

Agent Commissions Explained

Traditionally, a buyer begins the process of shopping for a home by first contacting a real estate agent. Real estate agents have access to multiple listed properties, and they may even have clients with homes for sale. Potential buyers who use the expertise and experience of real estate agents are wise consumers.

Unfortunately, many buyers do not understand the way in which a real estate agent gets paid when a home is sold. Most people realize that the agent earns commissions on sold homes, but they have no idea who is responsible for paying the commissions or how those commissions are calculated.



In a perfect world, commissions on real estate transactions would be calculated on a straight percentage scale. However, transactions typically include a broker for each side and at least two real estate agents, so it is rarely that simple.

The following information will help you learn a bit more about agent commissions, how they are calculated, and who is responsible for paying them. Keep in mind that the information is a general overview. Depending on the area in which you live, there may be other regulating factors.

Real Estate Agents vs. Real Estate Brokers

In most cases, a real estate agent is employed by a real estate broker. The agent's responsibility is to work on behalf of the broker, who is the person or organization with a license to buy and sell properties. As the name would suggest, an agent is simply an agent who represents a broker.

Some brokers are household names that you may be quite familiar with, but not all brokers are created equally. Some brokers are large global corporations while others are individuals or small groups of investors.

Delving into an explanation of the differences between brokers and agents makes it easier to explain the way in which agent commissions are usually calculated and paid.

In most property sale transactions, the process of calculating commission payments begins when the seller lists the home for sale. The agent gathers the necessary information and then lists the home for sale through the broker. It is worth noting that there *are exceptions, and sometimes the agent is also the broker.*

The seller will most likely sign an agreement with the agent at the time of the home listing, stating that he or she agrees to pay the agent a commission equal to a specific percentage (usually 6%) of the home's sale price.

Pay attention to what the listing agent is required to do before earning the agreed-upon commission amount. Look for related clauses in the agent's contractual agreement before signing. In most cases, the listing agent will present an agreement stating that he or she agrees to list the home for sale and find a buyer who is prepared to purchase the home within a specific period of time.

Not every home will sell during the agreed-upon time period. Sometimes the listing agent will agree to

extend the contract for another set period of time. In other cases, in order to re-list the home, the agent will require that the seller pay the agreed-upon commission based on the listing price. Another possible clause states that if you, as the seller, back out of the transaction or refuse a bid that is comparable with the listing price, then you will have to pay the agreed-upon commission.

If you are uncomfortable with a clause that requires your paying the commission amount even if your home does not sell, then you negotiate the issue with your agent prior to signing.



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In order to avoid a potential conflict with your agent at listing time, it is probably wise to ask in advance for a copy of the listing agent's agreements and any other contracts that you may be required to sign prior to listing your home.

What about the buyer? A potential buyer generally will not sign any sort of agreement with the real estate agent until he or she finds a home to make an offer on. While preparing an offer, the buyer will most likely be asked to sign an exclusivity agreement stating that he or she agrees to work only with that agent to purchase the home. The signed agreement entitles the buyer's agent to a commission as well.

The commission earned by the agent working with the buyer will generally depend on the seller's agreed-upon commission rate.

How Commissions are Paid

In traditional home sale transactions, the seller pays the agreed-upon commission amount to the agent on closing day. It is important to understand that that commission amount will be split between the seller's agent and the buyer's agent.

Obviously, the broker for whom the agent is operating will require payment as well. This is primarily because the broker almost always covers the telephone, advertising, travel and other expenses incurred as the agent operates on your behalf.

The seller's agent accepts a check on behalf of the broker. That amount is most likely split in half, with the buyer's broker receiving a check from the seller's broker. The agents are paid out of those amounts. Both agents can probably expect to receive an equal payment as a result of their participation in the sale. They will probably earn around 40% of the actual commission rate.

Here's an example of how the commission payment might be calculated:

Home sale price: \$100,000
Commission rate: 6%
Commission amount: 6% of \$100,000 = \$6,000
Listing broker's commission: \$3,000
Buying broker's commission: \$3,000
Listing agent's commission rate: 40% of total commission
Listing agent's commission payment: \$1,200
Buying agent's commission rate: 40% of total commission
Buying agent's commission payment: \$1,200

As this example illustrates, commission amounts are fairly insignificant when compared to the home's sale price. After all, 6% is not a very large amount for most home sale transactions.

Sometimes this breakdown will not be accurate. Higher performing and more seasoned agents usually require a higher commission rate. Therefore, when selecting an agent to sell your home, you should always know in advance what his or her commission rate will be. To maximize your profit margin, you will probably need to interview several potential agents prior to listing your home for sale.

If, after reading all the information above, you are still unsure about the way that agent commissions are calculated and paid, just ask your questions. A good realtor should always be willing to provide agency-specific information.

Realtors are working to generate income, but their first priority should be to sell your home or to help you find your next home. Seek a realtor who truly treats selling homes and helping buyers as his or her top priorities. Then you can benefit from the realtor's expertise and many years of experience as you move on to the next stage of your life – home ownership.