



Commission Explanation for Buyers

Introduction

Prior to 1983 all real estate agents were sub-agents to the sellers and represented their interest. 71% of buyers thought they were being represented, but were not.

The Federal Trade Commission (FTC) involvement changed the business model to have both sellers and buyers represented by their own agent.

A real estate commission, usually a percentage of the sale price, was typically paid to real estate company for handling the sale of property. This company, called the listing broker placed the property into the Multiple Listing Service (MLS) to be shared with other member companies. The buyer agent portion of the commission was included in the commission and paid by the seller. Buyers were effectively paying their side of the commission in their purchase price. Recent litigation has changed how this may be paid.

Results

On March 15, 2024 the National Association of REALTORS® proposed a settlement that goes into effect on August 17, 2024. Here are the results:

1. The amount of commission is negotiable between the broker and their client, whether the client is a seller or buyer. Brokers are not deprived from adhering to their stated fee schedule.
2. Agents may no longer refer to the buyer agent commission as free when it is included in the purchase price.
3. Sellers are no longer required to offer buyer agent compensation through their listing brokerage, but they are still free to do so. This offer of compensation may no longer be displayed in the MLS so your agent will need to contact the listing agent for this information. They may also offer concessions to cover buyer closing costs. This may leave buyers responsible for this payment.
4. Buyers and their agents must now enter into a buyer agent agreement prior to viewing homes. This agreement will contain the rights and responsibilities of each party and the amount of compensation to be paid to their buyer agent.

Buyers have the following options of payment:

- a) Pay their agent directly
- b) Select to see only homes that offer buyer agent compensation
- c) Ask for a seller concession in their offer to purchase.

Summary

The results of the lawsuits have created more transparency in the payment of commissions in the real estate industry. Sellers will have a more clear understanding of how commission is paid and how it may be split between the listing broker and selling broker. Buyers will now take on more responsibility in paying their agent's side of the commission. Review your options with your real estate agent.

