

LEASING COMMISSIONS

March 28, 2008

There is little agreement about the commission rate to charge a client for bringing a tenant to a property. I have discussed the topic with national survey takers who report the typical leasing commission rates of 4% to 5% for each year of the lease. When asked if this is the rate paid over the term of the lease or is it all paid in the first year of the lease, they do not know but will include that question in the next survey they conduct.

For example some may calculate the leasing commission for a 10 year lease at 5% per year and they may allow it to be paid each year of the 10 year lease. Others may allow it to be paid up-front and they calculate the amount to pay up-front. The amount calculated is determined by multiplying the 5% by the 10 years or charging 50% of the first years rent. This method does not allow any discount for paying it all up-front.

One of the national survey takers reported that rental agents in Manhattan, NY had adopted a procedure whereby they would allow a 9% discount or return per year of the lease if all of the leasing commission were paid up-front.

For example, if an agent charges a 5% leasing commission to bring a tenant to a Landlord, with the tenant paying \$100,000 per year for 10 years, the leasing commission would be calculated by multiplying the first years rent of \$100,000 x the present worth factor for 10 years of 0.320883 which produces a total leasing commission of \$32,088.30 if paid at the beginning of the first lease year. This technique seems the most reasonable to me and allows for a 9% per year discount for paying the total commission up front. The table below indicates the factor for each year.

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Year	Factor to Apply to First Years Rent
1	0.045872
2	0.087956
3	0.126565
4	0.161986
5	0.194483
6	0.224296
7	0.251648
8	0.276741
9	0.299762
10	0.320883
11	0.340260
12	0.358036
13	0.374345
14	0.389308
15	0.403034
16	0.415628
17	0.427182
18	0.437781
19	0.447506
20	0.456427
21	0.464612
22	0.472121
23	0.479010
24	0.485331
25	0.491129
30	0.513683
35	0.528341
40	0.537868
45	0.544060
50	0.548084