

# There's a Persistent Myth That the "Standard" Real Estate Commission Is 6 Percent

I barely remember the one time that I charged 6% to list a home, but I think it was over a decade ago and it was for a condo priced under \$100,000.

Agents who have been in this business longer than I have may recall when the Denver Board of Realtors dictated a 7% listing commission with 2.8% of that going to the cooperating (i.e., buyer's) agent as a "co-op" commission. If the listing agent sold the listing himself, he would keep the entire 7%.

Times have certainly changed. The Sherman Anti-Trust Act of 1890 wasn't deemed to apply to the setting of real estate commissions until the 1980 Supreme Court decision in *McLain v. Real Estate Board of New Orleans, Inc.* It took until then for the Court to rule that the brokering of real estate transactions involved enough elements of interstate commerce for the local practice of real estate to be reasonably subject to that federal law.

As a result of that decision, the Denver Board of Realtors abandoned the dictating of commissions.

## REAL ESTATE TODAY



By JIM SMITH, Realtor®

Commission rates have been declining ever since, although listing commissions still average in the mid-5% range, largely because few brokerages or their agents have been willing to offer less than 2.8% co-op commissions lest their listings not get shown and sold by other agents. But even that is changing now. With real estate prices skyrocketing, there is increasing free market pressure to reduce both the listing commission and the portion of that commission offered to cooperating brokers.

In real estate school it was drummed into us that there is no such thing as a "standard" commission, that listing commissions are negotiable. We were also told that we should never discuss with fellow agents what we charge. Even to suggest that there is a standard commission or discuss commissions

with others would be a violation of anti-trust laws.

Years ago, I experimented with offering 2.5% co-op commissions on my listings and I found that they got fewer showings and no offers, so I went back to offering 2.8%. Nowadays, however, because of higher home prices, lower co-op commissions are less of an impediment. I am back to offering a 2.5% co-op commission on higher-priced listings so I can charge a lower listing commission, and they're still selling immediately.

I did some research to quantify the effect of the lower co-op commissions and found that 30% of the homes which sold in one day were offering between 2% and 2.6% co-op commission, with a 2.5% co-op being the most common. The homes that took 10 to 12 days to sell had twice as many showing lower co-ops, so lower co-op offers appear to have slowed sales, but the homes still sold relatively quickly.

It seems only right to me that higher priced homes should carry lower listing commissions and lower co-op offers, so I did some research on that, too. The MLS does not reveal listing commissions, but I was able to research co-op commissions which, to a certain extent, should reflect the listing commission, since agents are reluctant to give away more than half their listing commission to buyers' agents.

What I found surprised me. Of homes that closed in the last 30 days, I found that **46%** of the closings **under \$450,000** offered less than 2.8% co-ops. Only **26%** of home which sold **between \$1 million and \$1.3 million** offered less than 2.8% co-op. And most shocking of all, only **16%** of the homes that sold for **\$3.4 million or more** offered less than 2.8% co-op.

There's currently a listing in the foothills above Golden for \$25.7 million that is offering 2.8% co-op commission. The lucky broker who

sells that listing will earn a commission of \$770,000 for writing that contract. And, of course, the listing agent is getting about that much for putting it in the MLS. That seems excessive to me.

That brings up the topic of whether real estate agents generally are over compensated — a belief that generates considerable antagonism toward my colleagues and myself.

Here, too, the myth of the 6% commission is at play. Since the commission is typically lower than 6% and is split between the agents on each side of the transaction, a broker typically earns between 2.5% and 2.8% on each closing, not 6%. In most brokerages, the agent only gets a percentage of that commission and what's earned is pre-expense income — referred to as Gross Commission Income or GCI.

The National Association of Realtors has reported that its members had a median GCI of \$43,330 in 2020. Deduct expenses such as MLS fees, E&O insurance, cell phone and car expenses, computers and their software, plus licensing fees, and we are not a highly compensated industry on average. Keep in mind that only half of licensed brokers are Realtors, because NAR dues cost about \$500 per year. Licensees who won't pay the dues to be Realtors likely earn even less.

The 80/20 rule applies in real estate as it does everywhere. Twenty percent of agents do 80% of the business and earn 80% of the commissions. Golden Real Estate's brokers are all in that 20%. We attribute our success to the fact that we give back, spending far more money, for example, on publishing this educational column than we do on all other expenses related to the real estate business.

I believe we earn our commissions and offer a great "value proposition." See our list of services at left. I hope you agree.

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