

Money for nothing, lawn sign for free

The backlash against soaring real estate commissions heats up

BY SHELLY SANDERS • Robert Greenberg is a real estate player, and he's on a winning streak. As the top-selling agent at Harvey Kalles Real Estate in Toronto, Greenberg tosses the dice a few times a month, gambling that by listing homes at less than their true value, he will draw in more interested buyers and multiple offers, all designed to spark lucrative bidding contests. This year he's sold 98 homes, worth \$93 million in sales, and proudly says he could sell more because the buyers outnumber the properties. "I just sold a house at Avenue Road and Lawrence [in affluent north Toronto] through a blind auction," Greenberg says. "I listed it for \$599,000 knowing it should get \$675,000 or more. I had six offers. It ended up selling for \$701,800—\$103,000 over the asking price."

Agents' commissions are based on a home's selling price, and although there is no set rate, five per cent, split between the listing and selling brokers, is most common. This means Greenberg would net \$1.86 million, if his brokerage takes half a percentage point. Not a bad deal, especially when you consider it's 10 times what a high-end lawyer would charge

for processing the same number of deals.

But the whole practice of tying commission rates to selling prices is the source of rising controversy, especially as soaring property values across North America have driven an explosion in paydays for top-end real estate agents. The system "ill serves the interests of both home buyers and seekers, and is a primary reason why such fees may be inflated by, on average, more than 100 per cent or **US\$30 billion** annually," says Mark Nadel, an attorney with the federal trade commission in Washington, who writes on policy issues. In an article published in October for the AEI-Brookings Joint Center, Nadel writes that "this inefficient formula" results in a "protectionist industry" on the side of brokers, and one rigged against buyers and sellers because the agents make roughly the same money, regardless of marketing costs, time, expertise and level of service.

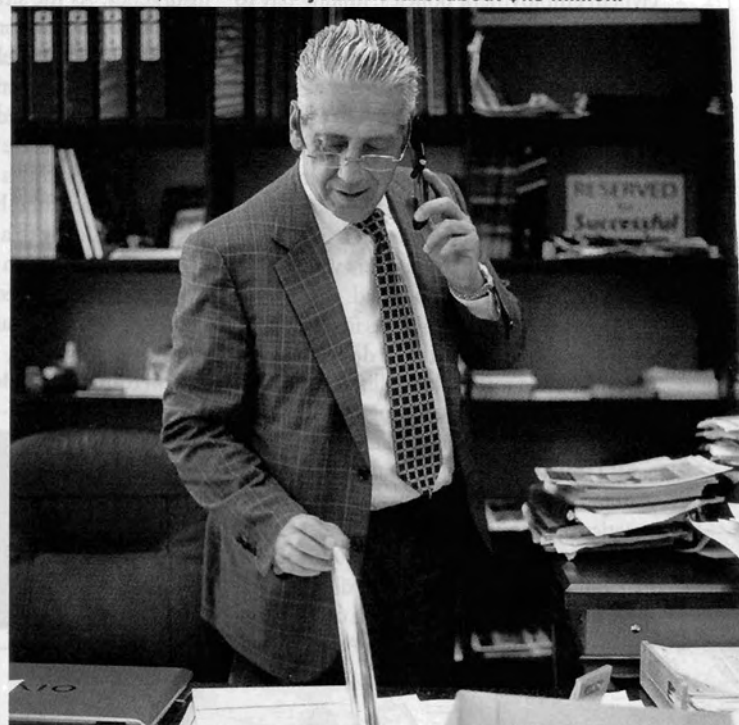
SURGING PROPERTY VALUES HAVE INFLATED REAL ESTATE FEES BY MORE THAN \$30 BILLION A YEAR, ACCORDING TO ONE RECENT STUDY

There's no evidence that a higher-priced home is more costly to sell and, as we've seen from Greenberg, the opposite may even be true, especially in red-hot urban markets like Vancouver, Toronto and Calgary. But commission rates do not decrease with lower house prices or quick sales. This means agents in Canada's top markets are making more money, selling expensive homes in less time, with fewer marketing costs, than agents in slower, less expensive markets like Halifax and Saskatoon.

And a backlash may be beginning. Some are calling for a lower commission system like the one in the U.K., where agents typically collect just a one per cent commission. Here in North America, more and more brokerages are popping up offering flat-fee home sales, where the agent's fee is fixed, regardless of selling price.

But not everybody agrees there's a problem. Alan Tennant, president of the Canadian Real Estate Association (CREA) and a realtor near Calgary with Remax Rocky View, agrees that there are definitely agents out there making lots of money. But he says there are other occasions when agents will have houses listed for three months, and when they don't sell, owners take them off the market and the agent gets nothing, which explains why agents are highly motivated to sell your home, even if the price is not what you want. But this creates another problem—achieving the best price for sellers. There is little incentive for an agent to list a home at the highest possible price and stay firm. An increase of \$10,000 in the selling price means just a \$500 increase in the commission, and it might make the home harder to sell. It makes better

TOP SELLING agent Robert Greenberg has sold 98 homes in the Toronto area worth \$93 million this year. His take: about \$1.9 million.





SURREY, B.C., agent Scott Williams offers flat-fee pricing, and has closed 67 deals this year, but most of the industry is resisting the idea

economic sense, from an agent's perspective, to price homes to sell quickly.

At the root of the real estate paradox is the Multiple Listing Service (MLS). Accessible only to licensed realtors, with \$120 billion in sales last year in Canada, this is one of the most effective marketing tools ever created. It's like the stock brokerage of real estate—if you're not on the MLS, don't expect to get a great price for your house. But the exclusivity of the MLS is stopping real price competition from evolving among agents, argues Nadel. He'd like to see homeowners be able to list their own properties on MLS to encourage more competition to lower commission rates.

Another exclusivity issue is that the selling brokers' commission rates offered to buyers' brokers are posted for realtors' eyes only, so homeowners don't know if their agent is offering a competitive commission. If these rates are not competitive, chances are your home will not have as many viewings as other properties. When Surrey, B.C., agent Scott Williams was searching for a discount brokerage to join, he says he avoided one that offered low buyers' broker rates, because "other agents wouldn't want to show homes where they're not going to make very much." To remedy this situation, Nadel suggests that buyers' brokers set their own fees or negotiate with their buyers. "Most home buyers have accepted the pervasive myth that as a buyer, you're never paying a commission anyway," Nadel writes. But this is wrong because sellers think about what they're going to net after the commissions are paid. If buyers' brokers received a smaller commission, homeowners would

IHS REALTY, WHICH OFFERS SERVICES FOR A FLAT FEE REGARDLESS OF SELLING PRICE, SAW ITS SALES ALMOST TRIPLE FROM 2004 TO 2005

be willing to sell their houses for less.

There are other options available to help consumers reduce real estate fees, like "for sale by owner," but without being able to list on the MLS, this method has never been easy. Flat-fee brokers, offering national MLS exposure for a set price, may be a more realistic option. Consumers know right from the start what they're going to pay, plus they get the exposure they need. But so far, few agents are interested, citing the high costs of selling property as a deterrent. "The cost for placement on the MLS is \$35, but this is a false figure because of all the other costs involved," says Kevin Clark, president of the Calgary Real Estate Board and an associate with Remax. "There is also the cost of the website, market research for pricing, the sign, time spent meeting with clients, open houses and staff who book viewings."

Yet agents who sell using only flat-fee commissions, like Richmond, Va., realtor Lawrence Bunnell, are doing well with this business model. "Our net company sales in 2005 increased by 195 per cent over 2004, and right now we're ahead of last year," says Bunnell, the principal broker at IHS Realty, who has been offering flat-fee pricing since 1997.

In October, IHS Realty entered Ontario,

offering flat-fee service for \$990 in the greater Toronto area, plus 2.95 per cent to the buyer's broker at closing. Outside the GTA, the cost is \$1,245. For this fee, Bunnell provides an MLS listing with photo, a local broker's services, a yard sign and a Web page. Williams, in Surrey, has been offering flat-fee rates for the past year and a half. He works for the discount brokerage Realty 5000 Sales, and charges \$2,500 for the MLS listing, a \$650 administration fee, and a minimum of \$2,500 for the buyer's broker. At first, this system seems to be more expensive than IHS's fee structure, and it is, for lower-priced homes. But once you get into the \$500,000 price range and up, it is actually cheaper. Not surprisingly, this flat-fee structure has been well received by sellers. Williams has closed 67 deals this year, including two multiple-bid transactions in the last couple of weeks. Nadel, a strong proponent of flat-fee structures, says, "if you can make money from flat-fee pricing, it gives an indication of how much extra there is with percentage-of-sale pricing."

Even though flat fees are proving to be a success in lowering costs without crippling agents, the real estate industry, which has grown incredibly lucrative through soaring prices and rich commissions, is in no hurry to embrace change on a massive scale. At a September meeting of CREA in Halifax, the main topic concerned amendments to the MLS. Tennant says there was no reference to the "commission side of real estate." And Greenberg, who plans to remain the top agent in his brokerage, says, "I have clients that give me \$10 million of business a year. They may get a cheaper rate, but not a flat fee." M