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# 4 ways to justify your real estate commission

## *Agents must prove they are worth the price*

BY BERNICE ROSS

The final panel at last month's Real Estate Connect NYC featured a group of consumers who had either listed a home for sale or were in the process of purchasing one. One woman had recently sold her California house for more than $4 million and paid more than $200,000 in sales commissions -- and clearly thought it wasn't worth it.

She illustrated this point beautifully when she said: "My agents were great at keeping in contact with me. They probably spent about $20,000 in marketing. I just don't think what they did was worth that much money."

Have you ever had a seller ask you to reduce your commission? If so, chances are that you failed to persuade the seller of the value you bring to the transaction.

Part of the issue is that many agents simply don't do their jobs. Complaints from consumers and top producers about incompetent agents and poor service are rampant. This was an issue when I started in the business in 1978 and it hasn't changed. If you want a deal to close, you will probably have to do most of the work yourself.

On the other hand, it's clear that the listing agents in the aforementioned California transaction did not adequately explain the value they brought to the transaction.

In fact, her agents may have saved her much more than she paid in commissions. Unfortunately, most agents aren't well-prepared when it comes to discussing the risks involved in selling and how much a poorly prepared agent can cost the seller.

If a seller is paying more than $200,000 (or any amount in commission, for that matter), there are four key concepts to understand. Using $4 million as the asking price, here's what to note:

1. **Maximum exposure to the market equals maximum net price.**
Notice that the keyword here is "net" price. An agent who provides local, national and international marketing for her listings in multiple languages greatly increases the probability of finding the buyer who will pay the most for the property.

To illustrate this point, if the average agent in a given area sells her listings at 94 percent of list price and a top-producing agent sells at 98 percent of list price due to his extensive marketing, the top-producing agent would net the seller $160,000 more.

2. **Holding costs.**
Most agents never explain to their sellers the cost of holding their property in a declining market. During the last 36 months, prices in California have declined by at least 35 percent. This means that the seller's property would be declining at a rate of $38,888 per month.

Couple this with the cost of the mortgage, upkeep, property taxes and other holding costs (assume another $30,000 per month), the cost of holding this property is $68,888 per month.

Again, if the agent's marketing program resulted in the seller going under contract four months earlier than it would have with a less robust marketing program; the savings to the seller would be $275,552.

Along the same lines, if something goes wrong in the transaction and the buyers want to cancel, the savvy agent can save this amount or more by preventing the sale from falling apart.

3. **Bleeding money at the negotiation table.**
Poor negotiators can cost their clients plenty of money not only at the time that they negotiate the offer, but throughout the transaction as well.

For example, when someone pays several million dollars for a property, they often expect it to be in great shape. When the inspection report comes back with a large number of expensive repairs, a weak agent can end up costing their sellers thousands of extra dollars because they lack the skill to persuade the buyers to accept less.

4. **The most serious risk.**
When you are dealing with a luxury property, everyone has the ability to "lawyer up," and they will if there is any type of issue.

To illustrate this point, an agent in Brentwood, Calif. (in West Los Angeles), sold a property where the buyer was planning to build and needed to meet certain setback requirements. The seller told the agent that the property line was at the fence.

The agent, rather than saying to the buyer, "If you want to know the exact location of the property line, you will need a survey," just repeated what the seller told him. It turned out that the information was wrong. The court awarded the buyer a judgment for $220,000. This amount doesn't include the other $100,000 the seller spent defending the lawsuit.

Clearly, the agents in the $4 million sale provided value by getting the property sold in a timely fashion at a price the seller found acceptable. More important, her transaction closed without litigation.

In fact, using the hypothetical's in this example, the agent may have saved that seller well over $400,000 -- that's $200,000 more net in the seller's pocket than if she had picked a less competent agent to represent her.

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