

Glossary of Real Estate Terms

Please keep in mind that this document is only meant to familiarize you with some of the basic terms used in a real estate transaction. In no way is it meant to present a comprehensive explanation of all the various laws, regulations and business practices involved in buying or selling a home -- there may be certain things that haven't been discussed at all, and the explanations that are given are often simplified. Further, this document is not intended to provide legal advice to consumers. It should not be relied on in place of seeking professional advice from a REALTOR® and/or attorney if you are unsure of any of the terms or concepts involved, or if you have questions about any aspect of the process.

Addenda: PAR-designed forms are intended to cover the most common issues that are likely to arise in a particular transaction. Not every scenario can be anticipated, however, and it is sometimes necessary to use an addendum to a contract to add something that is not included in the main contract. Some of these contract terms are produced as pre-printed addenda, and other times the parties will write their own addenda in order to be sure that the contract reflects their wishes. Remember that although most forms have a great deal of pre-printed material, many of the terms can be negotiated (although some may be required by law). If additional terms are negotiated, write them down in an addendum and include it in the contract that way. Do not rely on an oral agreement to change the terms of a written contract. Always put it in writing!

Agreement of Sale (Form A/S-2K): The Standard Agreement of Sale is one of the most commonly used forms. It is a very long form (8 pages, with information essential to the Agreement printed on the back of certain pages), designed to include the necessary provisions of a contract and to cover most of the issues that commonly come up in the purchase of residential property, including:

- The names of all parties;
- The date of the agreement;
- The purchase price of the property;
- The settlement date;
- Which fixtures/appliances/etc. are included in the price;
- Contingencies that allow the seller or buyer to cancel the contract if certain conditions are not met;
- Information and notices to the parties that are required by law.

- Any other forms (addenda) that are being made part of the agreement.

Given the importance of the sale or purchase of a home, it is important that buyers and sellers review all the terms of the contract before signing, and that they understand the meaning of the various decisions to be made. The buyers and sellers should assure themselves that all promises and agreements relied upon are stated fully in the contract or in a properly worded addendum. Any questions should be directed to a REALTOR® or an attorney.

Broker: A person or business entity licensed by the Commonwealth of Pennsylvania and engaged in the business of facilitating real estate transactions. A broker has completed educational and testing requirements beyond those required of someone with a salesperson license. All licensees must work under the supervision of a broker.

Broker of Record: The individual responsible for overseeing the real estate activity of a real estate brokerage that is a corporation or partnership. The Broker of Record may directly supervise the licensed sales/management staff, or may hire office managers who are brokers or associate brokers to do so. The broker of record is ultimately responsible for the operation of the brokerage.

Business Relationship: Buyers and sellers who wish to work with a real estate licensee in buying or selling a home must sign a contract indicating the type of "business relationship" being entered into. There are a number of different possible relationships, each of which is appropriate in different circumstances. These relationships are described in detail in the Consumer Notice. The business relationships possible in the sale or purchase of real estate are: buyer agency, seller agency, dual agency, designated agency and transaction licensee.

Business Relationship form (Form BR): A buyer who wishes to establish a business relationship with a broker, will often be asked to sign a form titled "Business Relationship Between Broker and Buyer." The first part of this form shows the type of business relationship that is involved in the transaction. Note that if the broker is to be a Seller Agent or Transaction Licensee (as defined in the Consumer Notice) he or she may not owe the buyer complete loyalty in the transaction. Buyers choosing to work with the broker as a Buyer Agent may have a choice to create an exclusive or non-exclusive relationship. The second part of the form is an Exclusive Buyer Agent Contract, which creates an exclusive business relationship for the term of the contract. In an exclusive relationship the buyer agrees to work with only one broker, through one or more of the broker's affiliated licensees. To create a non-exclusive buyer agency contract, use Form NBA.

Buyer Agency: A business relationship where the broker agrees to work only for the buyer in a transaction. Buyer agents are loyal to the buyer and act in the buyer's best

interest. Buyers choosing to work with the broker as a Buyer Agent may have a choice to create an exclusive or non-exclusive relationship. Unless designated agency is selected, any licensee employed by the broker may also represent the buyer. For more details, see the explanation given in the Consumer Notice.

Consumer Notice (Oral): At a consumer's first face-to-face meeting with the licensee he or she will be given a copy of the written Consumer Notice to read and sign, but if the first substantive conversation with a real estate licensee comes over the phone, the law requires the licensee to advise the consumer of the various business relationships available and give the following statement verbatim.

"The Real Estate Law requires that I provide you with a written consumer notice that describes the various business relationship choices that you may have with a real estate licensee. Since we are discussing real estate without you having the benefit of the Consumer Notice, I have the duty to advise you that any information you give me at this time is not considered to be confidential, and any information you give me will not be considered confidential unless and until you and I enter into a business relationship. At our first meeting I will provide you with a written consumer notice which explains those business relationships and my corresponding duties to you."

Consumer Notice (Written) (Form CN): Pennsylvania State law requires that the first time a consumer meets with a real estate licensee to discuss real estate needs, the licensee must explain the various types of business relationships that may be available. If the first contact is over the phone, the licensee will read an Oral Consumer Notice at that time and then will ask the consumer to sign the full version of the notice at their first face-to-face meeting. Although consumers are required to sign the Consumer Notice to indicate that they have read it, it is important to understand that signing the Consumer Notice does NOT create a business relationship with the licensee, and information you given to the licensee prior to agreeing to a formal business relationship is not considered to be confidential.

Designated Agency: A business relationship where the broker may, with the consumer's consent, designate one or more licensees employed by the broker to represent the consumer, thereby allowing other licensees employed by that broker to represent other parties to the transaction. This relationship allows buyers and sellers to keep working with their selected licensees, even if they work for the same broker, and to receive the benefit of their loyalty and confidentiality. While the broker becomes a dual agent, the designated agents retain their duties to their respective clients. For more details, see the explanation given in the Consumer Notice.

Dual Agency: A business relationship where the licensee, with written agreement from both parties, works for both the seller and the buyer in the same transaction. Dual agency will limit some of the duties owed to both parties. Dual agents cannot

take any action that is adverse or detrimental to either the buyer or the seller in the transaction. For more details, see the explanation given in the Consumer Notice.

Estimated Closing Costs: The law requires that both the buyer and seller receive an estimate of their closing costs prior to signing an Agreement of Sale. Because the buyer and seller are likely to incur different costs, PAR has developed one form for estimating the buyer's closing costs and a separate form for the seller's closing costs. Keep in mind that the information contained in these forms is estimated, and the actual closing costs may be higher or lower than what is in these forms. For the buyer the closing costs are usually in addition to the purchase price of the home; likewise, the seller will generally be paying costs out of the sale price.

Licensee: A generic term referring to any individual who holds an active real estate license. An individual licensee must be affiliated with a real estate broker, (although a licensee may also be a broker). Many people refer to a licensee simply as a real estate agent or salesperson. It is important to know that business relationships are actually contractual relationships with the broker, not the individual licensee.

Listing Contract (Form XLS): A Listing Contract is used to establish a business relationship between a broker and a home seller. This form covers many subjects, including the length of the contract and the payment of the broker's fee. This is most often an "exclusive" relationship, meaning that during the term of the contract the seller generally cannot enter into an agreement to list the property with another broker. Keep in mind that this is a binding contract, so sellers should review all the terms carefully before signing and be sure to understand what their obligations are.

Managing Broker: A Broker of Record may often oversee the operations of many offices operating as part of the same business. Each individual office is also run by a broker, often referred to as the "managing broker" for that office.

REALTOR®: A real estate licensee using the term REALTOR® belongs to the NATIONAL ASSOCIATION OF REALTORS® and subscribes to a Code of Ethics that holds their behavior to a higher standard than Pennsylvania law requires of them. Every REALTOR® holds a valid Pennsylvania real estate license, but not everyone who holds that license is a REALTOR®.

Seller Agency: A business relationship where the licensee enters into a written agreement to work only for the seller in the transaction. Seller agents are loyal to the seller and act in the seller's best interest. Unless designated agency is selected, any licensee employed by the broker may also represent the seller. For more details, see the explanation given in the Consumer Notice.

Seller's Property Disclosure Statement (Form 128): Pennsylvania law requires a home seller to inform a potential buyer of all known defects in the property by filling

out a Seller's Property Disclosure Statement. This form includes information on the condition of the major terms used in the home, including the roof, basement, water and sewage, plumbing system, heating and air conditioning, electrical system, soils, drainage, and the overall condition of the property. The minimum requirements for this form are set forth by law in the Seller's Property Disclosure Act, but the PAR form has questions about several other common problem areas. All sellers must fill out a Seller's Property Disclosure Statement, even if they are selling their home without the benefit of using a REALTOR®, and the form must be completed and given to the buyer before an Agreement of Sale is signed. Certain exceptions to this law are explained in Notices contained on the back of the Agreement of Sale.

Transaction Licensee: A business relationship where a broker or salesperson works for the consumer without being the agent or advocate for either the seller or buyer. Transaction licensees generally provide mostly communication or document preparation and have only limited duties of confidentiality to consumers. Transaction licensees most often appear where one party is not represented by a licensee. For more details, see the explanation given in the Consumer Notice.

*Copyright © 2005 Pennsylvania Association of REALTORS. All Rights Reserved.
4501 Chambers Hill Road. Harrisburg, PA 17111-2406,
Telephone (717) 561-1303, Fax (717) 561-8796*