NEELY LENDING GROUP

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Buyer's Agents Post-NAR Settlement

Strategies for Covering the Commission Gap

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Overview of the NAR Settlement

- The National Association of Realtors (NAR) settlement has significantly changed how commissions, particularly those for buyer's agents, are handled.
- The traditional model of seller-paid buyer agent commissions is becoming less common, necessitating new approaches for buyer's agents to secure their compensation.
- Understanding these changes and adapting strategies is crucial for maintaining business viability in this evolving market.

Negotiating Seller Concessions

- Incorporate Commission into Purchase Offer
    - Buyers can request that the seller contributes to the buyer's agent commission as part of the overall purchase offer. This can be presented as a condition of the sale.
    - Example: "Seller agrees to contribute 3% towards buyer's closing costs, including the agent's commission."
- Full or Partial Coverage: The buyer can negotiate whether the seller covers the entire commission or a portion of it. This might depend on market conditions and the seller's motivation.
- Tied to Closing Costs: Instead of specifying the commission directly, it can be framed as part of the seller's overall contribution to closing costs. This method can be less confrontational and easier to negotiate.
    - Considerations: Sellers may be more open to these concessions in buyer's markets or when properties have been on the market for an extended period.

Shifting to Buyer-Paid Commissions

- Buyer Representation Agreements formally establish the buyer's responsibility to pay the agent's commission. The agreement specifies the scope of services and how the agent will be compensated:
    - Percentage of Purchase Price: A traditional commission model where the agent earns a percentage of the final sale price.
    - Flat Fee: A fixed amount determined at the start of the engagement, regardless of the home's price. This can appeal to budget-conscious buyers.
    - Hourly Rate: For buyers who require specific services (e.g., viewing homes or negotiating contracts), an hourly rate can offer transparency and flexibility.
- Adding commission to the representation agreement requires clear communication and documentation to ensure buyers understand their financial commitments upfront.

Incorporating into Loan Agreements

- Financing the Commission
  - Work with lenders to include the buyer's agent commission within the mortgage, allowing the buyer to finance this expense over the loan term rather than paying upfront.
  - If the buyer's agent commission is $10,000, this amount can be added to the mortgage principal, increasing monthly payments slightly.
- Mortgage Inclusion: Negotiate with the lender to roll the commission into the loan, spreading out the cost over 15-30 years.
- Second Mortgage: In some cases, the commission could be financed through a smaller second mortgage or home equity line of credit (HELOC).
- This approach is particularly beneficial for buyers who are cash-strapped but have strong credit and income to support a higher mortgage payment.

Offering Tiered Service Packages

- Customize Service Levels:
  - Create multiple service packages that vary in price and scope, allowing buyers to choose the level of service that fits their needs and budget.
  - Basic Package: Essential services such as property searches and contract drafting.
  - Mid-Tier Package: Includes additional services like attending inspections, negotiating repairs, and advising on financing options.
  - Premium Package: Full-service, concierge-level support, including attending all showings, handling complex negotiations, and offering post-purchase support.
- Clearly define what each package includes to avoid confusion or unmet expectations.

Implementing Flat-Fee Models

- Offering Fixed-Price Services: Charge a fixed fee for specific services or the entire transaction, providing buyers with cost certainty.
- Transaction-Based Flat Fee: A single fee for handling the entire transaction, from the initial search to closing.
- Service-Based Flat Fee: Fees for individual services, such as $500 for home tours or $1,000 for contract negotiations.
- Flat-fee models are transparent and can appeal to buyers who prefer knowing exactly what they'll pay upfront.

Adopting Hourly Billing

- For buyers who prefer à la carte services or have a more extended timeline, billing hourly can be an effective method.
  - Charge $150 per hour for services such as property searches, home tours, attending inspections, or negotiating offers.
- Hourly billing allows buyers to pay only for the services they use, making it an attractive option for more experienced or hands-on buyers.
- Prepaid Hours: Offer buyers the option to prepay for a block of hours at a discounted rate.
- Keep detailed records of time spent on each task to provide transparency and build trust with clients.

Collaborating with Listing Agents

- Private Commission Agreements: Establish relationships with listing agents who may be willing to privately share commissions outside of MLS agreements.
- Negotiate with the listing agent to receive a portion of their commission for bringing in a qualified buyer.
- Co-Brokerage Agreements: Formalize arrangements where listing agents agree to share their commission with buyer's agents on a case-by-case basis.
- Referral Fees: If representing the buyer becomes unfeasible, consider referring them to the listing agent for a fee.
- This strategy requires strong networking and negotiation skills, as well as a clear understanding of legal and ethical guidelines.

Developing Buyer Incentive Programs

- Offer incentives such as cash-back or credits towards closing costs to reduce the buyer's out-of-pocket expenses, effectively lowering the cost of your services.
  - Offer a 1% rebate on the purchase price at closing or a $2,000 credit towards closing costs.
- Cash-Back Programs: Provide a rebate after closing, based on a percentage of the purchase price or a fixed amount.
- Closing Cost Credits: Offer to cover specific closing costs, effectively reducing the overall cost burden on the buyer.
- Ensure these programs comply with RESPA regulations and are clearly communicated to buyers.

Leveraging Technology

- Utilize technology to manage commissions, present value propositions, and set customized commission structures.
- Implement an app that allows buyers to track services rendered and associated costs in real-time.
- Commission Tracking Tools: Use software to track hours, services, and commission agreements, providing transparency to buyers.
- Client Portals: Offer buyers access to a portal where they can view service progress, billing, and other transaction-related details.
- Investing in technology can enhance the client experience and streamline operations, making it easier to manage complex commission structures.

Educating Clients

- Educate clients on the importance of professional representation and the new commission structures, helping them understand the value of your services.
- Create educational content or hold seminars/webinars that explain the new real estate landscape and how it affects buyers.
    - Workshops and Seminars: Host informational sessions to explain the changes in the market and the benefits of hiring a buyer's agent.
    - Educational Materials: Provide buyers with brochures, videos, and online resources that break down the costs and value associated with using a buyer's agent.
- Transparency and education build trust and help buyers appreciate the value of professional representation, even if they have to pay for it directly.