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Sizing up a tenant – what do you mean to your broker?

We've discussed a number of the advantages of hiring an exclusive tenant advisor over a larger real estate firm that represents both landlords and tenants, but one of the most glaring differences that we've yet to touch on is economics.

Every broker you meet with is likely to tell you that you would be a very important client to them and a proud addition to their portfolio; they will take time, care and provide you comprehensive real estate advisory etc. What they may not have touched on is that if their firm represents landlords as well, then you will most likely not be as important to them as their larger landlord clients. The proof is in the numbers so let's break this down.

The fee structure for brokerage commissions in San Francisco uses the following formula: (Total Square Footage X Fee X Term). The typical lease roll over in any given year is approximately 20% of the rentable square feet in the building. For demonstration's sake the average Class A building in San Francisco is about 500,000 rentable square feet. Let's just take 100,000 square feet as the annual roll over in the building. The typical landlord representative brokerage fee is \$0.75 per square foot and the average lease term is five (5) years. Thus each year the landlord broker representing that building would be able to predict the value of the listing to be (100,000 square feet X \$0.75 X 5 years) = \$375,000 per year. Over a five year period the brokerage representing the landlord can value the listing as \$1,875,000. This estimate doesn't include any property management fees which the brokerage firm can collect and can typically be 1-3% of the gross revenues of the building.

The fee structure for the tenant advisor uses the same formula however the fee is increased slightly. The average tenant in San Francisco is in the range of 3,000 to 7,000

rentable square feet; here we'll use 5,000 rsf as an average. The typical tenant side fee is \$1.50 per square foot. Thus for a tenant broker representing a 5,000 rsf tenant, signing a five year lease, the fee would look as follows: (5,000 rsf X \$1.50 X 5 years) = \$37,500. Therefore if we compare the value of a single tenant 5 year transaction to a five

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year listing commitment with a landlord, the value of each engagement is approximately \$37,500 for the tenant broker versus \$1,875,000 for the landlord broker. The tenant deal is equal to 2% of the total building listing value. The numbers certainly make a bold statement. It is very hard to imagine that a tenant being represented by a brokerage that also represents landlords can truly be a more valued client. The economics of the brokerage fee simply won't allow that to be true. The large majority of the fees that the brokerage firm will receive over any period will come from their listing engagements with landlords.

The Axiant Group only represents tenants. We are exclusive tenant advisors. We don't take on any listing engagements with landlords, thus every tenant engagement has a significant impact on our annual earnings. We believe that being a true tenant consultant gives us the freedom to freely negotiate on our client's behalf as landlords are not prospect clients for our firm. Our only fees come from tenant representation transactions and therefore we are fully incented to provide exemplary service to our clients and truly provide them with comprehensive advisory services. This has been our model since the inception of our firm and we are proud to continue exclusively serving tenants in the Bay Area.