

Thriving In The Era of Compressed Commissions

In the aftermath of National Association of REALTORS® commission lawsuit settlement, real estate agents, brokers, and leaders ask:

*What happened?
What now?*





Thriving in the Era of Compressed Commissions

In the aftermath of the [proposed \\$418M settlement by the National Association of REALTORS®](#), two broad questions have emerged for Real Estate Agents, Brokers, and Leaders:

1. What happened?
2. What now?

The following will address question #2. Not because question #1 is not important. Rather because *What happened?* has been widely covered and is less critical than the opportunities (and possible challenges) on the horizon.

The time is now!

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You never know who is swimming naked until the tide goes out.

- Warren Buffett

TLDR Summary:

The Predictions:

1. Consumers will increasingly question real estate agent fees. This is likely to become the norm, rather than the exception.
2. It is *possible* that the total available commission dollars will decline by 30%+. Any downward pressure will likely be felt more quickly than most expect.

3. The total number of active real estate agents in the U.S. is likely to decline by 30%+ by the end of 2025.
4. An increasing number (and variety) of compensation models will emerge to address consumer demands.
5. The most skilled agents and leaders have massive opportunities to gain market share.

The Action Plan:

1. Stay positive and proactive. There's a big market share grab opportunity here, and the first-mover advantage is strong.
2. Do a thorough Skills Assessment of everyone on your Team (including you). *Every skill needs to get a score of 80% or higher ASAP.*
3. Determine your compensation model(s) and a la carte pricing strategies.
4. Focus on articulating your Value Proposition through multiple channels. Your brand and positioning matter as much (maybe more) than your ability to handle objections at the kitchen table.
5. Prove it! Use third-party validation (e.g. reviews/testimonials) as a way of better communicating your skills and value to the consumer.

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There are times when even Grandmothers might throw rocks through windows.

- Malcolm Gladwell

For The Nerds (Like Me):

What follows are some research and opinions that have shaped my thoughts on this topic. The list is not exhaustive, rather instructive. I acknowledge that there are many differing opinions on this topic. That's great! I encourage you to do your own research, form your own opinions, and run your businesses accordingly.

The Predictions:

- 1. Consumers will increasingly question real estate agent fees. This is likely to become the norm, rather than the exception.**

In his Revisionist History Podcast [The Big Man Can't Shoot](#), host Malcolm Gladwell (also one of my favorite writers) discusses Mark Granovetter's [Threshold Models of Collective Behavior](#). If you're a basketball fan or a human behavior nerd (I am both), you'll really enjoy this podcast.

Here's an excerpt in Gladwell's words:

A belief is an internal thing, it's a position we've taken in our head or in our heart. But unlike beliefs, thresholds are external, they're about peer pressure. Your threshold is the number of people who have to do something before you join in. Granovetter makes two crucial arguments. The first is that thresholds and beliefs sometimes overlap, but a lot of the time, they don't. When your teenage son is driving 100 miles an hour at midnight with three of his friends, it's not because he believes that driving 100 miles an hour is a good idea. In that moment, his beliefs are irrelevant. His behavior is guided by his threshold. An 18-year-old, maybe drunk, at midnight, in a car with three of his friends, that person has a really low threshold. It doesn't take a lot of encouragement to get him to do something stupid.

In his discussion with Gladwell, Granovetter uses a riot as an example for threshold levels. To be clear, I don't expect a riot over this issue. However, the role that peer pressure and social awareness play in shaping actions is compelling.

Gladwell continues:

Granovetter's second point is just as important. Everyone's threshold is different. There are plenty of radicals and troublemakers who might need only slight encouragement to throw that rock. Their threshold is really low. But think about your grandmother. She might well need her sister, her grandchildren, her neighbors, her friends from church, all of them to be throwing rocks before she would even dream of joining in. She's got a high threshold. The riot has to be going on for a very long time and has to involve a whole lot of people before Grandma will join in.

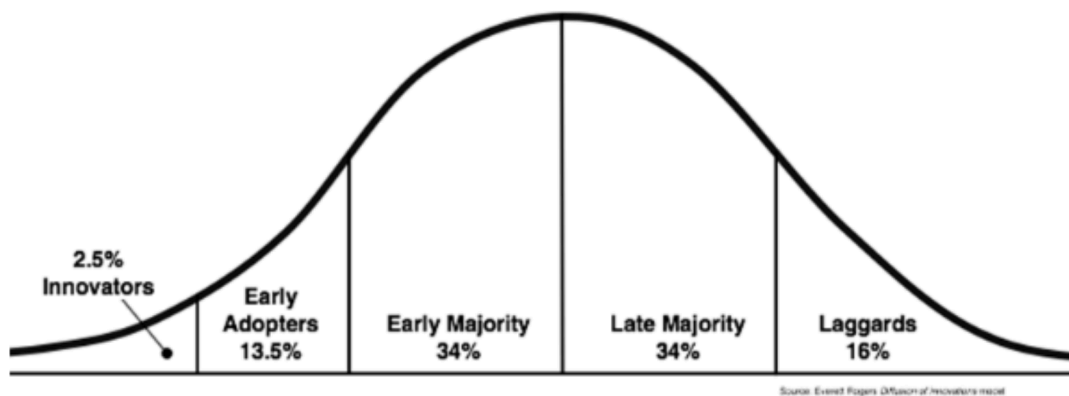
As a thought experiment, consider the following:

What percentage of the time do I currently get tough commission questions/objections from my prospects? I'd suspect maybe 5-10% would be the norm. Slightly higher if you're working more with FSBOs, expired listings, and others who don't know you well.

How quickly do I think that percentage would double?

How quickly do I think that would become the norm, rather than the exception?

One beautifully simple way of thinking about how ideas spread is the [Diffusion of Innovation Theory](#).



Diffusion of Innovation Theory

Pay close attention to how quickly the “early majority” start to show up at this party.

If recent [Google Trends data](#) are any indication, I think it’s coming quickly. More quickly than you might imagine. More quickly than most real estate agents will be prepared for.



Here are a handful of Google search phrases that exhibited “breakout” trends... up 5,000%+ in search volume:

- NAR settlement
- Buyers Agent Commission Lawsuit
- Real Estate Commission Changes
- Real Estate Commissions on Chopping Block
- DOJ Real Estate Commissions

The [Department of Justice](#) has weighed in on this issue multiple times.

President Biden [recently said](#):

I'm calling on realtors [sic] to follow through on their commitment to lower commissions to protect homebuyers.

The big flashing sign says this conversation isn't going away.

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- 2. It is possible that the total available commission dollars will decline by 30%+. Any downward pressure will likely be felt more quickly than most expect.**

Analysts at the research firm Keefe Bruyette Woods issued a [report](#) in Q4 2023 that suggests:

...the annual \$100 billion commission pool could shrink by 30% over time as consumers become aware of the transparency changes. Relatedly, the commission rates could decline by 200 bps or more.

Translation, KBW thinks that (for discussion purposes, not to suggest a standard) the 6% fee could be more like 4%. The 5% fee could be more like 3.0 - 3.5%. These numbers certainly seem reasonable to me. Imagine a future where the listing agent is more easily able to hold the line on their fees - justifying with the hard costs of marketing, photography, staging, etc. - and the buyers' agents struggle (comparatively) to articulate/demonstrate value, particularly in sellers' markets where the seller may have competing offers and is focused predominantly on net proceeds.

In their recent working paper series on [Real Estate Commissions and Homebuying](#) the Federal Reserve Bank of Richmond indicated:

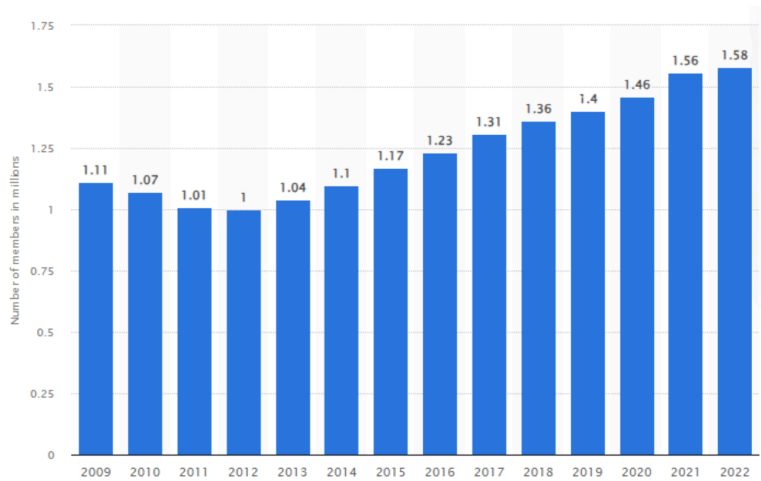
We show this [3% to the buyers' agent] compensation structure deviates from cost basis and may lead to elevated home prices, overused agent services, and prolonged home searches.

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3. The total number of active real estate agents in the U.S. is likely to decline by 30%+ by the end of 2025.

Over the past ten years, the total number of REALTORS® has grown from roughly [1.0M to 1.6M](#) members.

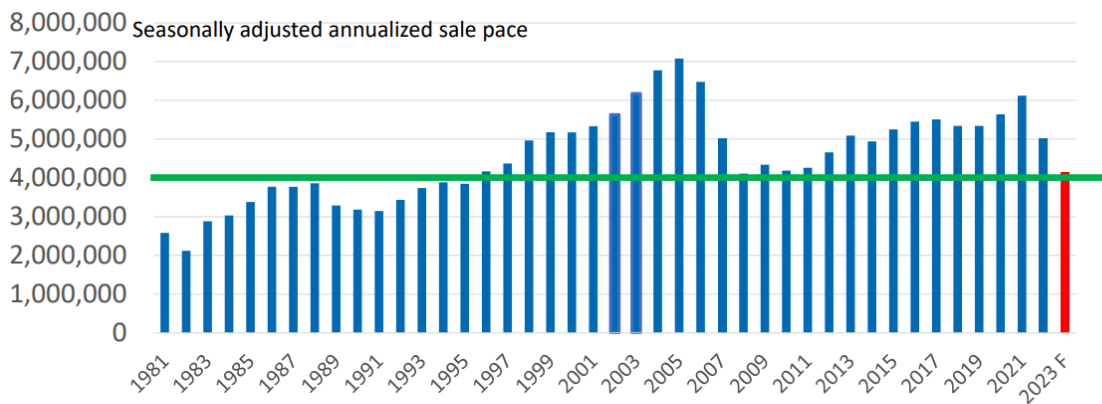
Number of National Association of Realtors members in the United States from 2009 to 2022 (in millions)



U.S. National Association of Realtors: number of members 2009-2022

Published by Statista Research Department, Oct 17, 2023

Meanwhile, the total number of homes sold [has primarily stayed the same](#) (adjusting for the increased demand during the COVID era boom).



Source: NAR

Opinion on this topic varies widely. There are some who expect a 50%+ decline in number of agents. There are others who suggest that there will be no meaningful shift in agent count. I imagine a future where the business, particularly for buyers' agents, becomes more difficult. As such, the bottom quartile of agents (and perhaps retiring Baby Boomers - which is a big future trend that we'll discuss another time) are the most likely to leave the business. Meanwhile, the [unemployment rate](#) is holding below 4% and many low-producing and/or part-time agents are likely to return to the workforce in search of a more predictable paycheck.

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4. An increasing number (and variety) of compensation models will emerge to address consumer demands.

It seems likely that a handful of different compensation models will emerge with some degree of staying power. Let's use commercial air travel to illustrate the possibilities.

- 1) **Low-cost provider.** Frontier Airlines is a good example here. Settle into your lawn chair. Be sure to buckle up. Did you bring anything with you? Okay, we'll charge extra for that. You'll (likely) get to your destination, but there won't be much of an experience. You get what you pay for, and that's about it.
- 2) **Moderate-cost provider.** Southwest Airlines is a good example here. More expensive than the low-cost provider. However, everyone on the plane pretty much gets the same experience. No seat assignments. No first class. Sprinkle in a little LUV (which seems less consistent than it used to be), and you'll likely have a pretty good experience. It's Breyers Ice Cream. It's not the store brand. It's consistently good-ish. And, it's also not [Gelato on the shores of Lake Como](#).
- 3) **Variable-cost provider.** Delta, American, and United, would all be examples here. With 3-5 fare classes on each (domestic) flight, their models aim to meet a wide range of consumer tastes. Do you want the low-cost option? Here's a seat we picked for you - 47B, next to the toilet. Do you want the extra legroom and free drinks? We have that, and you'll pay for it. And, we'll treat you a little nicer because we know you spent more... maybe give you an extra mini-bottle and a wink. Do you want the best experience we can give you in an otherwise

inefficient and chaotic day? We have that too. Here's the warm towel to go over your eyes and a mimosa you can slam before we push back.

[According to Peter Morris](#), Chief Economist at Ascend Aviation Consulting, First-Class and Business-Class seats make up less than 20% of seats on long-haul flights. Yet, they account for 40-50% of an airline's revenue. For agents who will choose a "First Class" option in their compensation structures, this is an interesting analysis to consider.

- 4) **High-cost, high-experience provider.** Private Jets and fractional ownership of jets like NetJets and WheelsUp are growing in popularity. According to a recent [article in Fast Company](#):

Private jet use has increased by 20% since the onset of the pandemic, with approximately 5.3 million flights globally in 2022. Sales of private jets are likely to hit a record this year, at \$34.6 billion, and the U.S. has about 63% of the world's private fleet. With the surge in demand, more services are cropping up to serve the rising consumer base.

I'm VERY interested to see if/when some agents choose to develop a private jet-style tier within their models.

- 5) **a la carte pricing.** Within each of the above models, we're also likely to see some a la carte, or bolt-on, pricing structures. The [Richmond FED Report](#) recommends:

...we propose a shift to an a la carte compensation model. This model requires that sellers and buyers each pay their agents directly to mitigate the threat of steering by buyer agents. Also, buyers should be able to pay their agents for each task separately, independent of the final price of the purchased home. This would allow buyers to shop for each service they need and bargain for the price. Under such a system, competition among agents would likely align agent compensation with cost, and buyers would not overuse agent services.

Think of this like an upscale restaurant menu. There's a section of steaks (e.g. models 1-4 above). Then, there are all sorts of add-ons that you might choose to offer: au poivre, oscar, jumbo scallops, lobster tail... anything that your client might like to add on (that you're willing to provide). The concept is less tricky than how you decide what to charge. We'll see a lot of variation here. And, you get to decide what it's worth to you—maybe more importantly, what it's worth to the Client.

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5. The most skilled agents and leaders have massive opportunities to gain market share.

There's a HUGE opportunity coming for Top Agents and Brokers.

Again, the analysts at [KBW](#) suggest:

...should result in some market share 'up for grabs,' and we think the full-time agents are the most likely to capture it. In a market with more variability in commission levels, agents will need to demonstrate their value and differentiation, and we think community-entrenched, local expert agents will be net beneficiaries over the long-term. [emphasis mine]

There are a few exciting ways that this will likely play out:

- The declining number of licensed agents at a time when the transaction count should be marginally and steadily increasing will increase the total available transactions per agent.
- Agents who are focused on the action plan outlined below will win more listings and buyers in head-to-head competition.
- Experienced agents who have capital reserves will deploy that capital as a competitive advantage, while other agents contract into survival mode.
- Solo agents will seek out opportunities on Teams and/or at Firms that already have a well-defined and marketed value proposition, rather than take the time, money, and energy to create their own in hopes of catching up.

One of my favorite concepts is Nassim Nicholas Taleb's concept: [Antifragile](#). He describes Antifragility as:

Some things benefit from shocks; they thrive and grow when exposed to volatility, randomness, disorder, and stressors, and love adventure, risk, and uncertainty... Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the antifragile gets better. ([source](#))

Antifragility is the difference between just toughing it out, and growing - surviving versus thriving. Let's focus on thriving!

Baseball is 90 percent mental. The other half is physical.
- Yogi Berra

The Action Plan:

- 1. Stay positive and proactive. There's a big market share grab opportunity here, and the first-mover advantage is strong.**

Great leadership shows up in difficult times. Moreover, leadership starts with self-leadership and then the leadership of others.

Consider the following.

What daily activities would I need to stop doing, start doing, or do more of in order to show up as the best leader I can be?

How, specifically, can I better model a positive and proactive mindset for my team, my colleagues, and my family?

In what ways could I/we grab market share? Use the [Could Do, Should Do, Must Do Exercise](#) to filter to distill your best ideas. **Take action now!**

There's much debate about the logistics of implementing the changes in [NAR's proposed settlement](#). The current suggested timeline for implementation is mid-July 2024. However, it is possible that timeline is not doable across multiple states, MLSs, websites, etc. **The logistical timeline should *not* dictate your action timeline.** Questions (and demands) from consumers will likely show up long before the logistics have been worked out. Grandma might be throwing rocks before July.

As my friend, and elite sports psychologist, [Matt Cuccaro recently shared](#) with us:

Leaders have to recognize appropriate risk as why you play; that you can handle whatever the outcome might be. This is what separates the elite from the average.

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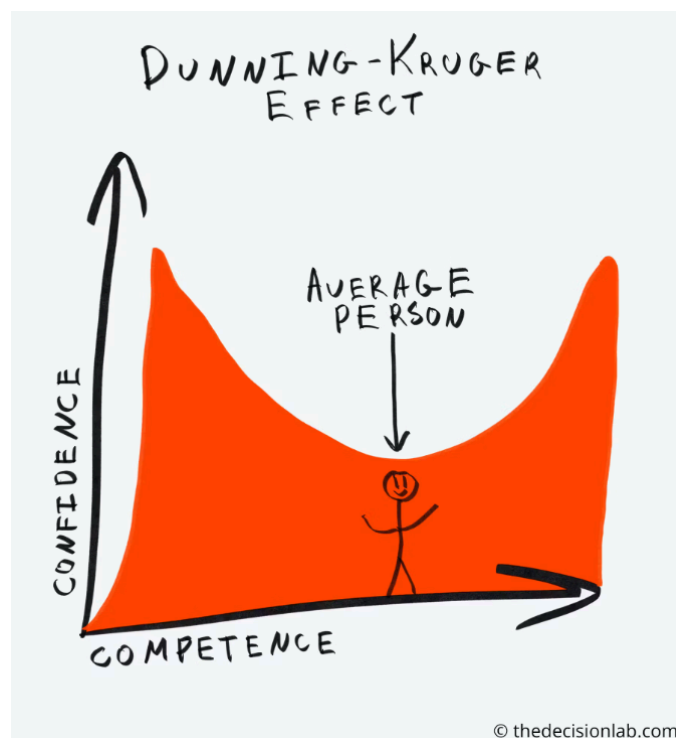
2. Do a thorough Skills Assessment of everyone on your Team (including you). Every skill needs to get a score of 80% or higher ASAP.

At Middleton Elite Coaching, we use a [Performance Self-Assessment](#) as a tool for mid-year and annual planning with our Teams. Consider it a check-up that leads to more meaningful action.

I've coached and trained tens-of-thousands of agents over the past 15 years. During that time, I've found that most agents tend to overestimate their level of skill. The scientific term for this is called The Dunning-Kruger Effect.

According to a [Decision Lab Summary](#) of the research:

The Dunning-Kruger effect occurs when a person's lack of knowledge and skill in a certain area causes them to overestimate their own competence. By contrast, this effect also drives those who excel in a given area to think the task is simple for everyone, leading them to underestimate their abilities.



If there was ever a time to demand the highest quality work of yourself and your team, now is that time.

3. Determine your compensation model(s) and a la carte pricing strategies.

The only wrong answer to this question is not to have an answer. Your current answer doesn't have to be your final answer. You just need an answer... and an a la carte alternative... quickly.

Whether you plan to explore a low-margin business model, which will necessitate high volume in order to be meaningfully profitable, a high-margin business model, which will likely mean fewer transactions, or a blended model like Delta, American, and United, that framework needs to be built now.

As entrepreneurs, my teams and I have built many ideas from scratch. The final version is almost always version 3, 4, or 5+. However, you can't get to v3 if you don't get v1 out the door.

At Middleton Elite Coaching, I facilitate a group of our highest-producing business owners called [The Board of Advisors](#). Aside from being a learning and collaboration lab with each other, this group also serves as a focus group for new ideas - a place where v1 and v2 get hammered out together.

Consider putting together a focus group of your Top 25 Raving Fans/Clients. Test your V1 ideas and models with them. Many of our best ideas start by asking:

Here's what I'm thinking. What do you think?

How could we make it even better?

How could we make this so great that people would feel silly for not doing business with us?

Then, go test your Version 1 in the marketplace. Iterate, refine, rinse, repeat.

4. Focus on articulating your Value Proposition through multiple channels. Your brand and positioning matter as much (maybe more) than your ability to handle objections at the kitchen table.

In one of the more impactful marketing books ever written, [Positioning: The Battle for your Mind](#), authors Ries and Trout maintain:

To find a unique position, you must ignore conventional logic. Conventional logic says you find your concept inside yourself or inside the product. Not true. What you must do is look inside the prospect's mind.

What does the prospect want? Is that true? Is that *really* true? How would we know if that is or is not true? Once we are clear about the truth. Then, give them what they want. As one of my mentors, [Keith Cunningham](#), likes to say: *find the quacking ducks and feed them.*

What do I mean by “multiple channels?”

In short, **be everywhere with your messaging**. The classic methods of print, mail, email, and belly-to-belly are still relevant. The comparatively newer mediums of social media, video, and digital advertising, are becoming increasingly important (and will be for the foreseeable future).

To better help you build your brand power, we've partnered with my friend, Kaila Lindsey, to bring you our [Viral Agent Formula](#) program. In The Viral Agent Formula, you'll learn the exact methods that Kaila developed to close over \$250k in GCI from YouTube in 2023 and is already on pace to close over \$1M in GCI in 2024 *just* from YouTube!

Can you still win at the kitchen table without great brand marketing? Maybe. Will it cost you more money in the long run via reduced lead flow and/or commission concessions? Very likely.

The best brands in the world spend a lot of time, effort, and money selling you their product long before you are in the decision cycle. This effort reduces the objections and friction when it's finally time to buy. Said a different way... because of all of the effective marketing you've seen, you're more likely to say yes.

5. Prove it! Use third-party validation (e.g. reviews/testimonials) as a way of better communicating your skills and value to the consumer.

Closely tied to #4 above is your ability to prove that you deliver. By far, the best way to do this is through reviews and testimonials. However, rather weak examples like, *I really loved working with Jane Doe. She's the best agent ever.*, won't cut it.

Instead, work closely with your clients to craft a detailed and accurate review that packs a punch. Something like:

Jane Doe is the best real estate agent in City, State, AND the most professional agent I've ever worked with. Not only did she help us find the perfect house, but she also crafted an offer that helped us win against 11 other competing offers. Then, when the inspection report had some issues, Jane helped negotiate \$5,000 in concessions paid for by the seller. Who knew things could be so complicated? Jane did, and that's why everything went so smoothly. I LOVED working with Jane, and you will too.

Imagine that your marketing content calendar is peppered with these types of testimonials. Imagine that your pre-listing or pre-buyer appointment communication includes these.

Imagine that your new prospect would feel kind of silly for questioning your value in the face of all of these testimonials. That's what we're looking for.

You can't prove something that you're not. When you focus on #1 - #4 above, #5 is a natural by-product of the execution.

Conclusion (for now):

The next 6-12 months will likely be some of the bumpiest (not necessarily bad) times we've seen in a while. Yet, talent always finds a way to win. Let's take this as an opportunity to continue to reinvent ourselves and our businesses.

For more on what lies ahead, join us on Tuesday, April 9, 2024 for a live webinar that I'm hosting on *Thriving in the Era of Compressed Commissions*.

Register here: [Thriving In The Era Of Compressed Commissions](#)

Be Elite!

Bill

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About the author and Middleton Elite Coaching

Meet [Bill Middleton](#) and Middleton Elite Coaching (MEC), the customized coaching solution for your real estate business.

At MEC, we don't believe in one-size-fits-all approaches. Instead, we tailor our coaching methods to suit Real Estate Agents, Sales Teams, Property Managers, Brokerage Firms, and Lending & Finance professionals' unique needs.

We're not just your coaches; we're your partners in success. We dive deep into understanding you and your team, uncovering what drives you and what will propel you to your next level of success. From assisting in hiring decisions to guiding financial strategies and facilitating tough conversations, we're right there with you in the trenches.

Our track record speaks for itself. With over 90 clients and a combined annual sales exceeding \$3 billion, achieved in just 7 years, we've established ourselves as industry leaders in boosting productivity and profitability.

But it doesn't stop there. In addition to personalized one-on-one coaching, we've developed cutting-edge programs and on-demand virtual courses and host live educational training events. When you choose MEC, you choose a roadmap to unparalleled success in the real estate industry.

Ready to take action? [Connect with us](#) today to schedule a complimentary call.