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CUTTING INCENTIVES IN HALF

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Cutting incentives in half

During the worst depths of the real estate downturn, many Manhattan landlords paid brokers' fees — usually the equivalent of a month's rent — rather than asking tenants to pay them. That way, owners could quickly fill vacant units by advertising "No Fee" apartments.

But now that practice — known as an OP for "owner paid" — is being replaced. Instead, landlords are paying brokers a commission equal to only half a month's rent, in a sign of the rental market's recent strength, brokers said.

"At the end of 2010, I saw full OPs," said Douglas Wagner, executive director of leasing at the brokerage Bond New York. This December, by contrast, "I saw half-month OPs," he said.

These partial-month commissions differ from the traditional OP in several key ways. A full OP is intended to replace the brokers' fee normally paid by the tenant, but a half-month incentive is more "like a little bonus" for the broker, Wagner explained.

If the landlord is offering a half-month incentive, the broker can choose to keep the extra cash for himself, in addition to collecting the usual fee — usually 15 percent — from the renters. Or he can pass the savings on to the clients and discount their fee. That way, he still receives the full 15 percent commission, but the tenants only pay around half of it.

Either way, renters still pay something, so the apartment can't be listed as "No Fee." Landlords actually view that as a grating thing, Wagner said, because they believe homeseekers willing to pay a brokers' fee are more serious renters who are likely to stay in the unit for a longer period of time. Brokers, however, aren't always pleased.

Cheaper for landlords

Wagner said these half-month commissions appeared en masse in December, when he noticed that they were being offered at around 35 buildings in Manhattan — mostly small elevator buildings, and some larger walk-ups. Winter is traditionally the quietest rental season of the year, and the holidays are especially slow, he said, so buildings wanted to offer brokers "a little extra" to entice them to show units.

One of those buildings was 95 Wall Street in the Financial District, according to Platinum Properties executive vice president Daniel Hedaya, who said the 507-unit luxury rental offered to pay half-month commissions on some of its units.

Hedaya said he occasionally sees partial-month OPs in the Financial District, where a plethora of large rental buildings need to keep their apartments full.

Half-month commissions are obviously cheaper for landlords than full OPs, but still provide extra motivation for agents to bring clients to their listings, explained Zach Levine, director of leasing at Icon Realty Management, which owns and manages more than 1,000 New York City apartments.

"It just gets brokers showing your apartments," Levine said, noting that Icon Realty Management is not currently offering half-month OPs on any of its listings, but has done so at times over the past several years. In recent months, he said, Icon has been able to move the apartments on its roster without offering incentives.

Wagner also noted that many partial OPs offered at the end of 2011 have already disappeared as the rental market picked up steam after the holidays, and they are likely to grow even less common as the market moves into its strong spring and summer seasons. He said the number of new clients registering with his firm is up 34 percent from this time last year.

So far, the half-month OP has not popped up in new construction rental buildings, which continue to rely on full OPs, said Cliff Finn, president of new development marketing at Citi Habitats.

The main priority for a new building is filling vacant apartments as soon as possible, Finn said, so half-month commissions are less effective at moving units than full OPs. But since the forecast for the rental market in 2012 is positive, he said, "it wouldn't surprise me if we started to see it."

Cash for clients

Hedaya said when his agents are offered a half-month commission, they always subtract that amount from the renter's 15 percent brokers' fee. Not only is it "the correct thing to do," he said, it's a good way to keep customers satisfied.

Whether agents pocket the money or pass it on to their clients, they are ethically obliged to disclose they are receiving it, said Ron Zucher, president of Plaza Realty Group, a residential and commercial brokerage in Manhattan. According to Zucher, that disclosure usually happens verbally.

This obligation — which can cause an awkward conversation if the broker decides to keep the cash — may be one reason that agents don't always respond well to half-month OPs. Another downside is that brokers receive fees up front when tenants pay them, but landlords often wait several months to pay up.

Indeed, some brokers — especially in the outer boroughs — are adamantly opposed to partial OPs.

Ari Silverstein, a City Connections Realty associate broker who works predominantly in Kew Gardens and Forest Hills, said he is "wholeheartedly against" half-month incentives.

Silverstein said his clients, especially in Queens, are always looking to avoid paying broker's fees. Since he can't advertise half-month OP apartments as "No-Fee," fewer people inquire about those listings.

"If landlords want to rent their apartments, the most effective thing to do is give a [full] OP," said Silverstein.

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