

# NEGOTIATE MY COMMISSION?

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At some point during a “listing consultation” with you - the seller(s), the “elephant in the room” question will surface. *What is your commission rate?* And, chances are good that, no matter what my response, there will be the standard follow up question: *Are you willing to negotiate?*

Nothing is wrong with that exchange – per se. However, the truth is that you don’t want me to negotiate my commission at all – you want me to lower it. And if I do so immediately, does that make me good at negotiating? Correct me if I’m wrong, but doesn’t negotiation mean that there will be a back and forth exchange to get a commission rate or fee – or the price on anything - to get a better deal for each respective side. And, isn’t that something that you want me to be good at when it comes time to help you negotiate the sale price of your home? Is it going to be OK with you if I tell the prospective buyer(s) that you will be willing to accept a price drop of say 16.7% the minute they ask if your sale price is negotiable (which they always do)? Where did 16.7% come from? That’s how much of a cut in pay you are asking me for when you want me to “negotiate” my commission from 6 to 5% (for example) - that’s a 16.7% drop.

First of all, understand that in the real estate business, there is no “standard” or “going rate” for commissions or fees set by any person or group or industry or anyone except possibly as the in-house “policy” or “requirement” of an individual brokerage for its own agents and employees. Any collusion to encourage, establish, use or even discuss a standard practice for charging real estate commissions and fees is a serious violation of regulations established by the Federal Trade Commission. Price-fixing practices are aggressively monitored and penalties are strictly enforced and very costly.

The truth is that real estate commissions vary significantly from region to region, market to market, brokerage to brokerage and agent to agent. Commission rates may also be influenced by the type of property involved; residential, land, farms, commercial, sale, rental, lease and a variety of other factors.

Factors that might be considered by a listing agent on a given residential listing for sale could include: asking price insisted on by the seller vs. the actual fair market value as determined by a comparable sales analysis or an appraisal, "sales" activity expected by the seller(s) such as print advertising, open houses, personal attendance at every showing, etc., etc.

So, let's say for example, I've decided that on your home I would like to charge a 7% commission of the final sale price to be collected at the time of settlement. That amount of money would then be distributed at settlement to my broker and my broker would direct the settlement company to pay half that amount, or 3-1/2% to the brokerage whose agent brought the buyer(s) to the closing table. Each respective broker and agent would then have a contractual agreement for the further sharing of that amount – often a 50-50 split. So in this example, with a final sale price of \$150,000.00, each agent might end up with a check in the amount of \$2,625.00 – less numerous fees and charges imposed by their broker. And of course, since most real estate agents are really independent contractors they have considerable overhead (vehicle and all related operating, maintenance, and insurance expense, errors and omissions insurance, general liability insurance, computers, printers, phones, marketing and advertising, professional dues and fees, continuing education, etc., etc.) Geeze, I spend more than \$300.00 per month just on printer toner. At the end of the line there really isn't much left.

There is also the matter of being competitive with other comparable properties that may be for sale at the same time. The Multiple Listing Service (MLS) that REALTOR(S)<sup>®</sup> all use and is also partially available for use by the public contains an incredible amount of information about properties organized in the following categories: Active, Contingent, Contract, Coming Soon, Expired, Rented, Sold, and Withdrawn.

Along with all the other information available on each of these listings is the percentage of sale price or fee that the listing broker is offering (promising) to share with any member selling broker (the buyers' agent). The public does not have access to this information.

Buyers' agents usually check what the "co-op" is on each listing – that is the amount of commission available for completing a sale. Most often this will be a percentage, e.g., 5%, 4%, 3%, 2.5%, or 2% of final sale price (not necessarily the listed price). Sometimes on extremely low priced properties (say, under \$10,000 list price) a fixed dollar amount will be offered – perhaps \$500 or \$1,000 or whatever the listing broker feels is appropriate or possible.

If there are ten properties that all come close to their client's search criteria available to show on Saturday afternoon – but there is only three hours available to conduct those showings – is that "co-op" number going to influence the agent who is selecting and scheduling the showings? Maybe it shouldn't – but maybe it will.

And, one other thing to remember: real estate brokers and agents don't get paid anything until settlement. And if you insist on overpricing your home and it doesn't sell, we are assigned the blame and we end up with nothing except a lot of wasted time and expense. All the risk is ours.

Let's revisit the original question about my commission: *Are you willing to negotiate?* How should I respond? How about this: *Absolutely, I welcome the opportunity to negotiate. In fact I've had considerable training and I've been certified as a top negotiator having earned the CNE designation, i.e., Certified Negotiation Expert. So let me start the negotiation: As you may know, my company's policy is to charge a 7% sales commission on all residential real estate in this marketplace. But, because of my record with them, they have authorized me to raise that rate when I feel it is warranted. In this case I wouldn't dream of charging you more than 9% - since I feel really good about this property, and I really like you folks, I'm going to let you have my 8% rate. Which door would you like for me to place the key safe on?*

Is that what you had in mind? Or, does that make you think that I'm the biggest smart ass you've ever met? But remember, I was negotiating.

In truth, I will consider "negotiating" or giving you the best commission rate that I feel is appropriate. But, it will depend on many, many factors – it is not an automatic deal.

I always provide honest, reliable, professional and capable service and I feel very comfortable in the fact that I earn every penny I make in commissions – whatever that rate might be. I also know that when I feel that I am going to be fairly compensated (only if I am successful) that I will be anxious to work in your best interest to bring the best possible price in the shortest period of time possible for the sale of your property.

#### **DISCLAIMER**

**John P. Hale is a licensed real estate agent in Maryland and Pennsylvania. He is affiliated with Coldwell Banker Residential Brokerage in Westminster, Maryland. John has been licensed since 2000 and also practiced in Tucson, Arizona for many years. Mr. Hale holds the following designations and certifications awarded by the National Association of REALTORS® (NAR) and other authorized institutions: ABR-Accredited Buyers Representative, AHWD-At Home With Diversity, CNE-Certified Negotiation Expert, CRMS-Certified Risk Management Specialist, CRS-Certified Residential Specialist, CTA-Certified Tourism Ambassador, e-PRO-Online Real Estate Practice, GRI-Graduate of Realtor Institute, MRE-Master of Real Estate, MREP-Mortgage Real Estate Professional, and MRP-Military Relocation Professional.**

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