

## Understanding Real Estate Commissions

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Understanding how real estate commissions are earned and paid will help you make the best choices in engaging real estate agent services, whether you are a seller or a buyer.

### How Real Estate Commissions are Structured

With few exceptions, homebuyers do not pay real estate commissions. In the Listing Agreement between a real estate agent and a home seller, the seller agrees to pay the listing agent a certain commission upon the sale of the home. The listing agent markets the home to other agents offering to share the commission with the agent bringing a buyer. If the home sells to an agent-less buyer, the listing agent is usually contractually entitled to keep the entire commission – sometimes referred to as a *double commission*.

### What Homebuyers Should Understand

A common homebuyer mistake is to assume that, by not having an agent, a better purchase price can be negotiated. This assumption is based on the faulty premise that the seller pays less commission and can, therefore, accept a lower purchase price. However, because (as noted above) where there is no buyer agent, the listing agent is entitled to keep the full commission, the seller in fact has no savings to pass on to the agent-less buyer.

An agent-less buyer foregoes the benefits of professional representation and service that would, in effect, be paid for by the listing agent. A buyer typically achieves the best results, economic and otherwise, by engaging a competent, skillful agent dedicated to promoting and protecting the buyer's interests.

### Commission Percentages

By far, the most commonly encountered *full-service* commission structure in north-metro Atlanta is a 6% listing commission with one-half (3%) being the customary share offered to buyer agents. While real estate commissions are negotiable, as a practical matter, a 3% buyer agent share must be offered - anything less will put the home at a competitive disadvantage within the real estate agent community.

### Discount / Limited Service Listings

A number of *limited-service* real estate brokerages offer the basic service of putting a home on the multiple listing service for a flat fee or discounted commission. Many offer additional services included in *full-service* listings (research, pricing strategy, staging, contract negotiation, etc.) for additional fees. These companies make their money through a combination of high volume and minimal service. Limited-service broker commissions and fees vary and, of course, will be in addition to the 3% commission that is paid to a buyer agent.

Sellers considering a limited-service listing often focus solely on commission savings without fully understanding the relative value of professional, fully-integrated listing management - research, pricing, marketing and transaction representation. The cost of a high-quality full-service listing will typically offset limited-service listing commission savings by achieving a higher selling price for the property in a shorter amount of time. Most limited-service sellers also fail to realize that limited-service listings generate less agent traffic than full-service listings. Buyer agents know that limited-service listings typically require more work and are less likely to close than full-service listings and are, therefore, less enthusiastic about showing them.

### **Buyer Agent Bonuses**

Listings frequently offer an *agent bonus* - often thousands of dollars above the customary 3% commission share - to induce buyer agents to *sell* the listing to their buyers. The extent to which buyer agent bonuses are effective is unclear, but the practice of offering them is common – particularly in a soft market. Ethical considerations aside, an agent is legally permitted to steer a buyer client toward a listing based on the amount of compensation the agent will receive, and is not required to disclose his or her compensation to the buyer prior to closing.

### **Seller Considerations**

Sage Real Estate Advisors' *full-service* listing commission is 5.5%. We always offer a 3% share to buyer agents. If your home sells to an agent-less buyer, we waive 2% of the commission making the total commission you pay only 3.5%. Our commission structure recognizes that where there is no buyer agent to pay, the transaction should not be burdened with unearned commissions.

### **Buyer Consideration**

Sage Real Estate Advisors represents buyer clients to a *True Agency<sup>sm</sup>* standard of service. This standard dictates that we show you every home meeting your criteria and present it objectively, regardless of the commission being offered and whether it is a *full-service* listing, a *limited service* listing or a home for sale *by-owner*.

*True Agency<sup>sm</sup>* also requires that, to the extent the listing pays us a commission or *agent bonus* in excess of the customary 3% commission share, we pay it to you. This policy eliminates any perception of a conflict of interest (i.e., steering you toward a higher - commission listing) and, effectively, reimburses you to the extent the price of the home was inflated to cover the agent bonus.