What Does the Realtor Settlement Mean for Us?

You might have read about what the press is calling a seismic shift in real estate commissions, and how people are going to be paying their realtors a lot less to sell their homes going forward.

The changes are the result of a $1.8 billion lawsuit filed in Missouri by a group of home buyers, who claimed that the National Association of Realtors (NAR) and two large realtor organizations were conspiring to keep broker commissions at the industry standard 6%, when a truly competitive marketplace would have produced commissions in the 3-4% range. The settlement impacts more than a million realtors, and paves the way for home sellers to shop the prices (commissions) that they would pay to a listing agent and the ultimate sales agent.

As a result, real estate commissions are expected to fall 25% to 50%, on average for the 1.6 million real estate agents across the U.S. marketplace. In dollar terms, the average-priced American home for sale ($417,000) would have paid $25,000 in brokerage fees before the settlement. That would fall by between $6,000 and $12,000.

The NAR agreed to pay $418 million over four years to resolve the price-fixing allegations. But perhaps more painfully for the organization, the settlement will also provide more market share to flat fee and discount brokerage operations, which had been forced to do business outside of its Multiple Listing Service. Independent (Non-NAR) members will now, through the settlement, be allowed to list properties on the MLS, and they might (still up in the air) be able to advertise a lower commission.

Analysts are still sorting through the real-world impact. But the ruling opens the door to buyers paying some or all of the (negotiated) brokerage fees for the service of finding the property, rather than the seller being on the hook for the entire brokerage fee. Nobody seems to expect the ruling to produce a rush to sell homes and properties; in fact, paradoxically, it could reduce sales activity. Why? Buyers may not always have the funds to pay a broker out-of-pocket; they typically rely on the mortgage loan for the purchase funds. Current lending practices don’t allow brokerage fees to be added to the cost of the home, so the brokerage fees would have to be somehow added to the price of the house to be covered by the loan.

Sources:

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