The 6 Percent Solution: Skip Real Estate Agents

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Stan and Gloria Wakefield are no fools. They built their three-bedroom house 12 years ago in Ponte Vedra Beach, Fla., an oceanside resort community dotted with golf courses and picturesque inland waterways. The real estate market in the area, near Jacksonville, took off and the house, overlooking lagoons, rose in value to nearly $1 million. "This house has appreciated almost obscenely," said Mr. Wakefield, a retired naval intelligence officer.

What the Wakefields did next should scare real estate agents everywhere.

They decided to put their house on the market this year, and concluded that the house would sell itself. So why pay a real estate agent a 6 percent commission? They tried negotiating a lower commission with prospective agents, who stood to make about $60,000, but the best they could get was 4.5 percent - and 5.5 percent if the agent had to share the commission with a buyer's agent.

They chose instead to list their property with one of the many real estate services that are challenging conventional brokerage firms, in this case, Assist2sell.com, an agency that charges a flat fee instead of a commission. The Wakefields had an offer within six days and sold their home for $985,000, paying a $10,000 fee to Assist2sell and $14,775 to the agent who brought in the buyer, for a...
savings of about $30,000 over a conventional broker.

"Enough to pay off the boat," a 26-foot pocket cruiser, Mr. Wakefield said.

This is subversive stuff. Homeowners across the United States are figuring out that they do not need to pay what agents demand and they may not need an agent at all. At the same time, technology is giving consumers tools to nearly circumvent the agent. If enough people try it, agents are at risk of losing a good portion of their commissions - $100 billion last year.

So, agents are doing whatever they can to keep home sellers from paying less.

Anyone who wants to know how to outfox them first has to understand where they derive their power: information. They know the market - or presume to know it - and help set the price of your house. They serve as the go-between and, again presumably, know how far you can push the other side.

(Note, however, that agents don't always push for the best price. Steven D. Levitt, co-author of "Freakonomics," and Chad Syverson, both University of Chicago economists, found that real estate agents have an incentive to persuade their clients to sell their houses too cheaply and too quickly because a few thousand dollars more in price won't yield them a significantly higher commission.)

But more than anything else, agents control access to the Multiple Listing Service, where all the houses for sale in a community are listed. The M.L.S. is the most powerful tool in real estate because it informs the widest pool of buyers that a home is for sale. Not open houses, not fliers, not big ads in the newspaper. "The M.L.S. is king," says Brett Weinstein, an Oakland, Calif., discount broker who prefers to be called "a full-service reduced-fee agent."

The M.L.S. is also a tool that agents use to protect their commissions. The problem for agents is that some of their colleagues are offering to list houses for a small flat fee, sometimes for less than $500. You sell it yourself, though you would be obligated to pay a 3 percent commission to any agent who brought you a buyer - in essence paying that agent for all the Sundays spent showing other houses to clients who never bought anything. That half-price deal is dangerous enough for a full-commission firm. But it gets worse.

In every community there are agents who open the M.L.S. to the public on the Internet...
(reality.com has a fairly comprehensive list, or you can go directly to realtor.com, the Web site of the National Association of Realtors). They do it as a service to clients who want to buy a house - 70 percent of homebuyers now peruse listings on the Internet, the association's most recent survey says - as well as to cut their costs of showing clients the paper listings. Some even rebate part of their commission to buyers who do their own research on prospective homes.

But some buyers just freeload. (The Internet has a way of encouraging this behavior.) They can search the M.L.S. for a house with no brokerage firm listed, meaning it's being sold by the owner, and then work out a no-commission deal directly with that owner. So you can see where this is headed. If agents want to protect their commissions, they have to restrict access to the M.L.S. to sellers who are working with them, not going it alone.

Local realty groups have tried suing agents or brokerage firms that put "for sale by owner" listings in the M.L.S., accusing them of copyright infringement. Those agents have countersued, charging restraint of trade. Then two years ago, the Realtors association found what it thought was a better solution. It passed rules that essentially allowed a local M.L.S. service to block access to the listing service to any brokerage firm who discounted commissions or who posted listings for homeowners who intended to sell their own houses. The antitrust division of the Justice Department cried foul. This month it sued the Realtors' trade group, asserting that the rules stifled competition and hurt consumers.

The Realtors changed the rules just as the federal case was filed. But J. Bruce McDonald, deputy assistant attorney general, said that the group's policies continued to discriminate against innovative brokers and "stifle competition at the expense of home buyers and sellers."

In a news release, the Realtors association said it was "at a loss to understand" the Justice Department's legal action. "Many of the changes incorporated in the new policy are in direct response to concerns they have raised over the course of the two-year investigation," it said.

The Justice Department and the Federal Trade Commission have successfully fought state real estate boards that tried to limit consumer choices by imposing service requirements or forbidding commission rebates, but the fight goes on. Realtors have lobbied for and won state laws that prohibit commission rebates to buyers and require minimum levels of service, like requiring that an agent handle all negotiations or house showings. Federal regulators can't fight that.

Aaron Farmer, a discount real estate broker in Austin, Tex., has battled local and state realty boards to offer cheaper services. The Justice Department and the F.T.C. intervened
to help him. Nevertheless, he has had to raise his fees to $700 from $600 because of the minimum service levels required by a law recently passed by the Texas Legislature. (Eight states have enacted such laws, accepting the real estate industry's argument that they are needed to protect consumers.) "All of these fights are over the M.L.S.," he said. "They don't want price wars."

But price wars are coming. No doubt about that. Here are a few suggestions on how to take advantage of the changing environment to sell your home with minimum services from - and fees to - a broker:

Set the price

Being a nosy neighbor is still the best way to know the market. Walk though every open house and find out later what the house sold for.

For the shy or decorous, technology offers an alternative. Homesmartreports.com will give you a sales analysis of your home based on prices for comparable homes in the immediate neighborhood. The $25 report is far more useful than cheaper versions from Domania.com (free) or Equifax.com ($7) because it gives you greater confidence that its high and low estimates are accurate by indicating the strength of your local market and by noting anomalies like a high number of foreclosures or house-flippings, where homes are bought with the idea of fixing them up and quickly reselling them.

Homesmartreports plans to offer a service for home buyers, too, that would provide an unlimited number of reports over a 30-day or 90-day period so you can get a better idea of how much to offer for a house.

Get listed

Some of the new sales services try to sidestep the M.L.S. As listings proliferate openly on the Web, the M.L.S. may one day be less important. But for now, in all but the hottest markets, it pays to get into the M.L.S.

Almost every community has a discount broker who will charge $300 to $800 just to type the information about your house into the local M.L.S. (Some will also take pictures of the house to run with the listing.)

There is one caveat: If you list there, you may be obligated to pay a commission to the buyer's agent, which is usually set at 3 percent. You can, however, build that commission into the price of the home, so the buyer actually pays it. Or, if the housing market is particularly hot in your area, you may be able to write into the contract that the buyer is responsible for paying his agent's commission.
Hand off the annoying stuff

For many sellers, the hardest part is all the details: staging the home for showings, holding the showings and handling all the paperwork and the negotiations. Many discount brokers offer an à la carte menu of services, which can quickly add up to more than a set commission.

Paperwork is not that hard to do if your discount broker gives you all the preprinted forms. (You can probably foist some of that work on the buyer's agent, who is really working for you anyway.) Alternatively, go with a sales service that for a higher fee of about 1 percent of the selling price will handle everything. But these services often don't include an M.L.S. listing.

As for stagings and showings, watch a few shows on the cable channel HGTV, like "Sell This House," to learn how decluttering or putting on a fresh coat of paint will raise the value of your home.

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