



Commercial Classroom: Commission Challenges - by Edward Smith, Jr.

March 12, 2024 - Long Island

Edward Smith, Jr.

Our goal as brokers and agents is to be appropriately compensated for the skills that we bring to the transaction. In simple terms, to be paid a full commission for completing a sale or lease of property. At the point of signing a listing or a tenant/buyer representation agreement is when your commission fee should be clearly stated.

In lieu of the recent National Association of Realtors lawsuit, NAR reminds us, "Compensation is always negotiable. The seller or landlord decides what fee they are willing to pay for their broker's services and how much that listing broker should offer a broker who brings a buyer or tenant to close the transaction. Compensation is always negotiable, and consumers are encouraged to talk to their broker to understand and agree upon how they expect to be compensated."

However, if the client then suggests a lower fee, should you concede? No. Think about it. If you reduce your fee at this point, what message are you giving about your negotiation skills?

Rather explain what you bring to the transaction, why you and your company should be retained. People do not know how qualified you may be unless you tell them. What will you be doing to sell or lease or find the required space? Your focus will vary depending upon who you are representing (seller/landlord or buyer/tenant) but generally will include material items and your personality skills and convictions.

A partial list follows:

- Market Research – to determine the proper pricing
- Marketing Plan including Internet promotion
- Your resources to find space for buyers/tenants or to list properties
- Pre-qualification of customers – guiding them to determine their specific requirements and financial capability
- Guiding your clientele through the Negotiation Process
- Coordination of all the "players", appraisals, inspections and environmental tests that maybe

required to close

Your commercial training and courses you have taken

Experience - Discuss other properties you have handled

Promise regular communication.

Talk about your tenacious personality

You need to create a perception in your client/customer's mind that differentiates you from other agents. Show the value of your services, to justify your fee. Remind them that you are making a commitment; you are investing your time and only get paid when you close.

Make sure your listing agreement clearly states your firm's commission rate. When you make an offer create a separate commission agreement converting the commission percentage to real dollars based on the value of the offer. So, there is no misunderstanding; if they accept this offer this is how much money they will owe your firm for your services.

Sometimes you get a listing and now have an offer to present that is somewhat lower than the asking price. The client says I will accept the offer if you lower your commission by 1% (or more), what do you do? Too often agents just accept the reduction to make the deal. Remember a rule of negotiations is; when someone gives a concession, it is the best time to ask for another concession. Do not be surprised, if you make this concession, when they ask you to reduce your fee even more.

You should just say no and reiterate what you have done to get this offer and why it is fair based on the market conditions. Everyone tries to get the best deal possible and if you justify your "no", often they will pay your fee. You can also continue to negotiate the price with the buyer or tenant indicating the owner has rejected their offer. But make it clear to the owner you still expect to receive the full commission they agreed to when you took the listing.

There are several other techniques that can be used to reduce the amount of commission you stand to lose. Owners seem to always think in increments of one percent. "I have been authorized by my broker to reduce my fee by 10% to repeat clients." (That is 10% of the commission rate previously quoted which will typically be less than one percent.) Or use fractions; I am authorized to reduce our fee by a quarter (or a half) percent.

Try converting the commission percentage to dollars, our fee is \$50,000; do you realize you are asking us to give up \$10,000? Or put that in percentage terms, you probably don't realize but by asking us to reduce our fee by 1%; you are really asking us to reduce our commission by 20%! My broker won't allow that.

We work hard for our commissions. Know you will be challenged on your fee when taking the listing and when presenting offers. When asked to reduce your fee, be prepared to say "no" and justify your commission.

Edward Smith, Jr. CREI, ITI, CIC, GREEN. MICP, CNE, e-PRO and CIREC program developer, is a

commercial and investment real estate instructor, author, licensed real estate broker, speaker, and a consultant to the trade.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540