

## April 1, 2024 – Wealth Planning Commentary

### National Shift in Real Estate Commissions

Today, we'll talk about a topic that's been in the headlines during the past few weeks. Significant changes to residential real estate commissions are very likely on the horizon. Real estate commissions in the US are amongst the highest in the world. Home sellers pay an average of 5-6% commission on the sale of their home today. The commission that is paid by the seller is typically split evenly: 3% to the seller's agent and 3% to the buyer's agent. Sellers subsidize the all-in cost of purchasing a home by paying the buyer's agent fees.

This broker commission structure is likely to change. The National Association of Realtors (NAR) recently dropped the 6% commission system as part of a settlement in a class action lawsuit. It's good news for sellers and potentially bad news for buyers. If a federal judge approves the settlement, sellers will not be required to pay a commission to the buyer's agent. However, buyers might be disadvantaged, especially in today's economic environment. Buyers who decide to use a broker will need to budget for additional fees. These fees are on top of an increased purchasing cost due to high-interest rates coupled with a supply constraint.

Why is this change in the commission structure happening? It is a true underdog story. The National Association of Realtors (NAR) is the largest trade organization in the country, has existed for over a century, and has a notoriously powerful lobby in DC. A few average Joe home sellers in Missouri felt that the rules set by NAR were heavy-handed and anti-competitive. They took the NAR, a powerful behemoth, to a jury trial for violating anti-trust laws. Incredibly, the home sellers succeeded, whereas the Justice Department and many small upstart real estate technology companies had previously failed, and the NAR settled the lawsuit.

So, how will things change for you? If you are a seller, the net take-home amount after a sale will likely be greater. A buyer will need to decide whether to pay an agent or do it themselves. It's likely that many buyers will continue to use an agent because purchasing a home is a difficult process. It remains to be seen how buyer agents will be compensated. It's likely that alternative models will evolve. Some buyers may pay a 3% commission for a full-service experience, whereas others may purchase services a la carte or pay an hourly fee.

Please reach out to your Wealth Manager with any questions.

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