

# GUIDE TO BROKER COMMISSIONS IN REAL ESTATE TRANSACTIONS

Many people hire a real estate professional to represent them through the complex 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. The amount of commission you agree to pay your broker is negotiable. There are no rules or regulations that set the amount brokers charge.
- There are many different compensation models brokers may use, including commission, flat fee, hourly fee, and fees for specific tasks. The term commission is used here for simplicity.
- Consumers can shop for various compensation models and services when choosing their broker.

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

- Each brokerage independently determines the services it will provide and the commission 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?

- When a homeseller hires a listing broker, the listing broker will typically include the property on a multiple listing service (MLS). An MLS is a database of homes for sale in an area.
- Brokers that represent buyers can search the MLS for homes that meet the buyers' criteria.
- This cooperation between the listing broker and buyer's brokers helps to market the seller's property to as wide an audience as possible.
- The listing broker has the option to share a portion of the listing broker's commission with the buyer's broker in exchange 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 seller 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.



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