

# **HIRC**

**The High-Risers Club**

**7.23.2024 – Commissions Calculations and Conversations**

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# Welcome

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Does anyone have anything great to share personally or professionally?



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# Podcast

**Tune in wherever you get your podcasts!**

- **Last Week: Creative Ways to Structure Deals to Make Them More Financially Attractive for a Tenant Up Front**
- **This Week: 11 Important Things We Need to Remember to Win The Listing**

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# Greatness is Within



**You Can Do This**

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# Commissions Calculations and Conversations

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Sale commissions for commercial transactions are similar to residential transactions. Commissions are negotiated between the listing agent and the seller.

# Commissions Calculations and Conversations

Below are a few of the more common differences one might see in a commercial sale commission:

1. If the size of the transaction is larger (in the multi-millions, for example), then the fee percentage is usually lower.
2. The buyer pays their agent's fee more often. This is done to ensure the buyer's agent always has the buyer's best interest in mind.
3. The listing agent may negotiate a retainer fee to be paid upfront. This happens because many commercial deals are significantly more complicated and take much longer to complete. Sometimes the retainer is credited against the overall commission, and sometimes it is not.

# Commissions Calculations and Conversations

Leasing commissions for commercial transactions are very different from commissions for residential leasing transactions. Residential lease commissions are based on one month's rent. Commercial lease commissions are based on base rent and rentable square footage for the entirety of rent paid during the lease period.

The formula is:

**Square Footage x Base Rent x Number of Years x Commission % = \$ Commission Due**



# Commissions Calculations and Conversations

Commission rate can be negotiated with the owner, but one popular model is as follows:

1. When no other agent is involved – “No Co-Broke”
  - a. Years 1-5 – 5%
  - b. Years 6-10 – 2.5%
  - c. Years 11+ – 1.25%

# Commissions Calculations and Conversations

2. When another agent is involved – “Co-Broke”
  - a. Years 1-5 – LA 2.5%, SA 2.5%
  - b. Years 6-10 – LA 1.25%, SA 1.25%
  - c. Years 11+ – LA 0.625%, SA 0.625%

# Commissions Calculations and Conversations

## 3. When another agent is involved – “Override\*”

- a. Years 1 – 5 – LA 2.5%, SA 5.0%
- b. Years 6 – 10 – LA 1.25%, SA 2.5%
- c. Years 11+ - LA 0.625%, SA 1.25%

\*Note: an override is done because most commercial real estate firms expect to receive the traditional “full commission” for bringing the tenant. It is not required. You, as the listing agent, need to address this situation with the landlord when signing a listing agreement so that, when a request is made, the landlord is not surprised.

# Commissions Calculations and Conversations

One other situation to be aware of with commissions for commercial lease transactions is renewals. Most commercial lease contracts offer tenants the right to renew their leases for an additional period. Commissions can be paid on these renewals.

This is negotiated between the landlord and the listing agent at the time the listing agreement is signed. Full details (including commission percentages) should be spelled out in the listing agreement. Traditionally, commission percentages for renewals would match those in the time frames listed previously.

When another agent is involved – “Co-Broke”

- a. Years 1-5 – LA 2.5%, SA 2.5%
- b. Years 6-10 – LA 1.25%, SA 1.25%
- c. Years 11+ – LA 0.625%, SA 0.625%

# Commissions Calculations and Conversations

## Commission Calculation

Example: 3-year Initial lease term

SF = 2,500 rentable SF

Base Rent = \$20 per gross square foot, fixed years 1-3

Year	SF (Rentable)	X	Cost Per SF	X	% Commission	=	% Commission
1	2,500	x	\$20.00	x	5%	=	\$2,500.00
2	2,500	x	\$20.00	x	5%	=	\$2,500.00
3	2,500	x	\$20.00	x	5%	=	\$2,500.00
						<b>Total</b>	<b>\$7,500.00</b>

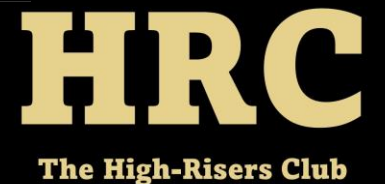
# Commissions Calculations and Conversations

Example: 5-year initial lease term; 5-year renewal option

SF = 5,000 rentable SF

Base Rent = \$18 NNN for year 1 and 2% increases years 2-5

Year	SF (Rentable)	X	Cost Per SF	X	% Commission	=	% Commission	
1	5,000	x	\$18.00	x	5%	=	\$4,500.00	
2	5,000	x	\$18.36	x	5%	=	\$4,590.00	
3	5,000	x	\$19.73	x	5%	=	\$4,682.50	
4	5,000	x	\$19.10	x	5%	=	\$4,775.00	
5	5,000	x	\$19.48	x	5%	=	\$4,870.00	
<b>SUB-TOTAL YEARS 1-5</b>								<b>\$23,417.50</b>



# Commissions Calculations and Conversations

Years 6-10: The base rent increases 2% in year 6 and remains fixed in years 7-10.

Year	SF (Rentable)	X	Cost Per SF	X	% Commission	=	% Commission
6	5,000	x	\$19.87	x	2.5%	=	\$2,483.75
7	5,000	x	\$19.87	x	2.5%	=	\$2,483.75
8	5,000	x	\$19.87	x	2.5%	=	\$2,483.75
9	5,000	x	\$19.87	x	2.5%	=	\$2,483.75
10	5,000	x	\$19.87	x	2.5%	=	\$2,483.75
<b>SUB-TOTAL YEARS 6-10</b>							<b>\$12,418.75</b>
<b>GRAND TOTAL</b>							<b>\$35,836.25</b>

# Commissions Calculations and Conversations

15-year initial lease term: 10,000 SF; \$20 NNN base rent, 2% increase per year

Year	SF (Rentable)	X	Cost Per SF	X	% Commission	=	% Commission	
1	10,000	x	\$20.00	x	5%	=	\$10,000.00	
2	10,000	x	\$20.40	x	5%	=	\$10,200.00	
3	10,000	x	\$20.81	x	5%	=	\$10,405.00	
4	10,000	x	\$21.22	x	5%	=	\$10,610.00	
5	10,000	x	\$21.65	x	5%	=	\$10,825.00	
<b>SUB-TOTAL YEARS 1-5</b>								<b>\$52,040.00</b>



# Commissions Calculations and Conversations

15-year initial lease term: 10,000 SF; \$20 NNN base rent, 2% increase per year

Year	SF (Rentable)	X	Cost Per SF	X	% Commission	=	% Commission	
6	10,000	x	\$22.08	x	2.5%	=	\$5,520.00	
7	10,000	x	\$22.52	x	2.5%	=	\$5,630.00	
8	10,000	x	\$22.97	x	2.5%	=	\$5,742.50	
9	10,000	x	\$23.43	x	2.5%	=	\$5,857.50	
10	10,000	x	\$23.90	x	2.5%	=	\$5,975.00	
<b>SUB-TOTAL YEARS 6-10</b>								<b>\$28,725.00</b>

# Commissions Calculations and Conversations

15-year initial lease term: 10,000 SF; \$20 NNN base rent, 2% increase per year

Year	SF (Rentable)	X	Cost Per SF	X	% Commission	=	% Commission	
11	10,000	x	\$24.38	x	1.25%	=	\$3,047.50	
12	10,000	x	\$24.87	x	1.25%	=	\$3,108.75	
13	10,000	x	\$25.36	x	1.25%	=	\$3,170.00	
14	10,000	x	\$25.87	x	1.25%	=	\$3,233.75	
15	10,000	x	\$26.39	x	1.25%	=	\$3,298.75	
<b>SUB-TOTAL YEARS 11-15</b>								<b>\$15,858.75</b>
<b>GRAND TOTAL</b>								<b>\$96,623.75</b>

# Commission Conversations When Representing a Buyer

The client agrees to compensate the broker for locating real property acceptable to the client and negotiating the purchase. The professional fee will be equal to \$X,XXX or X.XX percent (X.XX%) of the agreed-upon gross selling price per property transaction – whichever is greater. This fee will be payable at closing, but only if the property transaction successfully closes.

In the event that there is a fee owed to the seller under a listing agreement, the broker, with the client's consent, is entitled to receive any portion of that fee. This portion will be used to satisfy the obligation of the buyer to the broker, as long as the total compensation received by the broker is not less than the greater of \$X,XXX or X.XX% of the agreed-upon gross selling price. If the total compensation received is less than this amount, the buyer will be responsible for making up the difference.

# Commission Conversations When Representing a Buyer

In the event that XXX firm finds a property that aligns with the buyer's investment strategy and no commission is being offered for any reason, the buyer agrees to compensate XXX firm with a XX percentage of the agreed-upon selling price.

# Commission Conversations When Representing a Buyer

## Confirm Commission

The Listing Broker agrees to pay the Cooperating Broker, and the Cooperating Broker agrees to accept, as its full and only compensation from the Owner in connection with the sale of (address) to (Prospective Buyer), a fee of XXX (for example, 2.5%).



# Facebook Community Questions

“Where do landlords get the \$ from to pay a commission—say a 5-year lease term @ a 5% commission?”

Unlike residential real estate, in many states, there is no limitation on how much security deposit a landlord can collect for a commercial transaction. Additionally, in many states, a commercial security deposit does not need to be kept in a separate interest-bearing account. Often, a landlord will use a portion of the funds collected as a security deposit to pay an agent’s commission. Furthermore, a landlord with any level of experience has built cash flow and understands the process of paying a commission. Please ensure that in your state, there is no limitation on how much security deposit a landlord can collect for a commercial transaction, and the commercial security deposit is not required to be kept in a separate interest-bearing account.

# Facebook Community Questions

“How will property owners benefit from paying on an entire lease term as opposed to a flat (1 month) fee like residential rental?”

Longer leases increase the value of a landlord’s property. If commission is being offered like a residential lease (1 month’s rent), you may be eliminating a large portion of commercial brokers from showing your property without you knowing.

# Facebook Community Questions

“How do we have the conversation with property owners about how commercial lease commissions work?”

Provide insight as to how the commercial real estate industry is set up. My number one goal is to create market exposure. If we treat this like a residential lease, we are eliminating exposure from the great majority, if not all, the commercial brokers that expect to be paid on a different scale.



# Tenant Fee

The client agrees to compensate the broker for locating a property or land for lease acceptable to the client and for negotiating the lease. The professional fee will be equal to XXX (for example, 2.5%) of the agreed-upon total lease rent. This fee will be payable at closing only if the transaction successfully closes.

If there is a fee owed by the seller under a listing agreement, the broker, with the client's consent, is entitled to receive any portion of that fee. This portion will be used to satisfy the tenant's obligation to the broker as long as the total compensation received by the broker is not less than XXX (for example, 2.5%) of the agreed-upon total lease rent. If the total compensation received is less than this amount, the tenant will be responsible for making up the difference.

# Tenant Fee

In the event that XXX firm finds a property that aligns with the tenant's lease strategy and no commission is being offered for any reason, the tenant agrees to compensate XXX firm with 2.5% of the agreed-upon total lease rent.

# Representing a Tenant

## Confirm Commission

The Listing Broker agrees to pay the Cooperating Broker, and the Cooperating Broker agrees to accept, as its full and only compensation from the Owner in connection with the lease of (address) to (Prospective Tenant), a fee of XXX (for example, 2.5%).



# Join Our Facebook Group

<https://www.facebook.com/groups/commercialrealestateforresidentialrealtors>



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# Next Session

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## Mindset Training

**Tuesday, July 30, 2024**  
**@ Noon Eastern**

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# Greatness is Within



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