

Lesson 1: An Introduction to Real Estate

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The Real Estate Industry

► The real estate industry is divided into:

- Residential real estate
- Commercial real estate



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Real Estate Transactions

► Real estate transaction may be:

- Sale
- Lease
- Exchange



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Real Estate Transactions

▶ Most basic real estate transaction is sale of a home, involving:

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



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Real Estate Transactions, cont.

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



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Real Estate Transactions Listing

- ▶ 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.



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Real Estate Transactions

Showing the property

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



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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.



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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.



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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.



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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.



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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.



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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.



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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.



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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.

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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.



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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.



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Summary Real Estate Transactions

- ▶ Listing
- ▶ Showing the property
- ▶ Offers
- ▶ Negotiations
- ▶ Contract
- ▶ Inspections
- ▶ Financing
- ▶ Appraisal
- ▶ Closing preparations
- ▶ Walk-through
- ▶ Closing

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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®

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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



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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,



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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.



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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



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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.



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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.



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Brokerage Services

Monitoring the closing process

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



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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.



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Brokerage Services

Buyer's agent

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



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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.



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Summary Brokerage Services

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

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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.



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Real Estate as a Career

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.



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Real Estate as a Career

Working as a real estate agent

- ▶ 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.



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Real Estate as a Career

Real estate companies

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



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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)



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Real Estate as a Career

Real estate companies

- ▶ 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



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Real Estate as a Career

Agent compensation

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



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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.



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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.

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Real Estate as a Career Employment status and tax withholding

- ▶ How agent is classified depends on degree of control broker exercises over agent.
 - Agent usually is independent contractor.



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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.



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Real Estate as a Career

Employment status and tax withholding

- ▶ 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.



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Real Estate as a Career

Professional associations

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



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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.



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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®.



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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)



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Summary Real Estate as a Career

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

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Real Estate and the Law

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



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Real Estate and the Law Laws regarding real estate agents

- ▶ Laws affecting real estate agents:
 - License law
 - Agency law




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Real Estate and the Law

Laws regarding real estate agents

- ▶ 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



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Real Estate and the Law

Laws regarding real estate agents

- ▶ Real estate agents also impacted by:
 - General agency law: combination of state statutes and case law
 - Specific Georgia licensing statutes



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Real Estate and the Law

Laws concerning transactions

- ▶ Real estate contracts governed mostly by contract law.
- ▶ Also affected by Georgia and federal civil rights laws.





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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

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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

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