

Are Commissions Negotiable?

In most areas there is a "customary" percentage that real estate agents expect to earn as a commission. Usually, the customary percentage will range from six to eight percent of the sales price. However, just like anything else in real estate, this amount is negotiable. When completing the listing agreement, you and your agent will agree on the amount of the real estate commission.

Cut-Rate Listing Commissions

With the advent of the web, a lot of agents are offering "cut-rate" commissions. Most of the time, lower commissions are tied to a lower level of service. If all you want is to be listed with the Multiple Listing Service and a sign in the front yard, then a cut-rate commission may be right for you. If you want an agent who will actively promote your property to other agents and spend money on advertising, then you probably are not going to get that level of service with a reduced commission.

At other times, the lower commissions are offered when you agree to tie in to other services offered by the broker, such as agreeing to use a specific lender, escrow, settlement, or title company. The broker (not the agent) will probably have some type of ownership or profit participation in those businesses. The problem with agreeing to tie in to these other companies is that they do not have to be as competitive in pricing their products or services.

Another common practice when you see an ad for a reduced commission is that the compensation is lowered when you agree to buy your next home through the same agent or broker. Usually, the reduced commission is not really being offered on the sale of your existing home but on the purchase of your next one. The ads are usually unclear on this.

As a result, when you see an offer for a lower commission, you should analyze what you are giving up by accepting such an offer. It probably will not be readily apparent in the advertisement. Be sure to ask lots of questions.

How and When Listing Commissions are Earned

Your listing contract specifies a listing price. Your agent's job is to bring a "ready, willing and able" buyer to present an offer. If you reach agreement with the buyer, then the agent has done his job and earned the commission. Once the sale has closed, the real estate broker gets paid from the proceeds of the sale.

If the buyer proves unable or unwilling to conclude the sale, the house is placed back on the market and the agent has to begin earning his or her commission all over again.

However, if the seller backs out or does not accept an offer that meets the price and terms of the listing agreement, the listing broker has still earned the commission. They may want to be paid, even though you did not actually sell your home. Therefore, it is very important to carefully consider every detail when completing your listing contract and accepting an offer to buy your property.