The Numbers Behind a Commercial Real Estate Leasing Business

A free field guide from Bytell Press. The figures come from our example financial model for one small multi-tenant commercial building of about 12,000 leasable square feet. They are planning assumptions, not quotes for your market; the worksheet at the end is for your own numbers.

Most small landlords do not get into trouble because they cannot find a tenant. They get into trouble because nobody worked out how much rent the building must collect every month before the mortgage was signed. This guide gives you that arithmetic in two pages.

1. How the money comes in

The product is leased space, and the price is the lease. Base rent is quoted **per square foot per year**. Under the model's preferred lease, the tenant also pays its share of the building's operating costs.

In the model's worked example, a 2,000-square-foot suite at $15 per square foot is $30,000 a year, or $2,500 a month, plus the tenant's share of costs. Rents step up 2–3% a year.

Model line	Figure
Income at stabilized occupancy	$16,000 a month
Property costs the owner still carries	About 35% of income
Margin after property costs	**65.0%**
Margin after overhead and leasing costs	56.5%

The margin depends on recovering costs accurately. A landlord who under-bills recoveries pays the tenants' share out of that 65.0%.

2. What it costs to open

Here "opening" means buying the building. The example model needs **$1,390,000**.

Use of funds	Amount
Purchase price	$1,200,000
Closing and due diligence	$40,000
Operating, leasing and capital reserves	$150,000
Total	**$1,390,000**

A $900,000 mortgage covers part of it. The owner puts in $490,000: a $300,000 down payment, the $40,000 of closing costs and the $150,000 reserve. Do not shrink the reserve.

3. What it costs to stay open

The model carries about **$9,850 a month** in fixed cash costs, whether or not every suite is leased:

Monthly fixed cost	Amount
Mortgage payment, principal and interest	$6,650
Corporate overhead	$1,200
Owner draw	$2,000
Total	**$9,850**

Owner-borne property costs, at 35% of income, and leasing costs, at about 1%, are not in this table.

4. The break-even: the one number to know

Break-even revenue = monthly fixed costs ÷ gross margin.

Take the 1% leasing cost off the 65% margin first, which leaves 64%. With the model's numbers: $9,850 ÷ 0.64 = about **$15,391 a month**. That is about **96% of the building's stabilized income**.

Leave out the owner's draw and it is $7,850 ÷ 0.64 = about $12,266, or about 77% of stabilized income. Without the draw, the building can lose roughly a quarter of its income and still pay the mortgage.

5. One empty suite is the risk

Level	Monthly income	Cushion under $16,000
Stabilized	$16,000	
Break-even with the owner's draw	$15,391	$609
Break-even without the draw	$12,266	$3,734

The suite in the worked example pays $2,500 a month. If it sits empty, the loss is about four times the $609 cushion. The draw is the first thing to stop.

The cash flow is thin even when the building is full. After the mortgage and the draw, the model keeps about $389 a month, roughly $4,700 a year. A roof or a tenant build-out comes out of the $150,000 opening reserve. The plan's own reading is that a draw of $400 to $800 a month is what these numbers support once reserves are funded from operations. Real property costs do not fall with income the way the model's do, so the true break-even is somewhat higher.

6. Your numbers

Fill this in from the actual rent roll and loan quote before you make an offer.

Question	Model	Yours
Base rent per square foot per year	$15	_____

Question	Model	Yours
Income a month at stabilized occupancy	$16,000	_____
Margin after owner-borne property costs	65%	_____
Monthly fixed costs, including your draw	$9,850	_____
Break-even income (fixed costs ÷ margin after leasing costs)	$15,391	_____
Opening reserve	$150,000	_____

If your break-even is above what the building collects with one suite empty, fix the plan before you close: put in more equity, negotiate the price, or plan on a smaller draw.

This guide is general business information, not legal, tax, accounting or investment advice. The figures are illustrative assumptions from an example model and are not a forecast or a promise of results. Licensing and insurance requirements vary by state and are not covered here; check yours with the state agency.

Bytell Press publishes the full business plan, the editable financial model behind these numbers, and the operating playbooks for a commercial real estate leasing company.

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