



Andrew Smith, SIOR, is Director of Agency at Capita Symonds, in London. He has worked across the UK Industrial market for over 15 years. SIOR, MBA, FRICS, and European Treasurer.

Examining Global Fee Structures

By: Andrew Smith, SIOR, MBA, FRICS

Commissions, fees, remunerations, charges, whatever you may call them, they are the basis of which brokers (agents/advisors as the Europeans say) are awarded for their services of acquiring or disposing of commercial real estate. Surprisingly, it's an area that receives little press and is not particularly prevalent.

What may be a good fee arrangement for one country, for one SIOR, or for one client, may not be for others. The purpose of this article is not to discuss "what is right or wrong" or "what is value vs. what is not valuable" but to highlight the various forms of remunerations and a few of the varying global structures.

The U.K. is one of the few systems in the world where two separate fees are paid, one for the landlord broker, and one for the tenant broker. This is distinguished quite clearly to prevent conflicts of interest. Almost all the rest of the world has a single fee system where one fee is paid by the landlord/vendor and the fee is then agreed between the landlord's agent and the tenant's agent if there is one. There are some countries, Japan being an example, where the tenant broker is also paid by the landlord and the tenant.

A major difference between Europe and the U.S. is that in the U.S. remunerations are paid on a continual basis across the life of a lease, whereas in Europe it is normally paid as an up front single fee based on the first years rental. Clearly the former rewards the broker for agreeing a longer term lease arrangement, which is clearly more beneficial for the landlord who has less void risk in the future.

For the most part fees are based on a percentage which in Europe can be anywhere between 7.5 percent up to 25 percent of the first year's rental. Brokers will often exclude any incentives that may be granted. To the left is a table of the various percentage fees across Europe – these are pretty general.

In the U.S. brokers are often paid a single fee which will potentially need to be shared with the tenant's fee. Fees can generally be 5 percent to 8 percent per year, but are calculated on a different basis. For example Chicago is based on \$1.25 per sq. ft. x floor area x the number of years of the lease commitment. Others Cities vary +/- of the \$1.25 per sq. ft.

In Asia fees are generally based on one month's rent but are subject to the market and the conditions and often increase to two months' rent depending on the over supply and the landlord. These are obviously fairly large generalisations and there are obvious distinctions. Often clients will try and reward brokers to focus more on their properties to help.


Of course fees for sales vary depending on the scale, from say 0.5 percent for a prime Central London Investment to say 5 percent for a standard warehouse in Germany. The later could also involve a fee share between the buyer and sellers agent. There are alternative fee options from fixed fees to percentage rates per sq. ft., some alternatives are shown in the table to the left.

With SIOR it is important that we adapt to global market conditions and variations and it is clear there is no standard fee arrangement. Sometimes percentage rates just cannot work; i.e. in a situation where we have particularly difficult products

in difficult markets there is a mutual reward in incentivising brokers to find the appropriate tenant/buyer quickly. In certain markets, performance incentive fees work while still having their advantages and disadvantages, along with the occasional discretionary bonuses on top. The important thing is that there is openness and full transparency from both broker and client when entering into an arrangement.

Another area which varies across the globe is marketing costs. Each market varies as to whether the costs are absorbed by the broker or directly by the client. In the U.K., these are transparent past through costs, whereas in another market the broker is expected to absorb and share the risk of key marketing initiatives, such as advertising, web marketing, etc.

It is important to understand the backgrounds of the cultures. The U.S. system is primarily a low or no salary system but high commissions and personal commissions. In contrast, the European, and particularly the U.K. model, is of a salary plus bonus and fee bonus system, which acts as a cushion.

In conclusion, there are a variety of varying global fee structures and customs that SIORs need to be aware of when dealing with foreign acquaintances. This lack of standardization is a good thing. The RICS took the advice of the Office of Fair Trading, and stopped publishing guidelines on fees many years ago. More recently, The Competition Act and intervention from various governments around the world on anti-competitive issues make it impossible for industries to standardize fees. This is healthy for business which needs to be creative and align the value to client/ reward to service provider equation. 

Country	Fee Arrangement
Bulgaria	8-12.5%
Czech Republic	10-15%
Denmark	10-15%
Finland	8-14%
France	15-30%
Germany	20-25%
Greece	8.33%
Hungary	10-15%
Ireland	10%
Italy	10-15%
Lithuania	8%
Luxembourg	15%
Netherlands	12-16%
Norway	15%
Poland	10-15%
Portugal	15%
Romania	12-16%
Russia	8.3%
Slovakia	10-15%
Spain	8.5-10%
Sweden	10-15%
Switzerland	10-15%
Turkey	8-12%
UK	7.5-10%



Geoffrey E. Kreusser, SIOR, FRICS
2011-2012 President, SIOR
Colliers International | Denver, Colorado

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