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The New Reality in Real Estate

Cutting commissions is Not the answer!



By Aaron Taylor
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The New Reality in Real Estate: Cutting Commissions is Not the Answer

The solution lies in developing, maintaining, monitoring, and adjusting a well-thought-out associate compensation strategy. This strategy should ensure the broker owner achieves the desired revenue and profitability while considering the well-being of the sales force.

In a market where all boats rise and fall with the tide, the compensation strategy one broker employs will likely mirror that of the competition. Agents can no longer demand higher compensation agreements by threatening to leave, as alternative opportunities are becoming scarce.

The right compensation strategy begins with a comprehensive financial audit of the broker's revenue and expenses. This audit provides an in-depth analysis of the broker owner's current financial position, laying the groundwork for balancing revenue, expenses, and profits. Informed decisions, rather than guesses, are crucial, especially when they significantly impact the broker owner's financial future. The break-even performance amount should not only cover costs but include a reasonable profit too.

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While it might be challenging to conduct a financial audit when revenues are already stretched, it's essential. This audit should be conducted by a qualified financial analyst, often an external forensic accounting specialist.

Another popular decision is to replace expensive administrative staff with more affordable virtual assistants. Offshore virtual assistants are often highly skilled and can handle marketing and administrative tasks efficiently. Eliminating even one highly paid administrative employee can significantly boost the bottom line.



As the financial audit progresses, clear communication becomes vital. Broker owners and their executive teams must interact transparently with their sales force, explaining the necessity of changes to remain in business. Agents need to understand the consequences of the Missouri decision and its fallout.

Reasonable agents will accept the new reality in real estate. Those insisting on maintaining the status quo may need to find another broker, who may not survive in the current market.

Attempting to satisfy agents by keeping their current compensation is a path to bankruptcy.

Finally, employing specialized consultants with a proven success record is crucial. These consultants can create and test new compensation strategies using historical closed transactions and, if possible, pending transactions. They can develop “what if” scenarios to find strategies that benefit both the broker owner and the sales force.

Broker owners often find that simple, non-drastic changes to their compensation plans can be effective. Adjusting the break-even point to reflect new costs is justifiable when properly communicated. Strategies like modifying multi-level commission plans’ weighting can require higher year-to-date performance before advancing to the next level.

Another option is to index commissions based upon the shifting market values. In this strategy, if market values go down by 20%, then commission rates are adjusted downward to reflect the current reality.

Varying the commission rates for the role the agent played is another simple but effective way to increase revenues. For example, when market conditions make obtaining the listing agreement is more challenging than actually selling of the property, then the listing rate could be higher and the selling rate would be lower. This approach rewards agents who excel in specific roles, regardless of market conditions.

Gross commission rates can also be scaled in a multi-level approach, especially in high-end properties. This strategy divides the sale price into multiple values. Each value will have its own commission rate assigned to it. For example, a property that sells for



\$500,000 could be distributed into three segments. The first portion could be \$200,000 with a commission rate of 3%, the next segment could be \$150,000 at 2.5% and the final portion would have a commission rate of 2%.

Traditionally, off-the-top deductions collected franchise fees, but they can also serve as marketing or administrative fees, significantly impacting revenues. Adjusting off-the-bottom deductions to lower performance thresholds can make it harder for agents to reach the next commission level.

Can technology help?



Tougher markets require different approaches. All too often, the broker owner loses focus on the administrative technology they are using. This is understandable as a brokerage operation, by its very nature, is a marketing enterprise. Antiquated administrative software can create costly and inefficient work arounds. This usually requires more administrators and increases administrative costs.

Excel worksheets might work reasonably well for smaller brokerage operations with a smaller sales force within a single office. However, even brokerages with 20 agents, should be using modern back-office software to process sales, calculate commissions and perhaps most importantly, provide real time business intelligence reports that empower their decision making.

What about Data Analytics?

While it is true that acquiring new administrative solutions will involve an up-front investment, the cost can often be offset by the savings achieved with smaller, more efficient administrative staff.

Data analytic technology, that incorporates AI, also exists that can allow broker owners to analyze their own commission strategies using their own historical data from their back-office software. The ability to instantly create, modify, analyze, test and compare multiple compensation strategies against historical data is a game changer. Equipped with the right technology, broker owners can create a variety of commission plans and within minutes compare each hypothetical plan with their own existing plans.

Combining the right analytical technology with a qualified consultant can be a great one two punch, when reviewing existing practices and making well informed adjustments. The WavGroup, www.wavgroup.com are a well-established real estate consulting firm, with a stellar track record in the marketplace.



Aaron Taylor – CEO of Lantrax, Inc.

Aaron Taylor is the Chief Executive Officer (CEO) and President of Lantrax, Inc., a real estate technology company specializing in back-office management software for brokerage firms. He has over 25 years of experience serving real estate brokerage firms' back-office needs and is widely regarded as an expert in real estate transaction processing and operations. Under Taylor's leadership, Lantrax has introduced flagship software platforms to meet the needs of brokerages of all sizes.



AARON TAYLOR, CEO



Consider this. As a real estate professional, you advise buyers and sellers that using a real estate expert can remove the hassle, make the experience less stressful and in many cases, be cost neutral. The same applies when hiring a consultant to assist you in your new approach to achieving your goals.

These are just a few examples of how broker owners can adjust their compensation strategies to increase revenue without causing unrest among their sales force.

For example, Profit Power serves as a comprehensive back-office and accounting system for larger real estate brokerages while SMARTS offers an affordable back-office solution tailored to smaller firms. These platforms enable brokerage companies to automate transaction processing, commission calculations, and other critical operations, improving overall efficiency and profitability.

Taylor has also spearheaded strategic partnerships to drive innovation in the industry. For instance, he oversaw Lantrax's collaboration with DocuSign to integrate DocuSign's digital transaction platform with Lantrax's Profit Power system, creating a seamless, paperless "lead-to-close" process for brokers. Under his guidance, Lantrax has become a trusted back-office platform for many of the nation's top 100 real estate brokerage firms, reflecting his commitment to customer-focused innovation and service. His extensive industry knowledge and hands-on approach have made Taylor a respected authority in the real estate brokerage technology sector.

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