

WHAT DO REAL ESTATE AGENTS DO?

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HOW, AND HOW MUCH, DO REAL ESTATE AGENTS GET PAID?

By: John P. Hale, ABR, CRS, GRI

How Do Real Estate Agents Get Paid?

Before we look at what real estate agents do, it is important to understand how they are compensated for doing what they do. By law, compensation for providing real estate services may only be paid to a licensed real estate broker, i.e., the company or entity that is licensed to supervise real estate **salespersons** and/or **associate brokers** – both commonly referred to as **agents**. Said another way - salespersons and associate brokers are agents of the broker. Brokers are the agents of clients – both sellers and buyers (or lessors and lessees). All that may seem confusing at first, but it is a hierarchy that is mandated by state law to control real estate practices and more importantly, to protect consumers.

Perhaps the most common way that real estate professionals earn money is by way of commission upon successful consummation (called “closing” or “settlement”) of a real estate transaction (sale/purchase or lease of a property). Most typically, real estate commissions are paid to the listing broker as determined and agreed to in contracts known as **Exclusive Right to Sell / Lease Agreements**. These payments are made at the time of settlement out of the sellers’ / landlords’ proceeds. The listing broker will typically also authorize payment, as appropriate, to the broker whose agent represented the buyer or tenant. Suppose for example that when the listing agreement was drawn up, the seller agreed to pay the listing broker a commission of a percentage of the final sale price, or a flat fee. Further, that listing agreement would typically identify what portion of that payment would be shared with the brokerage representing the buyer.

How Much Do Real Estate Agents Get Paid?

The listing commission and split can be any amounts agreed to at the time – let's just say, for example, the listing commission is 6%, and there is going to be a 50/50 split or 3% to go to the buyer's broker.

In this example, let's say the final sale price is \$250,000. Therefore, at settlement the seller's broker would receive 6% of that amount or, \$15,000. But, because they previously agreed to share that with the buyer's broker, each broker would receive a check for \$7,500. By the way, the promise to cooperate and pay the buyer's broker is made through the local REALTOR® Association's Multiple Listing Service. It is a system that works well.

Until settlement though, neither the seller's agent nor the buyer's agent has seen a dime. Typically, real estate agents have written agreements with their brokers that identify all aspects of the nature of their contractual relationship (agents are usually not "employees") including compensation. Very often, the only compensation agents receive is after sales are completed – anywhere from the same day to a week or more later – depending on the brokers' policy and practice. The agents' share is based on a split of commission the broker received. In the above example, each agent will have their own deal.

Let's say the seller's agent is fairly new and does not generate a lot of business yet. They might be working for a 50/50 split, less some fees for overhead expense: desk space, administrative support, advertising, errors & omissions insurance, etc. So, the 50/50 split would mean they would receive a check for \$3,750 (half of \$7,500) – less any of the fees mentioned that are applicable.

The buyer's agent might have the same "deal" or, it might be different. Maybe they are very experienced and produce a lot of business for their broker. Their reward for that might be an 80/20 split with no fees charged. Their share of the commission would be \$6,000.

And sometimes, when the seller or buyer client was referred by another agent, a referral fee will customarily be paid for that referral. Most often that fee will be a percentage of the original commission split that occurs at settlement. For example, in this illustration, it might be 20% of \$6,000. So, that would be another \$1,200 off the top - before the split with the broker. Referral fees can be anything agreed to between the agents (in reality, the agreement is between their brokers) – sometimes more, sometimes less than 20%.

In summary, let me emphasize that the numbers and splits used above are for illustration purposes only – real estate brokers' commission rates are not “customary” or “normal” or set by any one or any organization. To do so, or even discuss doing so, is considered a violation of federal antitrust laws and punishable by large fines and time in prison for all parties to such efforts. Real estate brokers and companies can set their own commission rates and require that their agents charge those rates – but more often, there is some flexibility for negotiation based on each particular circumstance and terms of the listing or sale.

Well, maybe at first blush those numbers might sound like pretty attractive sums for what most people think that real estate agents do.

Keep in mind that these commission checks don't roll in every day or even every week – or even every month for the vast majority of agents. To a large extent, they are random events that occur as a result of effort and chance. One of the huge attractions to the profession is that there is no limit to what you can make. One of the great misfortunes is that there is no guarantee of any income.

The National Association of REALTORS® states:

The median gross income of REALTORS® earned from real estate activities was \$39,200 in 2015, a decrease from \$45,800 in 2014. Those who function as sales agents typically reported in 2014 as there were more new entrants to the market. Broker owners, managers, and appraisers had higher gross and net incomes than other groups.

Income is typically commensurate with experience. As REALTORS® with 16 years or more experience had a median gross income of \$73,400, up from \$68,800 in 2014.

The number of hours worked per week is also strongly connected to income.

Source: 2016 NAR Member Profile, (National Association of REALTORS® - Research, 2016). Can be ordered by calling 800-874-6500 #1, or online. The report is \$14.95 to NAR members and costs \$149.95 for non-members.

According to the Bureau of Labor and Statistics (BLS), real estate agents earned a median salary of \$43,370 in 2015. The best-paid earned about \$110,560, while the lowest-paid earned approximately \$21,780.

Now let's take a closer look at what agents incur as expenses and what amount of time or labor is necessary to move transactions to successful settlement.

What expenses do real estate agents have?

First of all, remember that agents are typically contractors, not employees, and therefore do not have any withholding from their checks – no taxes, no social security contribution, no insurance, no retirement deductions. Well, those things have to be paid for somehow. Estimated income taxes of self-employed contractors must be prepaid on a quarterly basis to the federal and state governments. And, then any final adjustments (additional payment or refund) are reconciled on their annual income tax returns (federal and state) on April 15.

Hopefully, real estate agents have the wisdom to purchase adequate medical insurance (if not already adequately covered by a spouse's policy) and disciplined enough to make regular contributions to some sort of retirement fund. Ball park, better deduct approximately \$1,250 from that \$3,750 check for estimated federal, state and local taxes, medical & life insurance, and a retirement contribution.

Mortgage or rent payments are going to have to be made on time, homeowner's insurance, property taxes, HOA dues, utilities, and maintenance costs as applicable are going to take a pretty big bite out the remaining \$2,500. There is probably a car payment with insurance, maintenance, and fuel expense. Groceries and personal and household supplies will need to be purchased. You know - all the normal stuff we all spend money on. How about children? Are they expensive to raise? Is it OK for real estate agents to have hobbies and go on vacation? I guess we're going to need more than one of those commission checks every month.

Now let's look at the typical business expenses for real estate agents.

Perhaps it could go without saying, but we'll say it anyway – successful real estate agents must keep up appearances. They must have a vehicle suitable for transporting clients: vehicle purchase or lease payments, maintenance, tires, repairs, cleaning, and insurance.

Agents will need to purchase and maintain a suitable wardrobe for a professional appearance.

Just to be in this business, they need to earn and maintain a state license to practice with its expense including 60 hours initial training.

Affiliation with a licensed broker (company): desk fees, copy fees, E&O insurance fees, referral fees, etc. is going to cost something.

Good agents will earn and maintain professional designations and certifications: expense and hours in training.

Membership and participation in a variety of professional associations will cost a few hundred dollars per year.

Equipment, materials and supplies: computers, printers, copiers, fax, cell phones, laptops, toner, paper, equipment maintenance, lockboxes are never ending expenses.

Agents will spend much more than expected on advertising and networking: chamber of commerce and other group memberships,

donations, breakfasts, lunches, etc., charitable donations, website maintenance, for sale signs, directional signs, open house signs, magnetic car signs or wrap, magazine and other publication ads, business cards, flyers, promo items, promotional sponsorships, closing gifts, pay for clients' home warranty, etc. Postage expense can be huge.

Membership dues and fees in numerous professional organizations, e.g., NAR, MAR, PAR, CCAR, RAYAC, CRS, ABR, Chamber of Commerce, etc.

It is difficult to put a dollar amount on all of these expenses because they can vary so much from one agent to another. Everybody spends money differently – but money must be spent – anywhere from hundreds to thousands every month.

Many of these expenses are regular monthly, quarterly or annual obligations that must be met – regardless of whether there was a commission check that month or quarter.

What agents actually do:

Real estate agents are entrepreneurs – managing their own small business responsible for generating income and controlling their expenses. As discussed above, that is no small task. Obviously, the whole point of this enterprise is to help people sell and buy real estate while earning a livable income.

To obtain clients, agents must have a multi-faceted approach to marketing and advertising, constantly soliciting sellers and buyers through print advertising, direct mail, social media, networking, personal referral, center of influence referrals, professional referrals, lead generation subscriptions, open houses, floor duty, etc.

Once a prospective seller client is identified, agents must spend hours researching and preparing extensive paperwork for listing property for sale by sellers. After much market research and preparation of a Comparable Market Analysis (CMA) for the property, agents will visit and tour the subject property, ask lots of questions and completely familiarize themselves with the product they are going to sell. Good agents will spend

several hours listening, discussing, educating, consulting and advising clients of their options, best interests, and completing all the required paperwork. These listing agents will then promptly provide copies of all documents prepared to clients and their broker.

Execution of an ***Exclusive Right to Sell/Lease Agreement*** creates a contractual bond between the real estate broker and the property owner or seller. It also provides for a strong fiduciary obligation on the part of the real estate broker and therefore the agent as well. This agency relationship requires that the sellers' best interests must be placed above those of the broker and their agents.

Throughout the agency relationship, agents must maintain effective communication with their clients. This may be accomplished face-to-face, by telephone, text, email, or fax. Communications should be timely, clear and accurate. It is recognized in the industry that consumers are often unhappy about the effectiveness of real estate agents' communications. The truth is that some agents aren't very good at it – some are horrible. But it is also sometimes true that sellers and buyers are at fault as well – not responding to or participating in communication efforts by their agents. Sometimes these clients do not want to hear what the agents are telling them.

Once the listing agreement is completed, the agent then needs to take pictures that are going to show the property at its best possible. A property description needs to be written that will make people want to take a closer look. Accurate and effective directions to the property must be written. Endless forms need to be completed accurately and the listing must be entered into the Multiple Listing Service (MLS). Flyers need to be created, printed and distributed. Signs need to be erected. Arrangements for showings must be established. Additional advertising may need to be arranged for: newspapers, magazines, social media, open houses, etc.

Things change and evolve and real estate agents take care of making any necessary changes to the paperwork on an ongoing basis: price changes, showing times, etc. as the listing progresses.

Some agents specialize in, or even exclusively represent, seller – so-called “listing agents” – they don’t work with buyers at all. Some agents prefer to be “buyer agents”. Probably most agents work with both sellers and buyers.

When people are in the market to purchase a home, they often start searching on their own – usually on the internet. Some people still use the Homes For Sale magazines and drive around desired neighborhoods looking for For Sale signs. But at some point, they realize that they want / need the help of a real estate agent. Upon initial contact from a prospective buyer, agents will consider them a prospect or customer – not a “client” yet. After an initial consultation, the agent should ascertain how their prospect proposes to pay for the property – cash, financing, or some combination thereof? If financing will be necessary, the first step needs to be consultation with a lender of some description – either a bank, mortgage broker or some other legitimate source of purchase money. A written letter of pre-qualification / approval should be obtained prior to showing properties listed for sale. There is no point in looking at houses they cannot afford to purchase. And, just as importantly, it would be irresponsible to the sellers to drag unqualified strangers through their homes.

Next step is for the parties to formalize their relationship and establish buyer agency, with an ***Exclusive Buyer/Tenant Representation Agreement***. It details the understanding and responsibilities between the buyer and the broker they choose to represent them. And, in addition to establishing a legal agency relationship for the benefit of the buyer, it provides the real estate agent with a commitment on the part of the buyer to work exclusively with them and promise loyalty as well. It’s the counterpart of the formal listing agreement that sellers sign.

Real estate agents must maintain an email account, and a website, along with other social media accounts such as: facebook, facebook business, Pinterest, linked-in, Instagram, Snapchat, Twitter, etc.

Active agents receive and respond to all incoming calls and emails and inquiries from prospective buyers and/or other real estate agents.

And, they show properties for sale to clients as requested by appointment.

Real estate transactions are rarely smooth and trouble free. Sellers and buyers are operating at an abnormally high level of stress and the pressures and emotions often turn into irrational behavior and problems. Solving problems and responding to “crisis” situations is a huge part of an agent’s daily life.

Some agents conduct open houses for the public and for brokers/agents – often paying for catering these events. A few agents will advertise and conduct home buyer & seller seminars.

REALTORS® must stay current with the many laws, policies and practices that impact real estate – they change frequently. Many new products and services for the industry are constantly becoming available and must be reviewed and considered. There are dozens of computer based programs that are used on a daily basis. These programs and systems are frequently updated and replaced. Sometimes it seems that as soon as we become proficient with one system, they change it.

Last but not least, agents must complete a minimum of 15 hours of State approved continuing education training every two years to maintain licensing. Some agents attend much more than that.

Most of the things presented here involve some degree of paperwork or online records documenting virtually everything. Countless hours are spent creating a complete record of everything that is said and done.

Hopefully, this account will provide some insight into the life of a real estate agent.

DISCLAIMER

John P. Hale is a licensed real estate agent in Maryland and Pennsylvania. He is affiliated with Coldwell Banker Residential Brokerage in Westminster, M D. John has been licensed since 2000 and also practiced in Tucson, Arizona for many years. Mr. Hale holds the following designations and certifications awarded by the National Association of REALTORS® (NAR) and other authorized institutions: ABR-Accredited Buyers Representative, AHWD-At Home With Diversity , CNE-Certified Negotiation Expert, CRMS-Certified Risk Management Specialist, CRS-Certified Residential Specialist, CT A-Certified Tourism Ambassador, e-PRO-Online Real Estate Practice, GRI-Graduate of Realtor Institute, MRE-Master of Real Estate, MREP-Mortgage Real Estate Professional, and MRP-Military Relocation Professional.

Please note that this article was written by John to provide objective information and to also reflect his opinion of good practice at the time of its' writing for the general benefit of those considering sale or purchase of real estate. It is not intended as definitive legal advice and you should not act upon it as such without seeking independent legal and financial counsel. Frequent changes in the law and standards of practice may cause this information to become outdated and no longer applicable or even incorrect.