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Do Real-Estate Agents Have a Secret Agenda?

In a Softening Market, Many Are Receiving Big Bonuses to Steer Buyers to Certain Properties

By JAMES R. HAGERTY and RUTH SIMON
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Home buyers have a new reason to be wary in this weakening housing market: Real-estate agents increasingly have lucrative incentives to push one home over another.

Slow sales have prompted builders and some individual sellers to offer unusually generous incentives to agents whose clients buy a home. Sellers normally pay the buyer's agent 2% to 3% of the home's price. Now many are offering thousands of dollars or other rewards, such as travel vouchers, on top of the normal commission.

Such incentives have long been used to sell some homes. But they have proliferated and become more generous recently as a glut of properties on the market makes it harder to sell homes. "These guys are desperate," Ivy Zelman, a Cleveland-based housing analyst at Credit Suisse Group, says of home builders.

Although there are no national data on the practice, real-estate agents and builders agree that incentives have become much more widespread in recent months, especially in areas such as Florida, Nevada, Arizona and Washington, D.C., where inventories of unsold homes have soared. Builders and sellers also are offering lots of incentives to buyers, including free kitchen upgrades, help with closing costs and even new cars.

The problem with agent incentives is that consumers may not know their agents have a potential conflict of interest when they show and discuss certain properties. Of course, agents can't make buyers want to buy an unsuitable home, and most buyers have strong ideas of their own. But agents can have a big influence on which homes consumers see. And agents' influence can be particularly strong with newcomers to an area who don't know which builders are considered most reliable and which neighborhoods most appealing.

GoldStar Homes of Texas, based in the Dallas-Fort Worth area, recently has been offering a \$2,000 bonus atop the usual commission on some of its new houses. The company resorts to these extra payments "if we need to move some homes," says Paul Garrett, project manager for GoldStar.

Las Vegas builder American West is offering agents a \$15,000 bonus to sell homes in its Glen Eagles development, provided they come in with a full-price offer within 30 days. The bonus drops to \$10,000 for negotiated offers and those that take longer. "The goal is to try to push them to make a full-price offer," says Jeff Canarelli, vice president of sales at the builder. It is up to the broker to decide whether to give the bonus back to the buyer, he says.

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Other builders are offering the buyer's agent jumbo commissions of 10% or more, and some sellers of previously occupied homes are also using bonuses to draw attention from agents. One extreme example is an eight-bedroom mansion, featuring an English-style pub, on six acres of land in Potomac, Md., offered for \$4.4 million. The sellers are offering a \$100,000 bonus plus a commission of 2.5% to any agent who can find a buyer. If the home sells for \$4 million, the commission and bonus would come to \$200,000.

The bonus "has certainly piqued interest when agents realize it's there," says Cindy Souza, an agent representing the sellers.

It's less clear that consumers realize what's going on.

Bob Poirier, an agent at VIP Realty Group in Naples, Fla., who calls himself "Boston Bob," recently earned a 7% commission for finding the buyer for a condo that was listed by the brokerage firm where he works. He says he didn't discuss that big commission with the buyers. "That's just something nobody ever discusses with buyers," Mr. Poirier says.

Special Incentives for Real Estate Agents			
A sampling of incentives offered recently by builders and other home sellers for agents who bring in a buyer.			
MARKET	HOME OR DEVELOPMENT	ASKING PRICE	BONUS FOR AGENT
Naples, Fla.	Briar Landings condos	\$150,000 to \$225,000	Up to 10% ¹
Las Vegas	American West's Glen Eagles	\$458,000 to \$487,000	Up to \$15,000 ²
Phoenix	Taylor Woodrow's Crestfield Manor ³	\$280,000 to \$350,000	10% ¹
Fort Worth, Texas	Newmark's Villages of Sunset Pointe	\$160,000 and up	Up to \$10,000
Lothian, Md.	5409 Rapidan Court	\$1.16 million	\$10,000
Arlington, Va.	1021 Garfield St. condo	\$435,000	\$3,000 ²
Southeastern Va.	New homes by Virginia Enterprises	Over \$350,000	Vacation packages ⁴
Potomac, Md.	12307 Glen Road	\$4.4 million	\$100,000

¹ Of purchase price; ² For full-price offers; ³ On certain homes; ⁴ For multiple sales
Sources: Builders and agents

The best defense for buyers may be to insist that agents disclose the compensation being offered on any property under serious consideration. That way, consumers could negotiate ways to share anything that goes beyond a normal pay day for the agent -- or at least take the incentives into account in assessing the agent's advice. But few consumers raise such questions. Daniel Ruben Odio-Paez, a

broker in the Washington, D.C., area who operates a real-estate search site, www.tbhse.com, says he believes "most buyers have no clue how their agent is being compensated."

The National Association of Realtors, the dominant trade group for real-estate agents, doesn't require its members to tell buyers in advance of a purchase how much the agents will be compensated. Federal rules require bonuses and sales commissions to be disclosed on the HUD-1 settlement statement, but buyers don't see that document until the closing or shortly before. At that point, it would be awkward to start negotiating with an agent about the compensation. The federal rules, enforced by the Department of Housing and Urban Development, or HUD, don't require agents to disclose trips or other noncash awards.

By contrast, federal securities regulations say brokers must disclose any bonuses or special payments they might receive for recommending a particular security. The National Association of Securities Dealers bars the offering and acceptance of noncash awards that are used to promote the sale of specific products.

Stephen Cook, a spokesman for the Realtors group, says buyers won't buy homes they don't like or can't

afford "merely because the agent is offered a nice commission." He adds that a bonus or larger-than-usual commission "may cause a particular house to get shown more, which is the whole idea." Laurie Janik, the Realtors' general counsel, adds that the group's code of ethics requires members to show customers properties that meet their needs, regardless of the compensation offered to agents.

Some agents argue for disclosure. "Ethically, if you are representing the buyer and taking the buyer to a place where you are getting an increased commission, the right thing to do is tell them," says Danny O'Sullivan, a senior vice president with Long & Foster Real Estate Inc. in Fairfax, Va.

Frank Borges LLos, owner of FranklyRealty.com, a brokerage in Arlington, Va., says he is most disturbed by bonuses offered on the condition that the buyer pays the full asking price. He argues that such provisions should be banned because they put the interests of agents at odds with those of their customers, who want the lowest possible price.

Tom Early, the owner of Buyer's Real Estate Brokerage in Columbus, Ohio, suggests that consumers reach an agreement with the agent before starting to look at houses, establishing how much the agent will be paid and stipulating that the agent must represent the interests of the consumer. Any bonus above that specified compensation should go to the buyer, says Mr. Early, who is also president of the National Association of Exclusive Buyer Agents, a trade group for brokers that represent only buyers. "It's their money," he says.

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