Math Relating to Brokerage Commissions and Splits

1. Percentage of Sale Price (Commission)

A. Parts of the problem: (a) Sales Price, (b) Commission Rate, (c) Commission Earned, (d) Commission Splits

B. The brokerage fee (commission) is normally based on a percentage (rate) of the actual sales price (not the listed price).

C. Formulas/Examples:

I. To solve for the Commission: Commission = Sales Price x Rate

II. To solve for the Rate: Rate = Commission ÷ Sales Price

III. To solve for the Sales Price: Sales Price = Commission ÷ Rate

D. Commission Splits:

I. In-House Splits: Gross commission will be split into company's share and agent's share based on the in-house split.

Example: In-house split is 50/50. Gross commission is $6,000. Company gets: $6,000 x .50 = $3,000. If listing agent and selling agent are the same, agent gets $6,000 x .50 = $3,000. If listing agent and selling agent are different, listing agent gets: $3,000 x .50 = $1,500 and selling agent gets $3,000 x .50 = $1,500.

II. Co-Brokerage Splits: Gross commission will be split based on MLS or co-brokerage arrangements. If split is 50/50 on a $6,000 gross commission, listing company gets 50% or $3,000 and selling company gets 50% or $3,000. Each company would then split the commission based on their respective in-house splits.

2. Practice Problems

A. Assume that the listing and selling brokers split a commission fifty-fifty and that they then split their shares of the commission fifty-fifty with their selling agents. If a house sold for $100,500 in a co-brokered transaction, and the agent of the Realty Company that sold the house received a commission of $1,780, what is the commission rate on the sale?

(a) 4% (b) 5.5% (c) 6% (d) 7%

B. A broker is to receive a 7% brokerage fee when a property is sold. How much less will be received in commission if the owner accepts an offer that is 6% less than the listed price of $86,000?

(a) $860 (b) $630.20 (c) $710.20 (d) $361.20

C. A recent sale generated a gross commission of $2,000. Agent A received 2% of the sales price, the Broker received 5% of the sales price, and Agent B received 3% of the sales price. How much in dollars did A, the broker, and B respectively receive from this sale?

(a) $400, $l,000, $600 (b) $200, $800, $1,000

(c)$500, $1,000, $500 (d) None of the above

D. Broker Jane sold a client's house for a commission of 6½%. The client received $46,400 from the transaction after the commission was deducted. How much did Jane earn?

(a) $3,016 (b) $2,977 (c) $3,225.67 (d) $2,831.92

E. Ms. Smith listed her property for $96,500 and subsequently sold for 9% less. What was the dollar amount of your commission if you received 30% of a 7% commission?

(a) $1,844.12 (b) $1,884.12 (c) $2,110.12 (d) $1,950

F. Compute the brokerage commission on the sale of a parcel of land with a frontage of 280 feet at $80 per front foot if it is based on 10% of the first $6,500 and 6% of the balance.

(a) $650 (b) $954 (c) $1,604 (d) $1,406

G. A house recently sold for $95,000 at a commission rate of 6%. The MLS service gets 6% of the commission as a listing fee. The listing broker gets 34%, with 60% going to the selling broker. You, the selling agent, are on an in-house split 70% to you and 30% to the broker. What was your earned commission?

(a) $2,593.50 (b) $1,469.50 (c) $1,111.50 (d) $2,437.89

H. A property produces a rental income of $5,000 per year for 15 years. The management broker's commission is based on 7% in year 1, 2% in years 2 and 3, 5% for the next 3 years, and 4% for the rest of the term. What is the total commission earned over the 15-year period?

(a) $3,100 (b) $3,000 (c) $2,500 (d) $3,200

Solutions to Commission Math Practice Questions

A. Four Way Split
$1,780 x 4 =$7,120 Gross Commission
$7,120 ÷ Sales Price = .07 = 7% (d)

B. $86,000 x .07 = $6,020 Commission at listed price
$86,000 x .94 (100% - 6%) = $80,840 Actual sales price
$80,840 x .07 = $5,658.80 actual commission
$6,020 - $5,658.80 = $361.20 (d)

C. 2% + 5% + 3% = 10% Commission
$2,000 Commission ÷ .10 = $20,000 Sales Price
Agent A: $20,000 x .02 = $400
Broker: $20,000 x .05 = $1,000
Agent B: $20,000 x .03 = $600 (a)

D. 100% - 6.5% = 93.5% = .935
$46,400 ÷.935 = $49,625.67 Sales Price x .065 = $3,225.67 (c)

E. $96,500 listed price x .91 (100% - 9%) = $87,815 Sales Price x .07 = $6,147.05 gross commission x .30 = $1,844.12 (a)

F. 280' x $80 = $22,400 Sales Price
-$6,500 x .10 = $650
$15,900 x .06 = $954
$1,604 (c)

G. $95,000 Sales Price x .065 = $6,175 gross commission
$6,175 x .60 = $3,705 to selling broker
$3,705 x .70 = $2,593.50 to selling agent (a)

H. Year 1 = $5,000 x .07 = $350
Year 2 & 3 = $10,000 x .02 = $200
Year 4, 5, 6 = $15,000 x. 05 = $750
Year 7-15 = $45,000 x .04 = $1,800
$3,100 total commissions (a)