

7 Real Estate Beliefs Exposed

In my 20 years as a real estate agent, I have heard all kinds of beliefs from customers/clients about my business and trade. I am constantly surprised at what the public believes. Knowing that the average person only owns 3 houses in their lifetime there is no need to know much about real estate. It is not like you buy a house every week. The things you know more about are the things you do on a daily, weekly, or monthly basis, like grocery shopping, paying bills, and the best routes to work. That said, it is wise to know a knowledgeable real estate agent when buying probably the most expensive asset you will ever own.

Here are some of the most often beliefs that I hear from the public;

1. Real Estate Agents make too Much Money.

When a real estate agent lists a house, let's say for example, that it costs about 6 percent (this is negotiable) commission to the brokerage does not mean that the agent gets it. The seller pays the 6 percent at closing and (usually) half of that goes to the listing agent's brokerage and half goes to the buyer's agent Brokerage. Most brokerages give the agent about half of that keeping the rest for office expenses. That means that both agents end up with about 1.5 percent of the sale price of the home. But wait, franchised brokerages pay a fee to the corporate headquarters which is usually 4 to 6 percent of the 3 percent before the agent gets their cut. On top of that, a lot of brokerages charge the agent transaction fees which could be several hundred dollars.

Here is an example;

\$265,000 – Median sale price of a house in Indianapolis (3/2022)

\$7,950 – 3% commission

\$477 – Franchise fee

\$7,473 – Net after franchise fee

\$3,736.50 – 50% of net

\$200 – Transaction fee

\$3,536.50 – Commission to agent

So the bottom line for this example transaction is that the agent gets about 1.33% of the sale price

Then you have agent expenses -

Listing agents expenses

Time entering the listing

Marketing costs

Phone call time

Open houses
Showings
Coordinating home inspections, and closings

Buyer's agent expenses

Time showing houses
Gas money
Doing research on neighborhood and house prices
Coordinating lenders, home inspections, and closings

If you want to be called a Realtor, you must be a member of the National Association of Realtors. To be a member you must be a member of MIBOR (Metropolitan Indianapolis Board of Realtors). This costs about \$1,200 a year. In most cases, you are responsible for your continuing education (required) which cost about \$100 a year, your lockboxes (\$140 each), your marketing, and your signage. Most brokerages charge a monthly desk fee which is usually around \$100.

Brokerages rarely pay (sometimes not legal) any of the above expenses. Real estate agents/Realtors are independent contractors.

Most agents sell about 4 to 6 houses a year. This is not a money maker unless you sell about 20 houses a year.

2. The higher the List Price, the More the Agent Makes.

Not necessarily. Usually, the higher the list price, the more a brokerage will discount the commission percent.

3. The Listing Agent is the only one that can sell the home.

If the listing agent is a member of MIBOR, then any other licensed real estate agent can sell the home. Multiple Listing Systems (MLS's) were originally designed so the brokerages could share commissions with the buyer's agent brokerage. MIBOR does not call their's an MLS but a BLC (Broker Listing Cooperative). If a listing is on the BLC, then any real estate agent or Realtor can sell the house and make a commission for their brokerage. The challenge is that if the buyer's agent is not a member of MIBOR, then they don't have agent access to the BLC.

4. Agents have to take your business.

Not true. Although agents would love new business, there are times when they may turn it down. Realtors work under a Code of Ethics from the National Association of Realtors. (<https://cdn.nar.realtor/sites/default/files/documents/2022-COE-Standards-of-Practice-2021-12-15.pdf>) They also have to follow federal fair housing laws. (<https://www.justice.gov/crt/fair-housing-act-1>) If customers/clients want to breach these ethics and laws, a Realtor could turn the business down. If they don't, they could be subject to fines or lose their license. There are many other reasons why a Realtor would turn down your business.

5. Agents get kickbacks from inspectors, escrow companies, or lenders.

The Real Estate Settlement Procedure Act of 1974 prohibits kickbacks.

Storytime – Years ago I had a closing at a title company. A couple of days later, I received a \$10 Starbucks gift card from that title company. I returned it saying that this was not legal. I got a call from the title company. The agent said, “but it is a gift.” I said, “It is a thing of value and not allowed”. They said “our attorney says it is OK.” I said “go up to your attorney and ask for a \$10 bill and then walk away with it in hand. When the attorney wants it back, say it is not a thing of value.” Never heard from them again.

6. Agents have to tell buyers everything they know about a property or the neighborhood.

This is really a fine line between due diligence and honesty, and what Fair Housing laws prevent a Real Estate Agent from saying. Real Estate Agents cannot talk about crime in the area, whether the schools are good or bad, or the ethnic makeup of a neighborhood. Agents can tell you where to find that information, but cannot discriminate against any protected class.

7. You are bound to get the house if you buy it with cash.

Not necessarily. Traditionally, cash buyers always had an advantage. They could close fast, there were no lender waits, they usually bought the property “as is” and the seller took less than the list price if it were a cash deal. Not in this market. With multiple offers (sometimes 20 or 30) you are getting deals \$40,000 over the list price. Sellers would rather wait and take the money than close fast and take less.

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