

Guide to Broker Compensation in Real Estate Transactions

Many people hire a real estate professional to represent them through the complicated process of buying or selling a home. This guide will help you understand how real estate brokers get paid.

IS THERE A STANDARD COMMISSION FOR REAL ESTATE BROKERS?

- No. Each brokerage independently decides what it will charge and what services it will provide. There are no rules or policies that set the amount brokers charge.
- There are many different compensation models brokers may use. In fact, some brokers don't charge a commission but instead charge a flat fee, hourly fee, or fees for specific tasks.
- Consumers can shop for various compensation models and services when choosing their broker.

DO BROKERS HAVE TO NEGOTIATE THEIR FEE OR COMMISSION IF I REQUEST THAT?

- Some brokers may choose to negotiate fees and services with clients, while others may decide not to. It is an independent business decision up to each broker.

WHAT CONTROLS THE AMOUNT OF COMMISSION BROKERS CHARGE FOR THEIR SERVICES?

- Each brokerage independently determines the services it will provide and the fees it will charge for those services based on their own business decisions and market forces such as supply and demand.

- Commission amounts have fluctuated over the years due to changes in market conditions.

WHAT IS COOPERATIVE COMPENSATION?

- Cooperative compensation is a term used when the listing broker shares a portion of the listing broker's commission with a buyer's broker for bringing a buyer who ultimately buys the home.

IS COOPERATIVE COMPENSATION REQUIRED?

- No. Listing brokers are not required to share their commission with the buyer's broker.
- The homeseller and listing broker work together to decide if cooperative compensation will be offered and how much that compensation will be.

WHY WOULD THE LISTING BROKER CONSIDER PAYING THE BUYER'S BROKER?

- The cooperative compensation arrangement has proven to be an efficient method for brokers to be paid in a way that benefits both buyers and sellers.
- Most mortgage lenders don't allow commissions to be added to home loans, and many buyers do not have the financial ability to pay real estate compensation out-of-pocket on top of the down payment and other closing costs.

- When the listing broker pays the buyer's broker, more homebuyers can afford a home.
- Sellers benefit because their property will be more attractive to a wider pool of potential buyers, often resulting in the seller's home being sold for a higher price.

WHAT CAN I EXPECT BEFORE I WORK WITH A REAL ESTATE BROKER?

Whether you are selling or buying, your REALTOR® will provide you with a written representation agreement. The agreement will include details such as:

- What services the broker will provide.
- The cost of those services.
- How your broker will be paid.
- Other terms, such as duration of the agreement.

Your broker will provide a written agreement even if you only want to view properties for sale. This ensures clarity for all parties about the services, relationships, and fees.

Your REALTOR® is the professional who can make your move as smooth as possible. REALTORS® have the knowledge and skills to help you make informed decisions and reach your real estate goals.

