

Traditional agents pull the transaction strings

Potential conflicts of interest and abuses are obviated when a buyer's agent is part of the purchasing equation, writes **Rowena Ryan**.

Real estate agents have always had a unique way of doing business. They represent the seller, yet negotiate with the buyer to ensure a deal is made and, above all, that the agent's commission is received. It's like being all things to all parties.

But with each side having competing goals, a conflict of interest is bound to occur. Imagine a barrister representing both the defendant and the plaintiff on the same case.

This problem is exacerbated when larger real estate agencies act as a dual agency – providing agents who represent both buyers and sellers. “When the buyer's agent and the seller's agent come from the same agency then the agents act as intermediaries, rather than as advocates, for their clients,” says Scott McGeever, president of Real Estate Buyers' Agents Association of Australian (REBAA).

This is an “age-old thing” says McGeever. Consumers believe they are receiving independent representation when in fact the agent's loyalties are divided. “When the agent knows both sides of the deal, the relationship can be abused”,

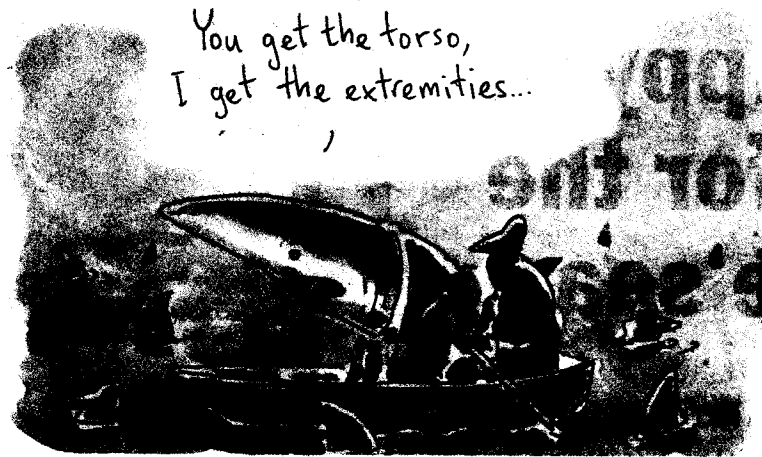
especially as the deal is a major source of revenue for the agent.

It is not surprising then to notice a new trend rising in Australian property transactions, the use of buyer's agents. Buyer's agents have not been a common part of the Australian market, they are an overseas phenomenon.

More than 80 per cent of people buying property in the US use buyer's agents to source, negotiate and purchase their property. The reason lies in the differing commission structure. Selling agents receive a 5-6 per cent commission which they split with the buyer's agent. In Australia, the selling agent's commission is about 2 per cent, hardly encouraging for commission sharing.

Henry Wilkinson, principal of Homeseach Solutions, has witnessed the rapid growth of buyer's agents since starting his business nine years ago. Back then, Wilkinson was one of three buyer's agents; today he is one of 20. Melbourne has grown even faster with between 30 and 40 agents, and Brisbane is just behind Sydney.

So why this changing trend in property transactions?



Debbie Brooke, director of Australian House Hunters, believes it is the result of a time-poor society where people are “increasingly outsourcing”.

A buyer's agent leverages your time, they have access to a wider choice of properties, they are professional negotiators and they eliminate the pressure imposed by selling agents who are keen to get the deal done.

A large part of Wilkinson's client base are expatriates or overseas investors whose geographical distances limit property inspections and the ability to make informed property decisions based on market knowledge.

Buyer's agents know the property market and ensure certain conditions are included in the contract. Brooke sees buyer's agents

as “protecting buyers”, particularly in NSW where contracts tend to look after the vendor.

Buyer's agent's fees range from 1 to 2.5 per cent of the property purchase price. They will either charge a flat fee based on the buyer's purchase price budget, or take a direct commission on the final sale price. Most charge a retainer fee at the commencement of the search; Homeseach Solutions charges \$800 and more to ensure the client is committed.

Australian House Hunters works on the flat-fee structure. Brooke believes that “in theory my job is to get money off the property so it would be contradictory to work for commission”.

Brooke recently found a property for a couple who wanted to relocate from Sydney to Newcastle. They

Buyer's agents

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were looking for a renovated family home with a pool and four bedrooms.

Brooke negotiated on a house in Lake Macquarie that was on the market for \$800,000 and the sale price ended up at \$710,000. The fee for the transaction was \$8800.

The power of real estate agents in the purchasing process is highlighted by Steven D Levitt and Stephen J Dubner, co-authors of *Freakonomics*. They conducted research looking at real estate agents who sell their own homes.

They find that the absence of a buyer's agent is associated with a statistically significant 1.9 per cent increase in the sale price suggesting that a realtor successfully exploits uninformed buyers when selling his or her own house, but does not reap the available gain for clients.