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Transaction Costs for Single-family Houses: An International Comparison

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***Abstract.** The transaction process and transaction costs for single-family houses in six countries are analyzed. Among the results for the “real” transaction costs, taxes included, are that transaction costs are lower in the countries where the broker has a more neutral role, and in the countries where the register system is more developed and where fewer parties are involved. In order to avoid high transaction costs it is important to avoid a situation where both buyer and seller have their own agent. Standardized information about properties, like the Home Information Pack in the UK, can however increase the efficiency of the market even though it increases the short run transaction cost.*

***Keywords:** single-family houses, brokers, transaction cost, transaction process.*

1 Introduction

Transactions are central in a market economy for how resources are allocated, and transactions are the most fundamental unit of analysis in economic organization theory (see e.g. Williamson 1985 and Milgrom & Roberts 1992). Transactions then cover both what happens in an organization and how goods and services are bought and sold between firms and individuals on the open market. One of the economically most important transactions from the perspective of the individual household is the buying and selling of owner-occupied housing.

The focus in this article is on how transactions concerning single-family houses are organized in a selection of countries, and the costs for carrying out these transactions. The reason for focusing on single-family houses is that this is the major form of owner-occupied housing in most countries. The data collected are then used to discuss two hypotheses about the relation between the organizational structure and the transaction cost.

- The first hypothesis concerns the role of the broker and the idea that if there is a more “neutral” broker this can reduce the total transaction cost,

compared to a system where the broker is an agent for one of the parties.

- The second hypothesis is that a more secure and stable property registration system will lower the transaction costs. In the concluding section there is also a discussion about the more general hypothesis in transaction cost theory that transactions are organized in such a way that transaction costs will be minimized.

Detailed analyses and comparisons of how markets in different countries are organized are of special interest today as cross-border transactions increase. The plans within the EU of implementing the free mobility principle in the real estate agency sector have led to discussion about harmonisation of various rules in this sector, and this assumes knowledge about not only the system in one's home country, but also about the other systems.

The structure of the article is as follows. Section 2 describes the methodology in the study. In section 3 a theoretical background is presented and the concept of transaction cost is made more precise. Section 4 makes a short comparison of the role of different actors in the countries investigated. The main results concerning transaction costs are presented in section 5. This is done in two steps: First the general situation is described and then calculations for a "typical" property in each country are presented. Hypotheses about what can explain the differences between the countries are analyzed in section 6, where some concluding comments also can be found.

2 Method, limitations and data collection

Six countries have been studied: Sweden, Finland, Norway, Poland, England and USA. Because there is some difference within the United Kingdom it is important to stress that the paper discusses only England. Significant differences can also be observed between states in the USA and for practical reasons the state of Florida is used as an example in the calculations. The reason for choosing these countries was the ambition to include a broad spectrum of countries. The chosen countries represent three different legal systems, Nordic (Sweden, Finland and Norway), Anglo-American or Common law legal system (England and US) and Continental European (Poland). Various practical aspects, including knowledge of the language also affected the choice of countries.

The transaction process and the costs taken into consideration are the transaction costs for selling of a one-family house which is owned privately. Given the resources available it was decided not to specifically investigate other forms of housing ownership e.g. condominiums. However the information about the selling process of privately owned houses can also be relevant for these other forms as they often are modelled on the process for traditional home-ownership.

Data about the specific countries were collected in the following ways:

- *Literature review*: including general literature about the transactions process and the relevant laws in the specific country. The most important general descriptions for each country are given in the Table 1 below.

Table 1. Basic literature for each country.

Country	Books
Sweden	Mäklarsamfundet (2005), Melin (2005), Zacharias (2001), Grauers et al. (2005)
Finland	Viitanen (2003), Viitanen et al (2003)
Norway	Bråthen & Solli (2003, 2004), Hagen & Solli (2003)
Poland	Belniak & Wierzchowski (2004), Brzeski, Dobrowolski & Sedek (2004), Brzezinski (2005)
England	Perkins (2005)
USA	Galaty, Allaway & Kyle (2003)

- Analysing *relevant laws and regulations*. A detailed description of these sources are presented in Lindqvist (2006).
- Information from the *Internet*, e.g. home pages for professional branch organisations and other authorities; see Lindqvist (2006) for details.
- *Interviews* with experts in the countries, mostly by personal interview but sometimes using telephone or email; see Lindqvist (2006) for details.

In this article specific references will not be given for each fact presented about the countries, in order to make the article more readable. Most facts could actually be found in several of the sources mentioned above.

3 Theoretical background and the concept of transaction cost

3.1 General definition

A transaction can be defined as “the transfer of goods or services from one individual to another” (Milgrom & Roberts 1992, p. 21). Williamson (1981) has formulated the definition somewhat differently “a transaction occurs when a good or services is transferred across a technologically separate interface (Williamson 1981, p. 552). The transaction here is when a single-family house is sold from the “old” owner to a new owner.

The concept of transaction cost goes back to Coase (1937) where he analyses why firms produce certain things in-house and buys other things on the market. The cost of using the price mechanism is discussed even though the term transaction cost is not used. The term “transaction costs” was used for the first time by Kenneth J. Arrow in 1969, who has defined transaction costs very broadly ‘costs of running the economic system’ (Williamson 1985, p. 18). Transaction cost reasoning became widely known through the work Oliver E. Williamson during the 1980s and is today the dominating way to explain different ways to organize economic activity, e.g. why some transactions are carried out within a firm while others are conducted in a market setting, and why markets are organized in a specific way.

3.2 Dimensions of a transaction

In order to better understand why transactions are carried out in a certain way, a number of fundamental characteristics of transactions have been identified. Williamson (1979, 1985, 1991, 1998) focuses on three dimensions:

- *Uncertainty* (how predictable various aspects of the transaction are)
- *Frequency* (how often the parties carry out the transaction)
- *Asset specificity* (whether the transactions necessitate specific investments, e.g. in machinery). As soon as a specific investment in a transaction has been made the parties to the transaction have an interest to extend the relationship with each other (Williamson 1981). Those specific investments would lose much of their value outside of the specific transaction. Because of this, the continuity of the relationship between parties is valued and the need for contractual and organizational protection arises.

Milgrom & Roberts (1992) mention some further dimensions:

- *Complexity* (which is related to uncertainty)
- *Duration* (which is related to frequency)
- *Difficulty of measuring performance* (how easy it is to measure whether the parties have fulfilled their obligations)
- *Connectedness* (how closely the transaction is integrated with other transactions).

These different features will for example determine how incomplete the contract will be. The incompleteness of the contract then opens up for opportunistic behaviour from the parties and an important aspect of how transactions are carried out is to reduce the risk of such opportunistic behaviour.

3.3 Classification of a typical one-family house transaction on the basis of the different transaction cost dimensions

Three very important characteristics of the transaction of a single-family house is that it concerns *complex objects*, that the object has a *large economic value*, and that parties *transact rarely*.

In order to carry out a typical house transaction a specific investment is not required, neither from seller or buyer. Neither do the real estate brokers make any significant investments for just a particular transaction, and there are usually no long-run relations between broker, buyer and seller. This can create problems as repeated transactions is a standard way of reducing the risk for opportunistic behaviour, and this is one explanation for why there are specific regulations of brokerage activity in some countries. But as the transactions are very similar, routines of various types are developed, e.g. standard contracts with the possibility to adjust them to fit the particular circumstances. This can also be seen as a way of reducing the risk for the inexperienced buyer and seller.

One specific problem with inexperienced actors is related to the difficulty of measuring the performance of the agent. Public regulation and authorization can also be seen as an incentive for the broker to do a good job, and the more difficult it is to measure performance, the stronger would the case be for some kind of public intervention.

A property transaction must often be coordinated with a number of other transactions, the most important probably with a bank and with authorities that handle property registration. Those who sell a house usually buy a new one, and then there can be several co-ordination problems.

Given the combination of small experience, a complex and valuable object, and a transaction that needs to be coordinated with other transactions it is not surprising that people rarely handle property transactions without the involvement of an agent (broker). The risk would otherwise be too high.

3.4 Transaction cost and its components for one-family houses

Transaction costs when buying or selling a property can be defined as all the costs which arise in connection to the transfer of ownership from the seller to the buyer. This can be broken down into several components.

The first can be called *direct costs*, which include all the monetary fees and taxes in connection to the transaction process, including the broker's fee and the other professionals' fee. The direct costs can be divided into *primary costs* and *secondary costs*, see Table 2. The primary costs include all the compulsory costs and the costs that occur when the dominating type of transaction method is used, e.g. broker's fee and inspection costs. The secondary costs include the costs that depend on the seller's/buyer's specific situation, e.g. mortgage costs and capital gain taxes. The secondary costs will not be discussed here as they can be expected to vary between different individuals.

Beside the direct cost a transaction includes various non-monetary costs. The first of these is the *time costs* which correspond to the value of time the seller or buyer spends on the transaction. The second non-monetary cost is called *social costs* which are associated to e.g. a lost social network (see Haurin & Gill 2001). In this article social costs will not be discussed as the focus is on people who move by their own choice. Time cost is also left out as brokers are regularly used in the countries under study, which means that the time spent by the seller is rather limited. The buyers' time costs can be assumed to vary a lot, and the same holds for moving costs of furniture.

Table 2. Transaction cost and its components.

Total transaction cost			
Direct costs		Time costs	Social costs
Primary costs	Secondary costs	Value of time spent by buyer and seller	Lost network
Compulsory taxes	Mortgage costs		
Compulsory fees	Capital gain tax		
Broker fee			
Other fees			

In the rest of this article only the primary costs will be investigated.

4 A short comparison of the transaction process

Before the results are presented, the main features of the transaction processes in the chosen countries are described as the process affects the transaction costs. In many ways the process is rather similar. The seller contacts a broker that markets the property in journals and on the Internet, and a potential buyer is found. A process of negotiation follows and finally a contract is written.

There are, however, some interesting differences between the countries. Sweden and Norway are the only countries where a real estate broker can take care of the whole process without involving any other professionals. This also means that the seller and buyer in these countries could carry out the transaction by themselves, even if this seldom is done. The only thing that is needed for a legal transaction is that the contract fulfils certain formal conditions and that the transfer of ownership is registered.

In Finland a purchase witness is required to confirm the transfer even if a broker is qualified to prepare the contract between the parties. The purchase witness is usually a notary. A notary exists also in Poland. However, in Poland the notary plays a much bigger role, since he or she is the person who prepares the contract. In England either a solicitor or a licensed conveyancer takes care about the transfer process, while in the USA the situation differs from state to state. In some states the parties can conduct the process by themselves. Even if the broker in the USA is not qualified to prepare the contract, he or she can often carry out this part when standard contracts are used.

Norway resembles Sweden also concerning the relation between the parties involved. The Swedish and Norwegian broker should, according to the law, act as an impartial middleman who should take care of both parties' interest, even if the broker formally is hired by the seller. A broker acting as a representative for a specific party can be observed only in England and in the USA, even if the broker in some states in the USA is allowed to represent both parties, so called dual agency. A similar situation can be observed in Poland, where the broker can chose to work either for one party or for both parties at the same time. In Finland the representation part is not as strong as for instance in England. Even if the broker in Finland is a representative for one party, he or she is obligated to consider the other party's interest as well.

In England and the USA there are similarities concerning the types of commission contracts. There are two types of sole right contract, the first one gives the broker the exclusive right to act as intermediary, and the other one gives the broker the exclusive right to mediate with the exception of seller's right to sell by himself or herself. This kind of contract does not exist in the other countries. A contract without sole right exists in Sweden (but is rare), Poland, England and USA. In Finland and Norway, in practice, only the sole contract is used. If the contract includes more than one broker the distribution of the work must be specified and both brokers get paid. This kind of cooperation contract exists also in England, where two or more brokers can cooperate and share the compensation independent of who sells the object. In England it is common to use a sub-agency or referral network which can be compared to a MLS system¹ that exists in the USA and in Poland.

The law in Sweden, Finland and Norway stipulates that the buyer has a

¹ MLS (Multiple Listing System) is a marketing organisation which allows brokers to share information about properties. The member brokers share their listing agreements with one another in order to find purchasers for their properties more quickly.

duty to examine the property, and the seller has an information duty, however not always a general one. Another common feature in these countries is that the broker is obligated to control the correctness of the information that the seller has given (if there is any reason for suspicion that the information is incorrect). The information duty from the seller's side exists also in many US states. In Norway and the USA it is common to perform a property examination on the seller's expense before the property is put on the market. From June 2007 in England a Home Information Pack is going to be implemented, which means, among other things, that a report on the physical condition of the property must be presented before the property can be marketed.

In most countries the offer procedure takes place in writing, with the exception of Sweden, where the oral form is the most common one. Neither the seller nor the buyer is in Sweden committed by his or her tender (in oral or written form) before the selling contract is signed by both parties. The situation in Finland differs, where an offer to buy is valid if it is issued in the same form as the selling contract, i.e. with a notary. Also in England the agreement between the parties is not valid before the selling contract has been issued and exchanged. This differs from Norway, Poland and US, where a valid contract between the parties has been entered as soon as an offer has been accepted, independent of the form.

5 Results concerning the primary transaction costs

5.1 Compulsory taxes

The level of the compulsory taxes is described in Table 3 below.

Table 3. Compulsory taxes.

Country	Tax rate	Tax payer
Sweden	1.5%	Buyer
Finland	4.0%	Buyer
Norway	2.5%	Buyer
Poland	2.0%	Buyer or both buyer and seller
England	1–4%	Buyer
USA	0–2%	Usually seller but the custom can vary

In Sweden the person who acquires real property it is required to pay a so called "stamp duty". The stamp duty is calculated on the purchase price, or assessed value if the purchase price is below the assessed value. The tax rate is 1.5% for private persons.

On conveyance of real property in Finland the purchaser must pay a transfer tax, except in some special cases, e.g. inheritance. The tax rate is 4% of the purchase price. The person who acquires his or her first home can be declared exempt from tax, providing some conditions are fulfilled.

In Norway the tax is paid in the form of a so called "document fee". The tax rate is 2.5% of the purchase price. The tax is usually paid by the buyer at the closing of the transaction.

In Poland the transfer tax, called PCC (podatek od czynności

cywilnoprawnych), is 2% and is calculated on the market value of the property, which sometimes can be higher than the price stated in the contract. Both the seller and the buyer is obligated to pay the tax, and this means that the Tax Authority can demand payment of the entire amount or an optional part of it from every contract party. In practice the parties decide if the tax is paid by the buyer or is divided even between parties.

In England stamp tax is paid by the buyer and is calculated on the purchase price. The tax is between 1 and 4% depending on property price (see Table 4). Real properties which are situated in particular areas of the country can be exempted from the tax duty.

Table 4. Table for stamp duty calculation.

Purchase price	Tax rate
£0.00 – £120,000	0%
£120,001 – £250,000	1%
£250,001 – £500,000	3%
£500,001 –	4%

The transfer tax in US is usually paid by the seller, but it can be paid by the buyer or split between the parties. The current tax rate varies between different states. According to NAR's "Summary of Real Estate Taxes by State" from 15th august 2005 the transfer tax is between 0.01% and 2%. In some states there is no tax duty. Beside the so called State Transfer Tax there are in some states also a County Transfer Tax and a City Transfer Tax.

5.2 Compulsory fees and other fees in normal transactions

By "compulsory fees" is meant fees for registration of ownership, and in some countries also fees in connection to the conveyance, i.e. fees for certifying of purchase or the fee/remuneration for the professional who conducts the formal conveyance (notary fee, broker fee or solicitor fee).

In Sweden the office fee for a registration certificate is fixed at (currently) 825 SEK (approx. €86), and is paid by the person who applies for registration. The registration fee in Finland is €65 and is paid by the buyer. The registration fee in Norway is 1548 NOK (approx. €187). The fee is usually paid to the estate agent/broker by the buyer at closing of the contract. In Poland the registration fee is 200 PLN (approx. €49) and is paid by buyer to the notary while the notary is preparing the contract. In England the buyer pays a Land Registry Fee between £40–£700 (approx. €65–€991), depending on property price.

In the USA it is usually the seller who pays the recording fees for clearing all defects and to furnish the buyer with a marketable title. The fees that arise from the actual transfer of title (recording the deed) are paid by the buyer. The recording fee varies from state to state. In Florida the recording fee is \$10 for first page and \$8.5 for each additional page.

Table 5 gives an overview of the registration fees in the different countries.

Table 5. Registration fees in different countries.

Country	Own currency	EUR
Sweden	SEK 825	86
Finland	EUR 65	65
Norway	NOK 1,548	187
Poland	PLN 200	49
England	GBP 40–700	56–991
USA	approx. USD 10	8

Beside registration charges there are other costs that can arise. In Finland there is a fee for certifying the purchase which is €77. The cost of the public purchase witness is shared equally between the seller and the buyer.

In Poland a notary fee will be added and the fee varies dependent on property price. The notary fee is usually shared equally between the parties and goes from 100 PLN up to approx. 15,000 PLN (approx. €24–€3,600).

In England there are some Legal Fees. These include cost of conveyancer and local authority searches. The solicitor costs are carried by the seller and buyer. The seller pays e.g. for checking that the title deeds are in order, drawing the contract and negotiations with the buyer's solicitor. The buyer pays for local authority searches. The fee for a standard search varies widely between different local authorities. The current fees vary from under £100 to nearly £200 (approx. €140–€280). Conveyancers request usually to be paid at the beginning of a transaction. Solicitor's fee varies. It can be linked to a percentage of purchase price plus VAT (1–3% plus 17.5%) or can be charged at a rate for work done depending on complexity, from a few hundred to several thousand pounds. When implementing the Home Information Pack (HIP) on 1st of June 2007 the cost for condition survey will be paid by the seller. Here the cost for local authority searches is included, which today is charged to the buyer. The Government's guideline cost for the HIP is between £600 and £1,000 (approx. €840–€1,400).

In Sweden and Norway no conveyancer costs are added because it is common that the real estate broker takes care of the whole process.

In the USA title expenses are added. Responsibility to pay those expenses varies according to local custom. The seller is often required to furnish evidence of good title and pay for the title search and the buyer pays an attorney for inspecting the evidence. Title expenses can include settlement/closing fee, title search, title examination, title insurance, document preparation, notary fees, and attorney's fees. The closing of the contract can be carried out in different ways, but in e.g. Florida it is only the title companies and attorney who can close a contract. In Florida the title search and examination cost approx. \$150–\$400 (approx. €110–€300). A typical cost for the abstract and examination is approx. \$150. Title insurance (Owner's Policy) is not compulsory but is recommended. The intention with the title insurance is to protect the buyer against any claims on property. In Florida title insurance rates are regulated, there is so called promulgated rate which is \$5.75 per thousand dollars of the sale price up to \$100,000, \$5 per thousand dollars of the sale price up to \$1,000,000, etc... In Florida it is usually the seller who pays for title insurance.

In the USA it is very common to use a so called closing agent. In some states it is common to use an attorney each. The attorney charges usually per hour, from approx. \$150 (approx. €110) up to approx. \$350 (approx. €265). The attorney can also charge a fixed amount for specific services. Settlement/closing fee is usually between \$200 and \$400 (approx. €150–€300), and is paid by the seller.

An overview of the extra fees is presented in Table 6.

Table 6. *Costs at conveyance.*

Country	Type of cost	Amount
Sweden	–	–
Finland	Certifying of purchase	€77
Norway	–	–
Poland	Notary fee	From approx. €23 up to approx. €3,600 + VAT 22%
England	Conveyancer	Approx. 1–3% + VAT 17.5%
	Local authority searches	Approx. €140–€280
USA	Settlement fee	Approx. €150–€300
	Title investigation	Approx. €110–€300
	Title insurance	(Florida) \$5 per \$1,000 of insure value up to \$1,000,000 (approx. €1,200)

5.3 Broker and survey fee (home inspector)

The broker fee in Sweden varies from 2% up to 4% of the purchase price and is usually paid by the seller. Unless otherwise is stated the fees presented here include VAT. The broker fee in Finland is 3.5–5% of the purchase price and the commission is paid by the seller. In Norway the commission varies from 1.2% up to 3% of purchase price and is usually paid by the seller. The person that hires the broker pays the broker fee in Poland. If the both parties are the principals both parties pay the commission. If only one part is paying the fee is 5–7% of transaction value and if both parties pay the fee is approx. 2.5–3.5%. The definition of transaction value can differ. Sometimes it can mean listing price and sometime the purchase price. In England the principal, usually the seller, is charged. For sole agency the fee is approx. 2–2.5% and for joint agency approx. 3.5%. In the US the broker charges usually 5–7% of the purchase price. The commission is usually paid by the seller or the principal. Table 7 presents the broker fees in different countries, exclusive and inclusive of VAT.

Table 7. *Broker fees as percent of purchase price (usually).*

Country	Exclusive VAT	VAT	Inclusive VAT
Sweden	1.5–3%	25%	2–4%
Finland	3–4%	22%	3.5–5%
Norway	1–2.5%	24%	1.5–3%
Poland	2–3% both parties	22%	2.5–3.5%
	4–6% one party	22%	5–7%
England	1.5–2% sole agency	17.5%	2–2.5%
	3% joint agency	17.5%	3.5%
USA	5–7%	–	5–7%

Another cost that can arise is the cost of a home inspector. Notice that the examples given below are just the approximate costs, as the cost can vary considerably within the respective country, depending on different factors, such as e.g., the age of the house, the size, the condition and where the house is located. As it is an unregulated market the prices vary somewhat from company to company.

With these reservations the prices presented below in Table 8 are judged to be the typical costs for home inspection in the respective countries.

Table 8. *Approximate inspection costs.*

Country	Own currency	EUR
Sweden	SEK 6,000–6,500	640–695
Finland	EUR 600	600
Norway	NOK 2,500–4,000	310–500
Poland	PLN 1,200	290
England	GBP 250–500	350–700
USA	USD 200–400	150–300

5.4 Strategy for making the transaction costs comparable

In order to compare transaction costs between the countries assumptions about the property's characteristics (qualities) have to be made, since many costs are related to e.g. the property value. The first step is therefore to form an opinion about the average house price for a normal type of property located in an average area in a major city. The figures that will be used are presented in Table 9 below. The figures are from 2005.

Table 9. *Average house prices 2005.²*

Country	Own currency	EUR
Sweden	SEK 1,450,000	152,500
Finland	EUR 149,500	149,500
Norway	NOK 2,009,000	243,000
Poland	PLN 350,000	85,700
England	GBP 190,000	266,400
USA	USD 337,900	272,000

5.5 Taxes and fees in the typical transaction

Results concerning the transfer tax in a normal transaction in different countries are presented in Table 10. The tax is highest in Finland (4%) and lowest in US (0–2%; 0.7% in Florida). Some of the counties and cities in the USA however take out an additional tax. Also in England the tax is relatively low (1%) when the value of the average property is taken into consideration. In absolute terms

² The information comes from the following sources: (Sweden) Statistiska centralbyrån, (Finland) Lantmäteriverket, Statistikcentralen, (Norway) NEF, (Poland) own appraisal, (England) Housepricecrasch, Hometrack, Land Registry, Halifax House Price Index, Rightmove House Price Index, Financial Times House Price Index, Nationwide House Price Index, ODPM House Price Index, and (USA) Sichelman.

the transfer tax is highest in Norway, because of a combination of relatively high percentage tax and high prices.

Table 10. *Transfer taxes in a normal transaction.*

Country	Percentage	Amount in EUR
Sweden	1.5	2,287
Finland	4.0	5,980
Norway	2.5	6,075
Poland	2.0	1,714
England	1.0	2,664
USA (Florida)	0.7	1,904

Cost of registrations for the average property is as follows. The lowest cost for registration of transfer in relation to the average property price (percentage value of registration cost) has the USA (Florida), 0.002%. In Finland the cost is 0.04%, in Sweden and Poland 0.05%, while in Norway and England it is 0.07%.

In Finland, Poland, England and the USA there are additional costs in connection with the conveyance. In the USA the cost varies depending on the kind of closing that is chosen and which professionals are used, but the following figures can be seen as typical: The cost of conveyance in relation to property prices (percentage value of conveyance cost) is in Finland 0.05%, in Poland 0.85%, in England 1.28% and in the USA 0.60%. In Sweden and Norway there is no additional costs of conveyance since brokers do the whole process by themselves.

To sum up, Sweden and Norway have the lowest fees as can be seen in Table 11. In England this cost is almost 1.5% of the average property price.

Table 11. *The total fees in relation to property price.*

Country	Percentage value of total cost in relation to property price
Sweden	0.050%
Finland	0.090%
Norway	0.070%
Poland	0.900%
England	1.350%
USA	0.602%

If transfer taxes and typical fees (mandatory in practice) are added up USA/Florida has the lowest cost when compulsory taxes and fees are taken into consideration: see Table 12. Sweden has also a low cost for taxes and fees. These results are mainly driven by the difference in the transfer tax rate.

Table 12. The total amount of taxes and fees in relation to the property price for a “normal” property.

Country	Percentage value of sum of taxes and fees
Sweden	1.55%
Finland	4.09%
Norway	2.57%
Poland	2.90%
England	2.35%
USA	1.30% ²

5.6 Broker fee and costs of a home inspection

The broker fee for a typical transaction is presented in Table 13 and it can be seen that it is highest in Poland and US. The explanation can be that in Poland it is common that the broker charge both the seller and the buyer, while in the USA the broker fee is usually split between two brokers, the listing broker and the broker who finds a buyer. The differences in property prices can lead to a situation in which the country with relatively low percentage fee can have a higher absolute fee, compare e.g. Norway and Poland.

Table 13. Broker fee for the “normal” property.

Country	Percentage	Amount in EUR
Sweden	3.0	4,575
Finland	4.5	6,727
Norway	3.0	7,290
Poland	7.0	5,999
England	2.5	6,660
USA	7.0	19,040

The cost of home inspection in Sweden, Finland and Poland is comparable, as can be seen in Table 14. In the US and Norway the costs are, in the normal case, substantially lower.

Table 14. Cost of home inspection in relation of the property price.

Country	Percentage value of home inspection cost in relation to property price
Sweden	0.45%
Finland	0.40%
Norway	0.20%
Poland	0.41%
England	0.26%
USA	0.11%

² Since the legislation and custom in the USA differs from state to state it is hard to decide how high the exact cost is. The cost depends on e.g. if each party has own attorney and if title insurance is signed. The line between compulsory (compulsory by law) and ordinary costs is often not clear.

5.7 *The total primary transaction costs, with and without taxes*

From an efficiency perspective it is important to separate what might be called the “resource cost” of a transaction from a cost that also included various taxes. In Table 15–16 below the total primary costs, inclusive and exclusive of the transfer taxes are presented. In the rest of the article we will focus only on the “resource cost” and not on the cost inclusive of the transfer tax.³ It will then be assumed that the fees included reflect the cost for labour and capital used in the process.

Table 15. *The total primary costs including transfer taxes.*

Country	Percentage value of primary costs with taxes
Sweden	5.00%
Finland	8.99%
Norway	5.78%
Poland	10.32%
England	5.12%
USA	8.41%

Table 16. *The total primary cost, excluding transfer taxes.*

Country	Percentage value of primary cost without taxes
Sweden	3.50%
Finland	4.99%
Norway	3.28%
Poland	8.32%
England	4.12%
USA	7.71%

From the perspective of “real” costs, Table 16 shows that Norway and Sweden have the lowest costs in relation to property values, while Poland and the US have the highest. Possible explanations of these differences are discussed in section 6 below.

5.8 *Who carries the cost (formally)?*

In all the countries the buyer pays the transfer tax, with the exception of the USA where the custom varies from state to state. The cost of certifying the purchase in Finland is split between the parties. A similar situation can be found in Poland where it is common to split the notary fee between the buyer and seller. The seller and buyer in England are responsible for a solicitor fee individually, and the same is true for the USA. If only one conveyancer is used in the USA, the cost of it is usually paid by the seller. The broker fee is usually paid by the seller, if it is the seller who is the principal, with the exception of Poland, where the cost is split between the parties. The inspection cost is usually paid by the person who orders it. In some states in the USA and in Norway it is common to arrange an inspection before the object is put on the market, which means that the seller is charged. A

³ The VAT is included in the resource cost for practical purposes since it is included in the price that is paid.

summary is presented in Table 17.

Table 17. Cost dividing on the basis of cost carrier (B – buyer, S – seller, S & B – seller and buyer).

Country	Tax	Registration	Conveyancing	Broker	Inspection
Sweden	B	B	–	S	B
Finland	B	B	S & B	S	B
Norway	B	B	–	S	B
Poland	B	B	S & B	S	B
England	B	B	S & B	S	B
USA	S/B	B	S, S & B	S	S, B

6 What can explain differences in “real” transaction costs?

6.1 Broker fee, the role of the broker and total resource costs

On the basis of the chosen countries it can be observed that the broker fee tends to be higher if several brokers/agents are involved in the transaction. An example is England, where the broker charges less if he or she works alone with a listing (2–2.5%) and more if he or she cooperates in some way with other brokers/agents (3.5%). In the USA the broker fee is relatively high compared to the other countries (5–7%), and the factor behind can be that the broker in the USA uses the MLS system to a great extent, which means that both the listing broker and the broker who finds the buyer will get his or her part of the commission. MLS has also been criticized for reducing competition. The high broker fee in Poland has another explanation. In Poland the broker takes between 5 and 7% if both the seller and the buyer pay the fee. Here it is assumed that if the broker works for both sides, then both sides should split the costs for broker fee.

There is an interesting similarity between the two countries with the lowest transaction cost, i.e. Sweden and Norway. In these countries the law stipulates that the broker should take into account the interest of both the buyer and the seller. This means that even if the broker formally is hired by one of the parties, the other party would not need to use an agent of their own to protect their interest.

There is however a certain lack of consistency in both the Swedish and Norwegian system. Usually the seller hires the broker, and the fee is usually determined as a percentage of the price. These circumstances point in the direction that the broker *primarily* represents the seller. The conflict of interest and the lack of clarity in the definition of the broker’s role can in the future lead to an increasing number of dissatisfied buyers. If the broker cannot balance the interests in a good way, the buyer might in the future hire their own broker and that would increase the transaction costs. Some rules, e.g. how the fee is determined, might be necessary to make the “neutral” role of the broker credible. A fee with a strong incentive component related to the final price could e.g. be forbidden to increase the credibility of the neutral rule.

Data about education demands for brokers in the different countries is presented in Lindqvist (2006), and it can be noted that no support was found

for the hypothesis that the higher education a broker has and the bigger part in process the broker handles, the higher is the broker fee. The education demands are relatively high in Sweden and Norway, but the broker fee is higher in Poland and USA.

6.2 *The register system and conveyance procedure*

In especially the USA, there are costs connected to examination of title and a title insurance that significantly affect the size of the total transaction costs. This indicates that a well arranged register system lowers the transaction cost. A register which covers the whole country with comprehensive information about properties would lead to a reduction of costs, since the information which is received is reliable and there is no need to turn to different information sources. The results presented in the earlier sections are consistent with the view that a well functioning property registration system reduces transaction costs.

Another claim, which says that the more a broker takes care of, the lower the total (real) transaction cost would be, is also correct for the countries studied here. Norway and Sweden has the lowest cost and in these countries, as mentioned above, the broker carries out the whole process. In the countries where additional professionals are involved in the process the costs are higher. The cost for conveyancer clearly affects the total transaction cost, especially in the countries where the fee depends on transaction price. In England and the USA the cost of conveyancing is open for negotiation and also depends on whether there is one joint (common) conveyancer or one conveyancer each.

6.3 *Transaction costs and an efficient market*

A basic view in transaction costs theory is that reduced transaction cost increases the efficiency of the market. This is, however, a too simplified view.

One example of this is the home inspection cost. One argument for making it compulsory with a Home Information Pack like the one in England is that even though it increases transaction costs in the specific case, it can lead to lower risks for the actors on the market. The main purpose of the HIP is, according to the government, to make the process more transparent, consumer friendly and faster. The lower risk can be seen as a reduction of the average long run costs, since both legal and other costs can be high if it turns out that there is something wrong with the property.

One argument for standardization of the information presented is that it makes it easier for a buyer to interpret the information. As was said in section 3, one important feature of transactions of single-family houses is that the actors very seldom make such transactions, and that strengthens the argument for rules or regulations about the process.

Higher transaction cost for a party can also be motivated if it improves the terms for that party. A buyer that uses a broker of their own might e.g. believe that this will reduce the price or lead to better conditions in other respects. Spending more resources on marketing or on search can also improve the terms. To empirically investigate whether this is the case is very difficult, partly because a

single model dominates in most countries, but also because it is difficult to control for other differences in the transacted properties.

6.4 Concluding comments

The primary purpose of this study was “positive”, to find out the structure of the transaction process and the transactions cost in countries of different types, and to see if the result was consistent with some hypotheses derived from transaction cost theory. The results can, however, also be the starting point for a normative discussion about what lesson a specific country should learn from the experience of other countries.

The following aspects seem to be the most important ones:

- Reducing the number of professionals in the transaction process. Sweden and Norway shows that it is possible for one person (the broker) to handle all steps in the process, without a notary or legal experts.
- Trying to balance the interest of the buyer and the seller in order to avoid a costly situation where both parties have their own representative. The legal rules for the broker in Norway and Sweden, and partly also in Finland, are examples of this.
- Standardization of contract forms and presentation of information about the object in order to reduce the risk (and future conflict costs) for inexperienced buyers and sellers with asymmetric information. This reduces the risk for opportunistic behaviour and thereby also reducing the need for them to use professionals.
- Making the transaction process as a whole more transparent, e.g. using more formal auctions with binding bids, or fixed price sales where the property is sold to the one who first accepts the terms. In the countries under study Sweden seems to have the least transparent process with low starting prices posted by the broker and in most cases non-binding oral bids thereafter.

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