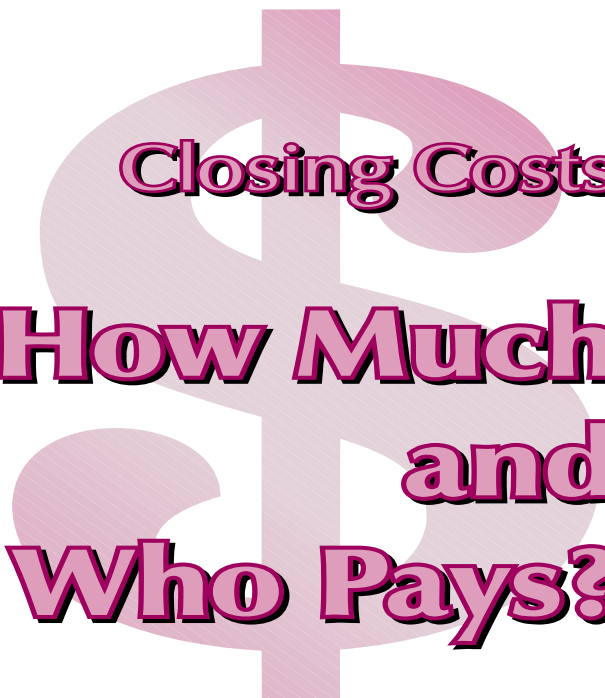


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Closing Costs How Much and Who Pays?

By Ted C. Jones and Larry Hart

Buying and selling residential real estate generally involves several real estate professionals: appraisers, attorneys, brokers, salespersons, lenders, pest and property inspectors, surveyors and title firm personnel. Each charges a fee. Of these, only title insurance premiums are based on Texas promulgated rates as set by the Texas State Board of Insurance—although the speed of service and professionalism within the title business are indeed competitive. All other fees

are variable and subject to negotiation. And, whether the buyer, seller or a third party pays is negotiable. Determining typical costs and which party generally pays were identified from several hundred Texas residential closing statements analyzed between fall 1994 and spring 1995. Prices ranged from \$10,000 to \$580,000, with an average of \$71,575. The average loan-to-value ratio was 85.7 percent, with a maximum of 110 percent. Slightly more than 30 percent of the transactions had no loan reported—they literally were cash deals.

Note: This sample of sales was neither random nor necessarily representative of all Texas real estate transactions. They are used for illustration only. In no way should costs quoted here be construed to represent actual costs for any respective transaction. The costs exclude any prepaid items such as interest, property insurance and property taxes. Numerous costs other than those listed are included in the total cost summary

Real estate commissions. Real estate commissions were paid in only 61 percent of the transactions, spelling great opportunities for Texas licensees in generating additional revenues—even in today's relatively low-key market. The level of real estate licensee involvement, as indicated by the percentage of commissions, corresponds to a 1990 Center finding across a sample of Multiple Listing Service (MLS) sales of existing housing.

In that sample, from 71.9 percent to almost 81 percent of all residential existing home sales were listed and sold through the MLS systems. New construction sales ranged from a maximum of 50 percent in a lesser populated market to 20 percent in a major city. The MLSs at that time covered approximately 80.7 percent of Texas' population. Texas licensees have significant opportunities to increase commission revenues today without any growth in sales volume. By capturing some of the almost four in ten transactions negotiated outside the loop, real estate professionals can boost their incomes.

The only consistent component of real estate commissions is that, in all but one instance, they were paid by the seller. Commissions ranged from 1.8 percent to 10 percent, with an average of 5.69 percent and a median of 6 percent. The lower quartile was 5.11 percent (indicating that one-fourth of commissions were less than 5.11 percent and three-fourths exceeded 5.11 percent), while the upper quartile equalled the 6 percent median. Five percent of sellers paid a commission of 10 percent or greater. Correlation analysis indicates that higher priced properties had lower percentage commissions.

Surveys. The average survey cost was \$333.38, with a median of \$270.63. The lower quartile was \$215.50 while the upper quartile was \$346.75. The buyer and seller jointly paid for the survey in just 5 percent of the closings. Buyers exclusively paid for surveys 71.9 percent of the time, with sellers paying only 23.1 percent of the time.

Pest inspections. The typical pest inspection fee in the sample of closing statements was slightly more than \$100, with a median of \$64.95. Ten percent cost more than \$200. The lower quartile was nearly \$50, with a corresponding upper quartile of just less than \$87. Three-fourths of the time, buyers paid the pest inspection fee, while co-payments with sellers occurred less than 5 percent of the time.

Repairs. Repairs were included in approximately 14 percent of the transactions, with an average value of \$784.52. This represented 1.61 percent of the selling price. One-half of all repairs cost less than \$500, or slightly less than three-fourths of 1 percent of the property value. The relatively small average and median in no way implies that repairs can be a minimal cost, as the maximum repair cost was 14 percent of the sales price. Sellers paid for repair costs in all but one property.

Home warranties. Residential warranties were purchased in 5.8 percent of the transactions, and in every circumstance, the seller paid for them. The average residential warranty was slightly less than \$350 with a \$330 corresponding median.

Appraisals. Only five years ago, rarely was an appraisal **not** required by a buyer, even more rare was the lender who waived the need for one. This has changed now as a result of recently altered federal rules raising the threshold to \$250,000. At or below this price, appraisals are no longer required when dealing with financial service institutions. This means that, at the discretion of the lender, appraisals using state licensed or certified appraisers are not mandatory on loans of less than \$250,000.

Many lenders now complete in-house evaluations on exempt properties by using trained, experienced personnel. Lenders have the discretion to charge for

this evaluation, but in many transactions they do not. This does not mean that the lender will not require an appraisal, but rather that a state certified or licensed appraiser is not required within the framework of federal rules and regulations. As a result, appraisal fees were found in only 51.3 percent of the sales, with an average cost of \$305 and a \$325 median. Buyers paid for the appraisal 81.6 percent of the time.

Document preparation and attorney fees. The average cost of document preparation was \$189, with a median of \$175. The average cost to buyers was \$181 (\$150 median) and \$105 for sellers (\$75 median). Attorneys' fees, over and above document preparation, had a median cost of \$150 (\$209 average). Sellers' average attorneys' fees were \$144, less than the \$212 cost to buyers, with medians of \$100 and \$175, correspondingly.

Loan costs. The average loan expense was 3 percent of the loan amount, including loan origination fees, loan discount fees, appraisal and inspection fees, credit report, mortgage insurance, underwriting, tax certificates or associated service, flood certificates (where applicable) and a processing fee. Sellers paid a portion of the loan cost one-third of the time. In those instances, the average contribution by the seller was \$810. The average buyer's cost was \$1,424, resulting in an overall lending expense of \$1,702, with a \$1,590 median. Specifically excluded was any prepaid interest, property insurance and property taxes.

Closing costs. Total buyer and seller closing costs averaged 8.8 percent, with a median of 8.5 percent. One-fourth of the transactions were 4.5 percent or less (the lower quartile), while the upper quartile was 12.1 percent. The average seller paid 6.1 percent of the sales price for transaction costs, with buyers averaging 2.6 percent. Median total closing costs were 6.8 and 2.4 percent for sellers and buyers, respectively.

Being informed about typical Texas real estate costs and who generally pays them, places the broker and sales agent in a more knowledgeable and, therefore, stronger negotiating position. Such information relieves the broker or sales agent from relying on personal views about who pays what costs. Ideally, the agent should track the typical local fee arrangements. While none of the prior variable fees should be blindly used, they reveal the costs of transferring real property. They may help brokers and agents educate buyers and sellers when negotiating real estate transactions. ☐

Sellers consistently paid commissions, but only 61 percent of the transactions included them.

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