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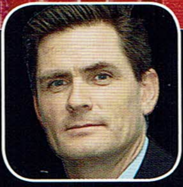

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Should real estate commissions be abolished?

YES

DAVID KAITY
Co-founder, Revolutionary Real Estate

Real estate commissions are unethical and there are three reasons why they should be abolished.

First, they don't incentivise agents to achieve the highest sale price. Using the example of an $800,000 home and a commission of 2.5%, an agency would only forgo $250 for every $10,000 reduction to secure a quicker sale.

This phenomenon has been proven by the findings of a comprehensive 2008 study conducted by two economists, Levitt and Syverson. This study, which also featured in the bestselling book *Freakonomics*, found that real estate agents have an incentive to convince clients to sell their houses too cheaply and too quickly.

The second reason commissions should be abolished is that they are an unfair reward and not tied to either effort, expertise, skill or time spent by the agent. As long as they get the listing, an incompetent real estate agent marketing a $1 million home can still earn twice as much in half the time as a diligent agent marketing a $500,000 home at the same rate of commission.

A traditional commission is simply a percentage of the sale price of the home but that value has no bearing on the time, effort, skill, knowledge and experience required to market it. Why should the owner of the $1 million home be punished by paying twice as much for no other reason than owning a more expensive home?

The third reason why commissions should be abolished is that they give an unfair and unearned pay rise. The same agent can sell the same home at the same commission with the same effort and be paid significantly more simply because the home has increased in value. Because average prices have outstripped inflation in Australia's capital cities, agents are unfairly being paid significantly more for the same amount of work.

NO

BRETT HUNTER
Deputy president, REI NSW

Using a real estate agent always makes absolute sense for owners considering the sale of probably their most important financial asset.

Agents work full time selling and marketing properties in their nominated suburbs and towns, so they know every street, avenue or crescent like the back of their hands. Better still, they can provide a precise price opinion based on current market conditions, as they know the likely buyers for your home. They are expert negotiators, skilled in traversing the complex contracts and finance involved in a property transaction.

For our expertise, we are usually paid a commission calculated on a percentage of the sale price of a property. Moreover, this fee is only paid by a vendor if we sell the property. With a flat-fee model, the vendor pays this charge upfront, irrespective of whether the agent makes a sale or not. Therefore, with a flat-fee model, the vendor must be prepared to take on the sizeable risk that he or she could pay a sales fee whether or not the property sells.

To earn a success fee, a commission-only agent will work as hard as possible on behalf of the vendor to achieve a sale. The success fee structure used by commission-only agents also ensures they aim to earn the best price possible for the vendor no matter what. With a fixed-price fee structure, the vendor essentially may lose the opportunity to achieve a premium price for their property, as there is no real incentive for the agent. A commission structure aligns the goals of the vendor and the agent.

Moreover, I've heard stories where vendors even use the commission structure to incentivise agents to chase higher selling prices on their behalf. These conditions are agreed at the outset and often if an agent can achieve an above-market sale price, the commission increases accordingly.

WHAT YOU NEED TO KNOW

Commissions vary from state to state and can be negotiable. Let's say you are charged 2% commission - on a $500,000 property that would add up to $10,000.