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Consumers – Commission Choices Abound

Posted by [John Rebchook](#)

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Consumers have many choices when choosing commission levels.

Hybrid, flat-fee brokers like Trelora believe they give consumers better deals.

Technology changing playing field for consumers buying, selling homes.

Let the debate begin! Take a poll at the end of this blog.



Trelora offers flat fees for selling and buying a home.

When Rachel and Tim sold their home in Stapleton earlier this year, they decided to list it with [Trelora](#).

They are glad they did.

“We really liked our Trelora agent and our experience,” Rachel said.

She said they “easily saved,” \$12,000 on the listing side for their home, which they sold for \$460,000

In addition, they saved another \$5,000 on a reduced commission paid to the buyer’s agent.

Trelora, founded in Denver by [Joshua Hunt](#) in 2011, charges a flat fee of \$2,500 for both the listing and the buyer agent.

The \$5,000 total cost would save a consumer \$22,000 on a \$450,000 home, when compared to the typical 6 percent commission, according to Trelora’s website.

Rachel and Tim didn’t save quite that much because they had to negotiate a slightly higher fee to the buyer’s agent, although it was still far less than the 2.8 percent fee that they typically would have paid.

Trelora, an anagram of the word Realtor, is part of a new breed of high-tech, flat-fee or reduced commission brokerage firms that have the goal of disrupting the traditional commission fee structure.

Some critics call it a “race to the bottom,” although even some traditional brokers say it would be a mistake not to pay attention to these brokerages and learn from them, much like it was a mistake to ignore Dave Liniger when he founded RE/MAX in Denver more than 40 years ago.

Hybrid Real Estate Options Growing

A decade ago, Redfin was founded and today is the largest national player in the hybrid brokerage market.

In Colorado, in addition to Trelora, [Redefy Real Estate](#), which also charges a flat fee of \$2,500, but only on the listing side. The seller is still responsible for the buyer's commission.

[Inc. Magazine](#) recently ranked Redefy as the fastest growing company in Colorado from 2012 to 2015. During that period, Redefy's revenues grew a whopping 3,154 percent from \$295,000 to \$9.6 million.

Last week, [Inman](#) reported that [SRE Matrix](#), backed by a billionaire Takeshi Sekiguchi, will be expanding from Hawaii to Los Angeles, Las Vegas, San Diego and Phoenix on Jan. 1, and will be in 14 states in July of next year.

SRE typically charges a 2 percent commission, with half of it going to the buyer's broker. It also charges a buyer a 1 percent commission and refunds anything above that amount to the client.

Trelora, of course, charges most buyers even less with its flat fee of \$2,500, as there are few homes available in the Denver area priced for less than \$250,000.

The biggest change must come on the buy side, according to Hunt.

"Right now, we are really the only major shop that charges a flat fee on the buy side," said Hunt, a successful Keller Williams broker, coach and recruiter before he founded Trelora.

This year, Trelora's [team](#) of three lead agents and nine licensed brokers will sell about 850 homes listed on the MLS and many other homes not listed on the MLS, Hunt said.

Hunt said many consumers buying homes are under the mistaken impression that they do not pay the commission, because the seller pays the fees to both the listing broker and the seller's broker.

And because a typical buyer only purchases a home every 7 to 10 years, they often use a "golf buddy" or a member of their church as their real estate broker, he said.

"They never imagine the guy they pray with isn't giving them a good deal," he said.

Real Estate Commission Payments Unusual

Hunt says he knows of no other industry where the commission structure works the way it does in residential real estate.

"Look, if I sue my neighbor, I don't say I will pay my attorney and I will pay your attorney with the settlement money," Hunt said.

"We each hire our own attorney," he said.

That is where the real estate industry is headed, he said.

"The biggest shift in this industry is going to be when every consumer pays for their own representation," Hunt said.

He thinks within in the next three to six years, what now seems like a radical idea, will be widely accepted and implemented with most real estate firms.

Last year, Inman published a special report, titled: [How Hybrid Brokerages Are Changing Real Estate](#).

It found that 60 percent of brokers polled nationwide thought that discount brokerages would have more success as a listing broker than as a buyer broker.

However, consumers who use Trelora to find them a home, can benefit from the higher commission paid to the buyer broker.

That is because a buyer broker at Trelora will return the commission amount above the \$2,500 flat fee to the consumer.

A 2.8 percent commission on a \$460,000 house would be about \$12,880. Of that amount, \$10,380 would go into the consumer's pocket.

The bottom line, Hunt says, is that commissions are too high.

"If I show you 10 homes for \$400,000 and show another guy 10 homes priced at \$800,000, why do I get paid twice as much for the more expensive home? It's not twice as much work."

And if a broker is listing an expensive home and feels it requires a huge marketing budget, work it out with the seller, he says, rather than automatically charging a 6 percent commission.

"That's fine, but disclose what you are doing and how it will pay off," Hunt said.

Too often, even at the high-end, brokers do little but put the property on the MLS with hopes if they list it, buyers will come, he said.

Hunt said about 40 percent of traditional brokers will try to not bring a buyer to a home listed by a Trelora broker, because they do not want to be faced with negotiating a lower commission. Trelora, however, has found that about 65 percent of the buyer brokers will accept the flat fee and almost all of those who do not, will accept less than a typical co-op commission.

Also, it is increasingly difficult to avoid showing a house because so much real estate information is available at the fingertips of a consumer, he said. He pointed out that according to the [National Association of Realtors](#), all house hunters use the Internet.

Flat-fee brokers may thrive during next downturn

In the past, discount brokers fizzled when the market went south. Hunt believes the opposite will happen this time.

"When you are getting 15 or 20 offers and your home sells for \$50,000 over your asking price, you don't pay much attention to the commission," Hunt said.

"When the market softens, and you are getting \$50,000 less than your asking price, you're not going to be too happy to be paying a \$50,000 commission," he said.

Economist [Patty Silverstein](#) said technology has definitely changed the home buying and selling playing field.

"Honestly, I haven't studied it or given much thought," to the various choices to consumers from hybrid brokerages, said Silverstein, the chief economist for the Metro Denver Economic Development Corp. and the Denver Metro Chamber of Commerce.

“But like with any kind of product or service, consumers always have this balancing act of their perceived value,” she said.

“There are many different models out there and the market is very competitive, so consumers will have to look at ultimately how they place their value,” Silverstein said.

With so much information available at our fingertips, consumers are making decisions whether to seek help or do it themselves on everything from buying a plane ticket to buying a stock, she noted.

“The information is out there, a lot of it boils down to how much time and effort a consumer wants to put into it,” said Silverstein, who also is principal of her own firm, Development Research Partners.

To date, consumers who have used Trelora have saved more than \$20 million in commissions.

That probably won't have much, if any, impact on the economy.

“It's hard to make assumptions without studying it, but I think it would be a re-distribution of the money, assuming the consumers spent the money they saved locally, instead of the Realtors spending the money locally,” Silverstein said.

Kirby Slunaker, president and CEO of [REcolorado](#), the largest MLS in Colorado, three years ago, told the [Denver Post](#), in a story about Trelora, that REcolorado is “agnostic” as far as commissions. The important thing is that they are disclosed, he said.

Consumers: Commissions Are Negotiable

In addition, federal antitrust laws prevent the industry from setting or fixing compensation levels. In other words, all commissions are negotiable.

[Anthony Rael](#), chairman of the Market Trends Committee for the [Denver Metro Association of Realtors](#), said the 6,000-member DMAR has yet to discuss hybrid and flat-rate brokerages.

However, Rael has discussed the issue many times with [Chad Ochsner](#), the employing broker at RE/MAX Alliance, where Rael works.

“From our experience, it is important to understand these new hybrid and discount models,” Rael said. “They do exist and we do not take them lightly.”

He said it is a mistake to pillory these models, although he said they also should be viewed realistically.

He noted when Dave and Gail Liniger founded RE/MAX in Denver in 1973, many competitors scoffed at the 100 percent commission model and said it was doomed to fail.

That is not to say that any of these new hybrids will change the real estate landscape the way RE/MAX did, but they are trying to get a bigger slice of the market.

“At RE/MAX Alliance, we welcome these new models into the business,” Rael said. “It's great when consumers have a choice in the marketplace.”

He agrees that technology has and will continue to change the real estate industry

“These hybrids provide a great opportunity to learn from them, and, quite frankly, that is what we’re doing,” Rael said.

“They provide an opportunity for the big brokerage companies to become better to servicing the clients,” Rael said.

Indeed, the Inman poll on hybrids found that:

- 55.41 percent thought they would put downward pressure on commissions, spurring more agents to compete on price;
- 35.36 percent said they would push traditional brokers to provide better service;
- And 46.44 percent said they will spur traditional agents to adopt more innovative technology.

Hunt willing to discuss his model with competitors

Hunt, for his part, wants to share his passion for flat fees with an evangelical zeal.

“I will sit down anytime with anyone and have a personal meeting to explain our model and how it works,” Hunt said.

Still, Rael said in his opinion, there is no getting around the old adage “you get what you pay for.”

That is true in every industry, Rael said

“Some people buy at Wal-Mart and some people buy at Nordstrom,” Rael said.

Also, homes are not commodities like so many other products, he said.

“You can go to Wal-Mart and buy a quarter of Mobil 1 oil for maybe \$5,” Rael said.

“That is great if you want to change your own oil. If you go to Grease Monkey, that exact same quarter of Mobil 1 might cost you \$8, and they also will change the oil for you.”

Rachel likes Trelora model

Rachel, who sold her Stapleton home with the help of Trelora, exhaustively researched the industry before making her listing decision.

Real estate brokers, she said, “are really all over the place with their business practices. There really should be a template of best practices they all follow.”

That is why she is glad she chose Trelora and would recommend the firm to others.

“The Trelora approach makes the most sense: it is a simple, data driven approach to showing your home best,” she said.

Should home buyers pay their broker directly?

- Yes. It's a myth that it costs buyers nothing to buy a home. Home buying needs to become like every other industry.
- No. The current system of the home seller paying both sides works fine. Why fix something that isn't broken?

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[John Rebchook](#)

John Rebchook has more than 30 years of experience in writing and communications. As the Real Estate Editor for the Rocky Mountain News, he wrote about residential and commercial real estate for 26 years. He has won numerous awards for business stories and columns that he wrote, both as an individual and part of teams. In addition to real estate, he also covered economic development, banking and financing, the airlines, and cable TV for the Rocky. In addition, he was one of the original freelance writers for GlobeSt.com, covering commercial real estate for the Internet publication.

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1. [Dave Barnes](#)View [3 weeks ago](#)

1. There are too many agents. At least 3/4 of them should just disappear. They are “friends” who do 1-2 sides a year.
2. Making buyers pay for their side is going to be very difficult as many buyers have no excess cash.
3. Personally, I would prefer an hourly rate similar to consultants, lawyers, etc.
4. Sellers, in particular, are wondering why their agent’s compensation should go up by 10% just because the value of their house when up by 10%.
5. There are too many agents. At least 9/10 of them should disappear. It is way too easy to enter/stay in the business.
6. Estate agents in the UK survive on 2%. Why can’t agents in the US/Canada?

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