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**Are You Paying
Too High a
Commission
When You Sell
Your Home?**

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Do you know what is the average commission that home sellers pay to brokers in the United States? Is it 5 percent, 6 percent, 7 percent, or higher?

If you're thinking of selling your home, chances are you said 6 percent. Most people I've talked to believe that although some agents may get 7 percent and a few may get 5, the standard is around 6 percent.

But, is it really so?

Finding out the average commission paid is a tough job. National trade organizations either don't keep records or won't release them probably for fear of being accused of price-fixing. Some national chains may have a flexible commission rate with a bottom figure below which they prefer not to accept a listing, but they are unlikely to reveal this policy. And most data-gathering companies simply don't have this information available.

I was able to find one source: REAL Trends, an online newsletter service that polls 500 real estate companies—both large established chains and what it refers to as the “up and comers.” The results are surprising.

According to REAL Trends, the average commission paid in 2002 (the last year the study was conducted) across the United States was 5.12 percent. That represents a 0.25 percent decline from 2001 when the rate was 5.4 percent.

It is important to study that statistic—the average rate of commission paid in the United States was not 6 percent as most people suppose, but instead was only about 5 percent. There was a further breakdown by area of the country:

<i>Area*</i>	<i>Percentage</i>
NE	5.20
MA	4.78

<i>Area*</i>	<i>Percentage</i>
SE	5.50
MW	5.62
SW/MTN	5.16
FW	4.92

* NE: New England: Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island, MA: Mid-Atlantic: New York, New Jersey, Delaware, Pennsylvania, West Virginia, Maryland, Virginia, Washington, D.C.; SE: Southeast: North Carolina, South Carolina, Georgia, Alabama, Florida, Tennessee, Kentucky, Louisiana, Mississippi; MW: Midwest: Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, Arkansas, North Dakota, South Dakota, Nebraska, Kansas, Oklahoma; SW/MTN: Southwest/Mountain: Texas, Montana, Idaho, Wyoming, Colorado, Utah, Nevada, New Mexico, Arizona; FW: Far West: Alaska, Washington, Oregon, California, Hawaii.

Source: Reprinted by permission, Real Trends, Inc., April 2003 (www.realtrends.com).

These percentages suggest that if you live in the Mid-Atlantic states or the Far West (in particular, Washington and Oregon), the average commission rate is below 5 percent.

The preceding data may make you wonder whether, as a seller, you're paying a real estate agent too much to sell your home. After all, if the *average* is around 5 percent and the high, which I've observed, is close to 7 percent, some sellers are paying as little as 4 or even 3 percent in commission. Again, ask yourself, are you paying too much?

Do Agents Earn Their Commission?

What do you get for the money you pay in commission? I have heard sellers say, "I wasted money on my agent. I paid her 6 percent, and within a week three buyers were competing to purchase my home. My agent did nothing to earn her commission!"

Many sellers feel this way because of the big chunk of equity a commission takes out of a home when it sells, particularly in a hot market when homes seem to sell themselves. Most of the time, however, I've observed that agents do work hard for their commission; and in the past, I've always felt that agents were well worth what they got paid. Now, I'm not so sure it's always true.

Consider: If a home sells for \$100,000 and the agent receives a 5 percent commission, that's \$5,000. On the other hand, if a home sells for \$1,000,000 and an agent is paid 5 percent, the commission is \$50,000.

Did the agent who sold the million-dollar home do 10 times as much work as the agent who sold the \$100,000 home? If not, why is the commission 10 times higher? Or, if the \$50,000 commission is justifiable, then is the agent who only got paid \$5,000 on the \$100,000 home not being paid enough?

Let's look at it from a different perspective. Over the past five years, the prices of homes in most areas have shot up, in some cases doubling. Consider the case of an agent who sold a home for \$200,000 five years ago at a 6 percent commission making a total of \$12,000 (before splits). Yesterday that same agent sold the same house only now the price has gone up to \$400,000. At the same commission rate, 6 percent, the total now paid was \$24,000. The commission rate was the same, but the commission cash was double, because of the increase in the price of homes.

Certainly during the past five years the agent's expenses have gone up, especially in errors and omissions (E&O) insurance, but just as certainly, the increase has been nowhere near the amount the price of homes has increased. If this type of increase in cash commissions were in some other industry, for

example oil and gas, some in Congress might be screaming “windfall profits!” Perhaps basing the commission on a percentage of the sales price causes the whole problem. Maybe it should be a flat rate instead? Or some combination of minimum flat rate plus a smaller commission?

How Did We Get Here?

Real estate commissions based on a percentage made more sense years ago when home prices weren’t so high. In the late 1950s, a small home with basic features might sell for \$10,000, and a large home with more amenities might go for \$25,000. Back then, most people assumed that the going rate (remember, there actually is no standard rate) of commission was 5 percent (getting 6 percent was unheard of). Thus, the commission on a \$10,000 home was only \$500. But, the commission on \$25,000 home was also only \$1,250. The difference between the highest and lowest commission was much smaller, just 2.5 times in our example, because the spread in real estate prices was also much smaller.

As of this writing, the average home in the United States is priced at about \$220,000, but million-dollar homes, particularly on the East and West Coasts, are not uncommon. Thus, the price spread is much larger. And so are the commissions.

Thus, we have to ask ourselves, is what worked half a century ago, still appropriate? Is a commission structure based on a simple percentage still justified?

Most agents I know will adamantly insist that it is. They will point out that the typical real estate agent has much more to worry about today than ever before. In the 1950s, home inspections and disclosures were simply unknown. And purchase agreements were typically written on a single page instead of the

multiple (sometimes 10 pages and longer) legalistic documents of today. Back then, escrows were easier and closings were far less complex than they are now. And certainly there were far fewer liability issues than there are in our litigious age. And of course, there's the fierce competition between so many agents out there (nearly a million at last count).

All that is certainly true. But, does it justify the commissions that real estate agents receive today? Or are there better ways of dealing with commissions?

New Approaches

In this book, I present a variety of new approaches that some sellers and some agents are beginning to take toward the whole structure of commissions. Indeed, many real estate brokers realize that doing business the old-fashioned way simply won't work anymore. New agents who are creative in their approach to the fee structure for selling a house are changing the landscape of real estate. And while the Internet is not affecting real estate sales as much as originally predicted, it is also slowly eroding the old way of doing business.

The alternatives for paying real estate commissions described in this book are aimed at producing a win-win situation for both the agent and the seller, something everyone can live with.

