Lesson 1: An Introduction to Real Estate

The Real Estate Industry

- The real estate industry is divided into:
  - Residential real estate
  - Commercial real estate

Real Estate Transactions

- Real estate transaction may be:
  - Sale
  - Lease
  - Exchange
Most basic real estate transaction is sale of a home, involving:

- Listing property
- Showing property
- Submitting and considering offers
- Negotiations between seller and buyer

Execution of the contract
- Property inspections
- Financing arrangements
- Property appraisal
- Closing preparations
- Buyer’s walk-through
- Closing

Sellers put home on market by listing it.
- Seller agrees to pay agent commission in exchange for agent finding a buyer.
- Agent (listing agent) submits property information to MLS.
Real Estate Transactions
Showing the property

- Prospective buyers tour home with:
  - their own agents,
  - listing agent, or
  - another agent from MLS.

Real Estate Transactions
Offers

- Buyer submits written offer to purchase, including:
  - Price buyer is willing to pay
  - Closing date
  - Other terms of sale

- In active market, desirable property often receives multiple competing offers.

Real Estate Transactions
Offers

- Offer is usually accompanied by (earnest money) deposit to show offer is serious and in good faith.
  - If offer is rejected, deposit returned to buyer.
  - If offer is accepted but sale later falls through, deposit may be returned to buyer.
Real Estate Transactions

Negotiations

- Seller may want to negotiate changes in the terms in buyer's offer.
  - Seller uses counteroffer to present these changes.
- Buyer may respond with another counteroffer – negotiations then go back and forth.

Real Estate Transactions

Contract

- When offer (or counteroffer) is accepted, a legally binding contract is formed.
- Typically, contract is contingent on the fulfillment of certain specified conditions.

Real Estate Transactions

Inspections

- Buyer may order home inspection to have home's construction and condition evaluated.
- Other inspections may also be ordered: pest inspection, soil stability test, etc.
Real Estate Transactions

Financing

- Unless buyer can pay for property in cash, financing must be arranged.
  - Usually buyer comes up with cash downpayment and borrows remainder from mortgage lender.

Real Estate Transactions

Appraisal

- Since property will serve as collateral for loan, lender will require an appraisal.
  - Appraiser evaluates property and provides estimate of its market value to lender.

Real Estate Transactions

Closing preparations

- Many tasks must be completed before sale closes:
  - Arrange for seller’s mortgage to be paid off
  - Order title insurance policy
  - Have deed and other documents recorded
- May be handled by parties or by closing agent.
Real Estate Transactions

Walk-through

- Buyer may make one final visit/inspection before closing to ensure required repairs have been completed and that property is in satisfactory condition.

Real Estate Transactions

Closing

- Final step in real estate transaction is closing (settlement).
  - Closing may take place at meeting attended by parties, agents, and representatives from lender and title company.

Summary

Real Estate Transactions

- Listing
- Showing the property
- Offers
- Negotiations
- Contract
- Inspections
- Financing
- Appraisal
- Closing preparations
- Walk-through
- Closing
**Real Estate Brokerage**

**Broker:** Acts as intermediary, helping to arrange purchase or sale of services on behalf of others.

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**Real Estate Brokerage**

**Brokers and salespersons**

- **Real estate salesperson's license:** Allows salesperson to work with members of public in real estate transactions, if supervised by real estate broker.
  - Broker’s license requires additional education and/or experience.

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**Real Estate Brokerage**

**Brokers and salespersons**

- "Real estate agent": generic term for person who sells real estate (broker or salesperson)
  - "Realtor" ≠ "real estate agent"

  - REALTOR®: member of National Association of REALTORS®
Brokerage Services

Seller's agent

- Services for sellers:
  - Pricing property
  - Preparing home for showing
  - Effective advertising
  - Showing to prospective buyers
  - Negotiations and paperwork
  - Monitoring closing

Brokerage Services

Pricing property

- Agent performs competitive market analysis (CMA) to help seller set realistic listing price.

  Requires knowledge of:
  - recent sales/listings and
  - area/neighborhood,

Brokerage Services

Preparing the home

- Agent can tell seller what steps to take to improve home’s appearance.
- Some agents specialize in staging homes for showing.
Brokerage Services  
Effective advertising

- Types of advertising:
  - classified newspaper ads
  - mailed flyers
  - display ad in “Homes for Sale” magazine

- Most important: listing in MLS database

Brokerage Services  
Showing the property

- Open house: scheduled time when home is open for viewing and agent is available to answer questions.
- Agent can also show home using lockbox key provided by agent/broker.

Brokerage Services  
Negotiations and paperwork

- Agents help parties negotiate offer and acceptance.
- Seller often relies on agent to provide disclosure forms and explain how to fill out.
Brokerage Services

Monitoring the closing process

- Agent acts as liaison between seller, buyer, and other parties.
- Helps resolve any problems that may arise.

Brokerage Services

Buyer's agent

- Agent can help buyer with:
  - Finding the right property
  - Entering into contract
  - Obtaining financing
  - Completing transaction
- Agent working with buyer may actually represent seller.

Brokerage Services

Buyer's agent

- Buyer can find selling agent by:
  - Referral
  - Visiting brokerage
  - Contacting agent after seeing For Sale sign
  - Open house
Brokerage Services

Buyer’s agent

- Agent determines what buyer wants (and can afford).
- Agent searches MLS and takes buyer to see properties.
- Agent typically helps buyer fill out offer form and presents offer.

Summary

Brokerage Services

- Broker
- Salesperson
- Staging a home
- Multiple listing service
- Open house
- Keybox

Real Estate as a Career

Working as a real estate agent

- Real estate agents work for themselves.
- Brokers expect agents to get new listings and find prospective buyers.
- To earn a good living, agent must be self-motivated and disciplined.
Working as a real estate agent

- Agents usually set their own schedules.
- May be able to work part-time, but must be able to manage their time.
- Often must work evenings, weekends, and holidays.

Real estate companies

- Types of companies:
  - Single broker firms vs. very large firms
  - Local vs. national franchises
  - Specialized vs. multi-service

Agents must have good people skills.
- Must work closely with clients.
- Transactions can be stressful; parties can be short-tempered and demanding.
- Must be able to tolerate rejection.
Real Estate as a Career
Real estate companies

Support for agents:
- Training (formal program, mentoring, etc.)
- Facilities and services (desk, computer, phone, access to fax and copier, etc.)
- Memberships (MLS, trade associations)

Agent’s responsibilities (depending on brokerage’s requirements):
- Floor duty: must be at office to handle calls and drop-in visits from prospective clients
- Sales goals

Commission split: Listing brokerage typically splits commission with selling brokerage.
- Listing broker shares commission with listing salesperson.
- Selling broker shares commission with selling salesperson.
Agent Compensation

Commission split

- Percentages in commission split are set by agreement.
- Salespersons may receive smaller percentages in exchange for more support (better facilities, etc.)
  - Some brokerages give agents 100% of commissions, but charge desk fee.

Real Estate as a Career

Employment status and tax withholding

- Agent may be classified as either:
  - **Independent contractor**: Hired to perform specific job; uses own judgment in completing job.
  - **Employee**: Hired to perform whatever tasks employer requires; follows employer’s instructions.

- How agent is classified depends on degree of control broker exercises over agent.
  - Agent usually is independent contractor.
Real Estate as a Career

Employment status and tax withholding

- If agent is employee:
  - Broker must withhold social security and taxes, etc.
  - Agent is eligible for unemployment, worker’s compensation, and certain benefits may be provided.

- Agent is independent contractor if:
  - Agent is a licensed real estate salesperson,
  - Substantially all compensation is commission-based, and
  - Agent and broker have written contract providing that agent is independent contractor.

Professional associations

- Professional organizations:
  - Provide members with information, training, and networking opportunities.
  - Some offer professional designations.
  - Some have code of ethics for members.
Professional Organizations

Code of ethics

- Code of ethics:
  - Sets standards of conduct for dealing with public and other members of profession.
  - Provides guidance on handling ethical dilemmas.

Real Estate as a Career

Professional associations

- Largest and best-known professional association: National Association of REALTORS® (NAR)
  - Only members of NAR can call themselves REALTORS®.

Real Estate as a Career

Professional associations

- the Appraisal Institute
- American Society of Appraisers (ASA)
- Building and Office Managers Association (BOMA)
- Institute of Real Estate Management (IREM)
Summary
Real Estate as a Career

- Types of brokerages
- Floor duty
- Commission splits
- Desk fee
- Independent contractor
- Employee
- Professional associations
- NAR
- Code of ethics

Real Estate and the Law

- Types of laws:
  - Federal, state, and local laws
  - Statutes
  - Administrative regulations
  - Case law (judicial rulings)
  - Constitutional law

Real Estate and the Law
Laws regarding real estate agents

- Laws affecting real estate agents:
  - License law
  - Agency law
Georgia, just like many other states, has a real estate license law with:

- requirements for obtaining real estate broker or salesperson licenses
- rules for brokerages and other real estate businesses
- grounds for disciplinary action

Real estate agents also impacted by:

- General agency law: combination of state statutes and case law
- Specific Georgia licensing statutes

Real estate contracts governed mostly by contract law.
Also affected by Georgia and federal civil rights laws.
Real Estate and the Law
Laws concerning property

- Property law includes rules about:
  - what constitutes real property
  - owner’s rights (and limitations on those rights)
  - different forms of ownership
  - non-ownership interests
  - transferring ownership and other property interests from one person to another

Summary
Real Estate and the Law

- Federal, state, and local laws
- Statutes
- Administrative regulations
- Case law
- Constitutional law
- License law
- General agency law
- Real estate agency statute