

# The "Discount Broker" Myth

## Cut-rate realty services cost sellers money at closing

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By Scott Einbinder

One of the biggest myths in residential real estate sales is that sellers save money when they sign a listing agreement with a so-called "discount" broker. Sellers who believe they've saved money when they sign such a listing agreement must learn they can't determine the true cost of that decision until the closing.

Discounters want sellers to buy into savings, yet discounters have vulnerabilities that can cost a seller much more than they've supposedly saved.

Discounters, through these money-saving schemes, merely shift critical financial responsibilities like negotiations onto the seller. The most dangerous thing a real estate agent can do is allow the seller and buyer to communicate directly. Few sellers are skilled negotiators, and they can give away thousands of dollars through their emotional involvement and lack of experience. Sellers also unknowingly reveal their level of motivation to sell, which can be costly.

Discounters try to use marketing and advertising of the home as a replacement for the traditional real estate agent. They spend a lot of money branding their name or driving people to their Web sites. But advertising is just one very small piece of the transaction. The fact is that advertising does not sell homes, people do. Fewer than 2 percent of homes sell as a result of a classified ad. Discounters appeal to what sellers think they need to sell their home instead of the facts behind a successful and profitable transaction.

Discounters often offer sellers an exclusive listing with no Multiple Listing Service cooperation in lieu of a premium commission,

and they argue that they offer enough exposure for the home to sell without the MLS. But the MLS is not just an exposure vehicle. It's also a competitive bidding environment that drives the house price higher. The fact that most discounters also offer sellers an MLS option is a validation that the MLS works and often is needed. If these exclusive plans were so effective, why would the discounter offer the MLS as an option?

Discounters sometimes offset direct real estate agent commissions by paying agents a salary. Although this compensation structure provides some sense of security for the agent, the seller receives something much better by hiring a traditional real estate agent who is driven by performance-based compensation. Sellers are in a much better financial position when they hire a representative who is personally accountable and has a direct incentive to achieve results.

Sellers who think "discount" need to better understand the potentially huge financial ramifications of those perceived savings. Of course, sellers want to save money, but the fact is that the traditional real estate agent nets them more money at the closing, where it counts the most!

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