course b - 15 hours for Brokerage Administration Course c - 15 hours for Contracts and Conveyances d - 15 hours as directed by Education Advisory Council e - 30 hours for Real Estate Electives	- 90 credit hours to sit for exam** a - 75 hours for Real Estate Transaction Course b - 15 hours interactive	- 165 credit hours - 45 hours of Managing Broker Education a - 30 hours Topics course b - 15 hours Interactive course - Hold active broker license for two of last three years
CE Requirement	6 credit hours	6 credit hours	12 credit hours	12 credit hours - 6 hours in core courses - 6 hours in elective courses	**First Renewal** 30 credit hours a - 15 hours Topics course b - 15 hours Interactive course **Subsequent Renewals** - 6 core hours - 6 elective hours	- 12 hours (6 core and 6 elective) - 12 hours broker management (must be completed in class or by another interactive delivery method utilizing real-time discussion)
Required Examination	- 18 years old - High school or GED	- 18 years old - High school or GED	- 21 years or 18 if education met - High school or GED	- 21 years or 18 if education met - High school or equivalent - Proof of 120 hours approved by Advisory Council	- 21 years or 18 if education met - High school or equivalent - Proof of 90 hours approved by Advisory Council	- 21 years - High school or equivalent - Proof of 165 hours approved by Advisory Council

* No salesperson license existed post-change, and no managing broker license existed pre-change of the legislation.

** The 90 hours is considered pre-licensing hours. The additional 30 must be completed by the first renewal in lieu of continuing education. Therefore, the total number of hours remains at 120. However, pre-change broker licensees also need to complete 12 hours of continuing education.

Transition Requirements

Transition from salesperson license to broker license

Salesperson licenses shall end as of 11:59 pm on April 30, 2012. The following transition rules shall apply to individuals holding a salesperson license as of April 30, 2011, and seeking to obtain a broker license:

1) Provide evidence of completing 30 hours of post-license education in courses approved by the Advisory Council and passing a written examination approved by the Department and administered by a licensed pre-license school, OR
2) Provide evidence of passing a Department-approved proficiency examination administered by a licensed pre-license school, which may be taken only one time by any one salesperson, AND
3) Present a valid application for a broker license no later than April 30, 2012, accompanied by a sponsor card and the fees specified by rule

Transition to managing broker license

A new license for managing brokers is created effective May 1, 2011. The following transition rules apply for brokers listed with the Department as managing brokers as of April 30, 2011.

An existing managing broker may sit to complete the proficiency exam (second bullet below). If the broker successfully completes the proficiency exam on the first try, they will be able to renew online and only need to take a 12-hour broker management course prior to their next renewal. Failing this exam will disallow the individual from self-sponsoring or managing an office until requirements are met, which may have even greater opportunity costs.

1) To obtain a managing broker license after April 30, 2012, a broker will be REQUIRED to complete 45 hours of pre-licensing course, 15 hours of which MUST be an interactive/classroom program, PLUS PASS (75%) the 75-question multiple-choice STATE exam administered by Applied Measurement Professionals (AMP), the state's testing vendor. Retakes are available. For the April 30, 2013, renewal, NO 12-hour broker management course will be required of managing brokers transitioning with and completing the 45-hour course.
2) OR To successfully pass a proficiency exam: a 75-question multiple-choice test administered by the Illinois Department of Financial and Professional Regulation and testing vendor AMP. NO RETAKES. Available through April 30, 2012.
3) Licensees who fail the proficiency exam are required to take and pass a 30-hour transition course prior to April 30, 2012, and apply for the license.

APPENDIX B

This appendix provides additional details on the data retrieved from the Illinois Department of Financial and Professional Regulation (IDFPR) and on the disciplinary actions that were omitted and considered non-essential.

Table B1 This table shows the infractions that may not necessarily have a substantial influence on customers or clients in the marketplace. The final column is computed as the non-essential infractions divided by the total disciplinary actions for the respective year.				
Year	Failure to Pay Child Support	Failure to Pay Taxes	Failure to Pay Education Loan	Proportion of Total Infractions
2007	21	—	—	22.58%
2008	3	—	—	3.59%
2009	8	10	—	18.37%
2010	14	—	—	6.19%
2011	6	96	—	29.91%
2012	37	—	—	26.62%
2013	6	—	1	6.48%
2014	7	—	4	12.50%

Table B2 displays the fines associated with the disciplinary actions gathered from the IDFPR. Not all infractions resulted in a fine, but it was common for a fine to be tied to the most serious infractions that resulted in a suspension or revocation. All fines received were held in the Real Estate Recovery Fund and used for any person that was aggrieved as a result of a violation of the Act.

Table B2 Fines Collected from 2007 to 2014* This table summarizes the total fines collected per year based on license type.								
License Type	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Unlicensed	95,000	—	63,000	50,000	—	9,250	32,500	76,750
Salesperson	1,500	129,300	21,925	31,850	33,125	66,200	100,000	—
Broker	8,300	244,350	1,000	93,350	120,500	243,450	182,250	69,000
Managing Broker	—	—	—	—	—	1,300	110,500	67,250
Corporation	—	32,500	—	—	5,000	26,500	88,500	101,000
Leasing Agent	—	5,000	—	25,000	—	20,250	—	2,250
Sum	**104,800**	**411,150**	**85,925**	**200,200**	**158,625**	**366,950**	**513,750**	**316,250**

*All data presented are in US dollars.