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RedFin Sees Big Changes Coming to Real Estate Commission Model

Homebuyers and sellers are both apparently finding discounts and rebates readily available in the real estate world. Redfin, the Seattle-based real estate brokerage firm says that a survey it recently conducted in eight of the major markets in which it operates found that most sellers are **getting a discount on the commission** they pay to the agent who sells their home while about half of buyers report getting some type of rebate.

The survey, conducted through SurveyMonkey, included 2,200 people who had bought or sold a home in the past year. It was similar to a survey conducted with about the same number of respondents in 2015. The purpose was to "better understand people's home-buying and selling experiences and their perspectives on the real estate industry." But Rachel Musiker, Redfin's Senior Communications Manager said the most surprising findings were those that told the most about changes that are happening in real estate and **where the industry is heading**.

Among sellers who responded to the survey, **sixty percent said they got a discount that averaged 41 percent** off the "standard" market commission. (The concept of a "standard" commission being one that usually sends the legal department at the National Association of Realtors into hysterics). Buyers, on the other hand don't typically pay a commission but 46 percent of survey respondents in that category said their agent gave them a refund or a contribution toward closing costs of at least $100, with the average being $3,693. Thirty-seven percent of buyers said they had received savings of $500 or more through their agents.

This, Musiker says, runs **contrary to a recent and widely cited report** that agent and broker commissions have increased over the last decade by about a quarter percent to 5.26 percent. She adds that it is possible that, "while commissions have increased, so has the frequency with which agents provide refunds, rebates, closing cost contributions and other forms of savings to their clients."

These savings have become so widespread, she says, because of a **surge of "disruptors"** like Redfin which charges sellers a 1.5 percent listing fee and refunds a portion of the buyer agent's share back to the buyer at closing. Redfin said that its own customers' savings were exempted from the savings quoted above. These "disruptive" real estate tech companies raised more than $1.5 million from investors last year and $1.8 billion so far in 2016.

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.30%	+0.12	0.00
15YR Fixed	6.92%	+0.09	0.00
30YR FHA	6.89%	+0.07	0.00
30YR Jumbo	7.40%	+0.03	0.00
7/6 SOFR	6.80%	+0.31	0.00
30YR VA	6.90%	+0.07	0.00

Rates as of: 11/10

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.43	-0.62
10 YR Treasury	4.9860	+0.0952
30 YR Treasury	5.3557	+0.0737

Pricing as of: 11/10 5:59PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Oct 28	192.6	-1.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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She, of course, credits Redfin's commission structure for influencing other brokers to offer savings in order to compete and said this year's survey results show that other brokers have adjusted their fees and customer service models accordingly.

Another factor that could be behind the shrinking commission is the **shrinking supply of homes** for sale. This means not only greater competition among agents to secure listings but also reflects a shorter time frame and perhaps less effort to market the home.

Also creating a climate that motivates agents to lower their fees is the growth of limited service agents. In addition to the 10 percent of sellers who chose the for-sale-by-owner (FSBO) route, 15 percent used a limited service company.

The survey found some correlation between the home price and agent utilization. People selling million-dollar-plus homes were, at 23 percent, most likely to be FSBOs and least likely to use a full service agent (63 percent). Those with homes in the half- to three-quarter million range made the most use (17 percent) of limited service agents while homes selling between $250,000 and $500,000 were most likely (83 percent) to be listed with a full service company.

Most people who sold without a full-service agent did so to save money. Among high-priced home sellers, however, the most popular reason was that they didn't think a full-service agent was necessary. Smaller percentages indicated they didn't trust real estate agents or they couldn't find an agent they liked.

Buyers however overwhelmingly use an agent. The share of buyers who bought without one decreased to 16 percent from 17 percent a year earlier.

If consumers have their way, Musiker says technology-powered and money-saving alternatives to the traditional real estate sales model will **continue to change the way homes are bought and sold**. The percentage of respondents to this year's survey who indicated they are open to such changes increased to 69 percent from 64 percent last year. Only 52 percent said they prefer a purely commissioned agent meaning that nearly half are open to a model such as used by Redfin where agents are employed on salary and receive bonuses based on customer satisfaction. The bottom line is that people who are buying or selling a home "soon should evaluate all their service options and negotiate on fees."

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Rich E. Blanchard



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