THE REAL DEAL

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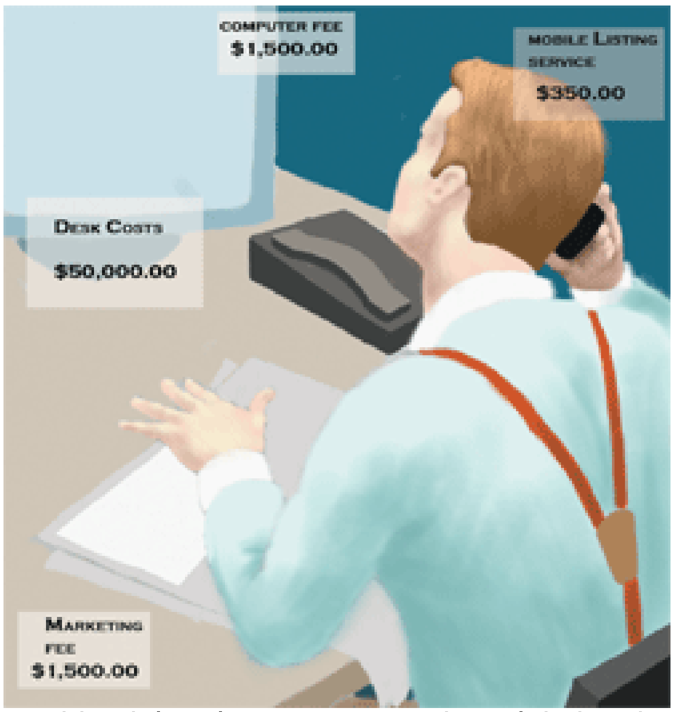
Upfront costs rise for agents

Firms add new fees for marketing, insurance

By Lauren Elkies



Residential real estate companies, claiming that it's harder than ever to eke out a profit, are increasingly hitting their own agents with additional fees and expenses.

The most dramatic move recently was the Corcoran Group's introduction of a $1,500 annual marketing fee, to come out of each agent's commission. Corcoran also decreased agent commissions by raising the threshold for higher splits to $160,000 in gross commissions, up from $140,000 previously.

Similarly, Bond New York is planning on raising the bar on commission splits this year, which means less money in agents' pockets.

"As rents get more expensive, costs of business become more expensive, and the scales that determine where a commission split increases get raised accordingly," said Bruno Ricciotti, a principal at Bond.

Increasing fees and expenses add to the challenges a real estate agent faces in a competitive market and effectively siphon off some of the commission earned on deals. Some of the new fees, like one Bond New York will implement for insurance, for example, also effectively create a higher hurdle for new agents entering the business or existing ones who are struggling.

Neil Binder, principal and co-founder of Bellmarc Realty, is critical of the expenses firms are charging salespeople. In *The Real Deal's* Q & A this month, he said, "This has become backdoor income for a lot of companies, but I am not in favor of it, and it is not in our plans to do it. Some charge a computer fee of $1,500 a year and $1,000 a year for errors and omissions [insurance]. Those are names given to those expenses; they are just mechanisms to get additional money for the company, in my opinion."

On top of these new fees, there are increased membership dues to organizations like the Real Estate Board of New York, which recently made it mandatory for an agent to join if the agent's firm was a member of REBNY. And there could be new fees for the REBNY Web-based listing portal that is being floated.

At all real estate companies, salespeople are responsible for paying a slew of different fees before -- and while -- seeing a return on their investment.

Expenditures vary from company to company, but all traditional companies need their agents, at a minimum, to cover the cost of maintaining a desk, which can run upwards of $50,000 a year, said Barak Realty founder Barak Dunayer. Based on desk costs at Warburg Realty, agents there are expected to bring in at least $120,000 in gross commissions a year, according to president Frederick Peters.

To get started, prospective agents have to run the gamut of fees and charges. They have to pay $350 to $400 for a 45-hour, state-approved real estate course and a $15 entrance examination fee to get their license. Agents then pay a $50 fee to the Department of State, which licenses real estate agents and brokers, every two years.

At companies that belong to REBNY -- namely, most companies -- agents have an annual membership fee starting at $190. If the company is a member of the Manhattan Association of Realtors -- there are only 35 of them -- agents incur $350 board dues.

Once they land at a firm, the charges continue. At Bellmarc, new agents pay $190 for course materials for the in-house training program.

At other firms, agents need to open their wallets wider. While Corcoran is the first Manhattan firm to charge a marketing fee of $1,500 annually, the requirement is not a new concept in other parts of the country. Other firms in New York will likely follow suit, said Kathy Braddock, co-founder of New York City real estate company Charles Rutenberg Realty.

For agents who work at 100 percent commission split firms, the up-front charges are even higher, because all administration and operation costs are on the agents.

At Rutenberg, in addition to the REBNY and Manhattan MLS fees, agents pay the company a $99 monthly fee, as well as a $1,000 or $2,000 transaction fee depending on sale price, Braddock said. Agents get a telephone number that forwards to their cellular or home phone, Rutenberg profile page and e-mail address. They have access to a company manager and use of a company office with a desk, fax machine and phone, but they don't get free business cards or a permanent workstation.

Following a similar corporate model, Pari Passu Realty charges a fixed $299 monthly fee but no transaction charge. Add $176 to the fixed fee, and the agent can get five New York Times advertisements, said Larry Link, the company's managing director. Agents pay a $200 administrative fee to be set up in the company system. "Our model works by providing all of the services for a fixed fee with no transaction fees," Link said.

Companies generally expect agents to pay for an errors-and-omissions insurance policy, which covers the agent and company in the event of a lawsuit. Bond is planning on passing the insurance fees on to its agents, Ricciotti said.

Even after a broker closes a deal, there are more costs. At Elliman, agents are assessed a $425 fee for the year from closed transactions, said an Elliman broker who wished to remain anonymous. Citi Habitats deducts a $35 charge per closed sale, a Citi Habitats agent said.

The smaller fees can also add up. At Citi Habitats, agents pay for their own office supplies, said Gary Malin, the firm's COO. The company also has a mobile sales and rentals listings service in the works.

Finally, in a field where carrying around a calling card is not optional, a number of firms require agents to pay for their own business cards.

At Bellmarc, for example, there is a $60 business card charge, said Charlotte Kullen, vice president of marketing at Bellmarc. Agents at Citi Habitats pay $77 for 500 business cards. At Elliman, though, the first set of cards is on the house.

The cost of getting the word out

Advertising is closely monitored by many of the companies. Most companies take care of marketing exclusives and company-sanctioned ads such as those in the New York Times, New York magazine or on Craigslist. The firms expect additional ads, however, and those placed in places like trade publications, to come out of their agents' pockets.

At Citi Habitats, the company foots the bill for an exclusive listing ad to run in the New York Times' Sunday real estate section every week until a contract is signed, an agent there said. Citi Habitats also pays for a virtual tour and a set number of photos of the property. If an agent needs a floorplan drawn, that comes out of the agent's own pocket, as does the tab for other ads.

At Elliman, advertising "is very strictly governed," an agent said. The Elliman logo has to be prominently and clearly displayed in ads. Among the most successful salespeople, ad budgets are capped at an annual $30,000 for company-sanctioned ads, the agent said.

Bond doles out advertising and digital space to agents based on individual production. Right off the bat, Ricciotti said, an agent receives 10 ads on the New York Times' Web site and some postings on Craigslist. Additional Craigslist ads can be purchased from Bond at a discounted $6 per listing. The same price applies at Citi Habitats.

At Bellmarc Realty, all agents get at least one ad in the New York Times on the house, and other ads are determined on an individual basis, said Charlotte Kullen, vice president of marketing at Bellmarc.

Carving up the pie

Once an agent closes a deal, typically his cut of a 6 percent commission starts at a 50-50 split between agent and company. Such is the case at Warburg Realty Partnership and Bond New York, although new Bond agents initially share their portion of a split with a mentoring senior agent.

At Citi Habitats, sales agents also start with a 50 percent split, an agent there said. Rental agents at Citi Habitats start with a 35 percent split for the first six deals and are then bumped up to 50 percent. Sales and rental agents can qualify for higher commission splits after one year with the company based on the following criteria: $150,000 gross yields a 55 percent split; $225,000, 60 percent; $300,000, 65 percent; and $500,000, 70 percent.
