

Commercial Real Estate Basics: Getting Started

Learning Objectives

- List differences between commercial and residential real estate,
- List professional organizations that offer commercial real estate education,
- List some technology vital to the commercial real estate industry, and
- Describe options for a real estate career.

Starting A Career In Commercial Real Estate

Question: "Why do you want to be in commercial real estate?"

Possible Answers:

- "I want to make lots of money."
- "My family has dabbled in it."
- "I have some family money to invest or land that I would like to develop."
- "I know someone who is in the business."
- "I was in banking, lending, architecture, etc."

Whatever reason is for their motivation, there is always one big question everyone has in their minds:

THE MONEY!

Do you make more money on commercial real estate than on residential?

Let's see the following examples

#1 Sample Residential Transaction

- Agent sells \$300,000 home.

- Agent co-brokers it with another firm (the listing firm).
- Agent's firm gets 3%.
- Agent gets 65% of his or her firm's share.
- Agent's commission = \$5,850.

2 Sample Commercial Transaction

- Agent leases 5,000 square feet of space with a three-year lease at \$20 per square foot.
- Agent co-brokers it with another firm.
- Agent's firm gets 3%.
- Agent gets 65%.
- Agent's commission = \$5,850.

Types Of Commercial Real Estate

The following are major areas where one can find a career in nonresidential real estate:

- Office
- Retail
- Industrial
- Institutional
- Investment
- Resort/recreational

Professional Organizations

Given the many categories of commercial real estate, training resources may initially seem more limited than for residential real estate or other business fields

However, there are vast resources; they are just industry-specific and not marketed nor directed toward the general public or even the commercial real estate generalist

Following is the list of few professional organizations:

- CCIM Institute: Certified Commercial Investment Member.
- The Counselors of Real Estate: Counselor of Real Estate (CRE).
- Institute of Real Estate Management (IREM): Certified Property Manager (CPM), Accredited Residential Manager (ARM), and Accredited Commercial Manager (ACoM).
- REALTORS® Land Institute (RLI): Accredited Land Consultant (ALC).
- Society of Industrial and Office REALTORS® (SIOR)
- National Association of REALTORS® (NAR)
- International Council of Shopping Centers (ICSC): Certified Shopping Center Manager (CSM), Certified Marketing Director (CMD), and Certified Leasing Specialist (CLS)
- Urban Land Institute (ULI)
- Commercial Real Estate Women (CREW)
- Commercial Real Estate Development Association (NAIOP)

Opportunities In Commercial Real Estate

General Brokerage

- Commercial agents can represent buyers or sellers by assisting with the sale of a commercial property.
- These agents are typically independent contractors, not employees of a company, and work on commission.
- Another part of the business is leasing, and the agent can represent the tenant or landlord in negotiating a lease

Development

The developer will do the following jobs:

- Arranges financing
- Negotiates the "anchor" (large or important) tenant leases
- Hires the architects, contractors, et cetera
- Supervises the process until it is completed and the tenants move in.

The development team may consist of a project manager who manages the development process and a leasing agent who handles the leasing

They may be salaried, paid on a commission basis, or both.

Other specialists can be part of the development team, too, and they are usually paid a salary plus incentives.

Property Management

- The property manager handles the day-to-day operations of a property—staffing, contracting for services, making repairs, conducting maintenance, et cetera.
- For these services, they earn a fee.
- Individuals employed by property management firms are usually paid a salary.

What To Expect?

What can a person expect as far as compensation, hours, and so on, as a commercial real estate broker?

It depends.

- If the market is strong and the agent is well connected with product or buyers, the sky is the limit.
- The most common practice is to pay part of the commission when a lease is signed and the balance when the tenant takes occupancy.
- In other areas, all the compensation may be paid when the tenant takes occupancy or later.

- With a sale, commission is typically paid when the deal closes and funds are disbursed.
- How much can a broker earn in a year?
- Many brokers make in \$75,000 to \$150,000 range per year
- Some make \$250,000 one year and \$75,000 the next. Alas, some make less.

Statistics

According to the National Association of REALTORS®, the gross income of their commercial members was \$126,900 in 2014.

The median age was 60 and 70% of the respondents had a college degree or higher.

The median number of transactions was eleven, with a median transaction size of nearly \$3 million.

Forty-five percent of the respondents were members of other institutes, societies, and councils, such as the CCIM Institute or the Society of Industrial and Office REALTORS® (SIOR).

Tools You Will Need

Depending on your goals, the tools needed may increase in complexity, learning curve, and cost, but the following are the bare bones.

Computer, Laptop, and/or Tablet

Software

Financial Calculator

- Popular financial calculators are
- Hewlett-Packard
- CCIM Excel Calculator

Website

Commercial real estate clients expect the broker or the broker's firm to have a user-friendly and mobile-friendly website

Information one can include in their website is:

- Listed properties
- Company's information (including contact information)
- Information about the economy and articles about topics commercial real estate users would find interesting, such as tax law issues.

Social Media

- Websites such as LinkedIn, Facebook, and Twitter may be useful when properly used in business.
- They allow the commercial real estate licensee to form networks of users and contacts.

The Commercial Real Estate Culture

- Most commercial firms are small and offer little or no training
- Commercial agents are typically hesitant to share any information
- Commercial agents usually work alone or perhaps in teams, but usually not in groups
- Some don't participate in regular meetings or commercial real estate group activities.
- Two exceptions to all this are:
 - The practitioner whose market is smaller and who does both residential and commercial and
 - The practitioner whose market is in a resort location where many clients come on the weekends to view property and enjoy resort amenities.

Some commercial properties are not advertised. Why?

- The property may not be actively for sale

- The seller might want to keep the upcoming sale quiet so as to avoid rattling the existing tenants
- The commercial broker may not want to work with an inexperienced agent.

The Duties of Commercial Agents

- The commercial agents may or may not get involved in the financing, inspections, and so on
- Their main task may be to locate suitable property, and it may often be unlisted
- The commercial agent will need to have a better grasp of the community's economy, tax districts, and zoning laws
- The commercial agent will need to perform a financial analysis, requiring skills in lease interpretation, investment criteria, financial strength of tenants.

Assembling Your Team

For commercial brokers or investors to be successful, they need a team of professionals they can rely on to provide information, advice, and counsel.

- Accountants
 - Some buyers and sellers need financial advice on the acquisition or disposition of their property.
 - Typically, it's outside of the broker's expertise to offer tax or financial advice.
 - It's best for the client to talk to her own professionals.
 - However, it's important that the broker stay involved in the deal so that the accountant does not make the final decisions on the transaction.
 - Offer to meet with the client's accountant to answer questions and to stay in the loop.
- Appraisers
 - Most lenders will ask for an appraisal in order to feel comfortable with the loan.

- The appraiser must be approved by the lender and will follow the lender's instructions and be paid by the buyer.
- Most lenders will ask for an appraisal in order to feel comfortable with the loan.
- The appraiser must be approved by the lender and will follow the lender's instructions and be paid by the buyer.
- Attorneys
 - Most lenders will ask for an appraisal in order to feel comfortable with the loan.
 - The appraiser must be approved by the lender and will follow the lender's instructions and be paid by the buyer.
 - Many legal questions come up during a transaction, and with proper involvement, the broker can ensure that the attorney becomes a deal maker, not a deal breaker.
 - It is critical that the attorney is experienced in commercial real estate transactions so that timely and accurate advice can be rendered.
- Engineers, Architects, and Land Planners

In the case of development, redevelopment, or even leasing of a property, the buyer may need the help of an architect, engineer, or land planner.

- Lenders
 - In a commercial transaction, most participants need financial resources.
 - The lender may be:
 - A construction lender
 - An acquisition lender
 - An equity lender
 - A permanent lender
 - A combination of these types of lenders.
 - It is important that a broker have relationships with all types of lenders.
 - Buyers may have their own sources of funds, but a lender can assist a broker in preliminary valuation or be a key resource in the eventual financing of the property.

- Others Consultants
 - Depending on the transaction, other specialists or consultants may be needed to handle certain areas. The following are a few issues that might require a specialist:
 - Rezoning/land
 - Historical designation
 - Traffic/Department of Transportation
 - Environmental
 - Business brokerage
 - Specialists, such as physicists (e.g., when building medical facilities with sophisticated x-ray equipment, the walls must have shielding and a physicist will provide the specifications)
 - Information technology

The Broker's Role

Brokers help the investor by locating property, particularly unlisted property, and they help other brokers by doing the same or by bringing the buyer to the deal.

The brokers bring the buyer and seller together.

Much of the broker's role depends on the type of transaction and the needs of the buyer and seller.

Taking The First Steps

Let's say that you are either a successful residential real estate agent or a businessperson looking to change careers. What should you do? I give everyone the following advice.

- The First Steps

Step 1. List everyone you know in commercial real estate.

Step 2. Call all of your relatives and closest friends. List everyone they know in commercial real estate.

Step 3. Start calling. First, call those from your list you feel will give you 15 minutes of their time.

Explain that you are only gathering information, not seeking a position at this time. Before you get there, do research on the company and the person you are meeting. Prepare some informed questions to ask.

Step 4. Conduct the interview.

During the interview, ask the real estate professional how he got started and what advice he would give a newcomer. Ask for a brief overview of their business and their industry, and ask which publications would be helpful for you to read.

Before you leave, ask for two or three names of others in commercial real estate that you should talk to.

Step 5. Narrow your search and research further.

When you think you have narrowed your search, research industry-specific websites. Read the organizations' publications and get to know the jargon, types of projects, and key players. Revisit company websites and look at projects done by local companies or those being brokered by the companies you are interested in.

Record questions about these projects to ask that company or others in the industry. Also, attend as many commercial real estate classes as you can. Ask to be a guest at commercial real estate functions held in your market.

Step 6. Know the details about employment. Get an idea of compensation structure.

Some positions are commission only, some may be a draw against commission, and some may be salaried. Decide what you can live with and what you can't.

Step 7. Begin the interview process. Narrow your final choices down to no more than five.

At this point, you may begin to wonder whether you should go with a developer or a general broker. Starting with a developer allows a new broker to learn the product and the market with the safety net of having a "captive product."

Eventually, the brokerage community will know you, and you will know them through your marketing of your developer's real estate.

Once you have some experience behind you, you can decide what you should do next. If you decide to affiliate with a brokerage firm, research the firm as you would any company.

Step 8. Get the Job. Call your contact person for another meeting.

Explain that you have talked with many professionals, have narrowed it down to a particular field (retail, office, etc.), have visited some of their deals or listings, and have specific questions.

When you meet, ask your questions, share what you have learned, and ask what opportunities the company has.

Keep in mind that most commercial firms don't have "openings," but they do create slots depending on need or opportunity.

Explain what you can bring to the table. Remember that the company is interested only in what it will be gaining, not what you will. Finally, if you have an inside connection, use it!

Step 9. Maximize your exposure.

Send announcements to everyone you know and everyone you talked to during the informational interview process. They should invite the recipient to call you for their commercial real estate needs.

Attend every commercial real estate event. Get involved in civic, charitable, and government affairs.

Get on a city or county commission, join the Rotary Club, or get active in a political campaign. Get into a "leadership" program.

Decide how social media will best serve you. Look around and see what other successful business people are using. Be creative, but above all else, be discreet and professional.

Step 10. Use the Brokers You KNOW

Offer to help an experienced broker in your office either for free or for a very small cut.

Offer to do the broker's grunt work—work as a runner, put up signs, measure space, do the research, or hand out flyers. Have your supervising broker create a training program for you. Meet with other brokers in casual settings and learn about their products.

Step 11. Keep Learning

- Ride around and view commercial property.
- Mark a map with areas.
- Take photos.
- List occupants and owners.

Create a resource list of lenders, appraisers, builders, architects, and engineers who you can bring in on a deal to help you close.

Start working on a designation. Read the business publications, the newspapers, and other sources of information to stay informed.

Step 12. Ask for Help!

Get help. "Goofing up" a deal can terminate your career quickly or, at the very least, label you a "rookie," which can have the same effect.

Even if the broker takes the credit for "saving the deal," it's much better than losing your reputation along with your client who will not only be unhappy but may take legal action.

Notes:

Types of Properties

Learning objectives

- Describe the different types of products,
- Describe the effects of employment on real estate, and
- Describe key characteristics sought by buyers and tenants

OFFICES

An office is generally a building, room or other area where an organization's employees perform administrative work in order to support and realize objects and goals of the organization.

Typical Office Users

- Visibility from the main roads (some require it, others prefer to not have it)
- Convenience to area amenities (restaurants, shopping, etc.)
- Proximity to public transportation (bus routes, rail lines, etc.)
- Convenience to compatible businesses
- Easy access
- Proximity to airport, courthouse, interstate, et cetera, depending on the nature of the business
- Pleasant setting (park-like setting versus highrise status, etc.)
- Proximity to the homes of the workforce
- Proximity to the decision maker's home
- Taxing jurisdiction
- Pro-business municipality (tax credits, zoning, sign laws, etc.)
- Strong tenant leases
- Amenities in the building or complex
- Utilities and technology
- Security
- Parking

Employment Trends

- Workers are not willing to travel long distances to work, especially if there are other employment opportunities closer to home.
- As businesses are locating nearer to where people live, some industries are finding it challenging to find qualified workers as businesses closer to the employees' homes have the advantage.
- Incentives can range from special tax treatments and cash incentives to employee training.
- Since the 1990s, we've seen the decline of textile, automobile, furniture, and other manufacturing businesses in the United States.
- Loss of industry leaves empty office space—sometimes in a market where the space cannot be easily released.

Businesses that provided services to these industries (e.g., dye manufacturers, equipment renters, makers of foam for upholstered furniture) have also suffered.

Types of Office Developments

There are pros and cons with offices such as these. Cottage/single tenants may locate in converted homes in an area now zoned for business.

- Small-business owners may like the feeling of having their own building.
- Service providers such as architects, engineers, surveyors, and appraisers might be good candidates.
- If the building was built as a home, not a business, then the layout may not be efficient for typical office use. The Americans with Disabilities Act (ADA) requires that businesses be accessible. The building code is different for a house than it is for an office.
- Certain businesses may not be permitted in that structure. Before buying or marketing a cottage/single-tenant property.

Small, Suburban Office Complexes

These might be one- or two-story buildings, called lowrise offices, that have multiple tenants. These have a variety of users depending on the demographics of the area and the other choices tenants.

- The trend to work closer to home affects the desirability of small office complexes, tenants must also consider what other businesses and amenities they need to be near.
- If the employees travel, then proximity to the interstates and airport might be most important. Another consideration is convenience to their customers.
- Suburban offices can be susceptible to fluctuations in the market and demand for space outside of the central business district.
- Investors will look at several things but will base most of their buying decision on either the current strength of the tenants or the future potential of the property for redevelopment.
- Markets and demand for certain properties change, but there may be little property for sale in certain price ranges being sought by buyers looking to exchange.
- Government offices and county or municipal services might need a location outside the central business district. Many are looking for locations more convenient to the citizens they serve.

Midrise office or an office park

These properties share many qualities with lowrise office buildings. Midrise buildings average five stories in some area because CBD land in larger cities is usually expensive and needs higher-rise buildings on it to be profitable.

Highrise Office

A high-rise may be seven stories in some markets, while in other markets it may be much higher. Building Owners and Managers Association International (BOMA) defines highrise as 25 stories and higher, though the qualification may be determined by height in feet versus number of stories.

- There is no set number because, when talking about a building, a broker will cite the number of floors and, depending on the market.
- A company might have interest in a high-profile building. For significant amounts of space or when considering developing or redeveloping a highrise building.

- The economic development representatives (may be associated with the local chamber of commerce or a group formed regionally to promote business) are in constant contact with businesses considering relocation.
- The first call when selling office properties (unless the broker is required to keep this confidential) is to the current tenants. If there is an anchor tenant (a large user of space), that tenant may be the best prospect.

RETAIL DEVELOPMENTS

The retail developer will not commit to a site until a major retailer has agreed to be part of the development. A retail developer, or investor will tell you what is most important to them. Note that because different retailers place emphasis on different things.

The following is only a general list of the requirements of retailers

- Location of their customers
- Convenience—easy in and out (ingress and egress) and on the best side of the road, depending on the business
- Visibility—can the shop(s) be easily seen in enough time to turn in?
- Other tenants in the same area—will their customers be my customers?
- Competition—some is good, but too much is bad (see the example following this list)
- Taxing jurisdiction
- City or county boundaries
- Local laws and ordinances that might affect sales or store operations
- Traffic patterns and stoplights
- am or pm side of road

How much competition is good?

- One home improvement store can satisfy a market, and two might be able to generate enough business in one trade area; add a third store and the available dollars to be spent for home improvements gets pretty thin.
- A developer had an idea to bring a popular but new-to-the-area, upscale grocery store into an up-and-coming bedroom community in a nearby city.

- The grocery store was very proud of its two aisles of beer selection and its large wine department. The lack of alcohol sales was a true deal-breaker for the grocery store, and they backed out.
- It was difficult to find a new user for the site, and the developer ended up selling it to a Walmart Supercenter, which is open 24/7. The neighbors protested, and the protest developed into a protracted lawsuit between the Walmart and the neighbors.

Types of Retail

Freestanding retail

- These retailers are referred to as destination-oriented because they don't depend on traffic brought in by other retailers.
- The retailers will tell you the information they need to determine whether or not a site is suitable for their business.
- They may choose to locate with other large tenants in a power center, which has multiple large tenants and few, if any, small, local tenants.

Demographic Reports

- Demographic reports are important to these tenants, and these tenants have demographic criteria they use to select locations. Some tenants outline their requirements on their websites. They might need to know the number of people living nearby and their incomes, ages, races, occupations, and so on.

Neighborhood Shopping Center

- Neighborhood shopping centers can range in size from 60,000 to more than 200,000 square feet.
- Their trade area ranges from one to five miles depending on where their competition is located.
- They are typically anchored by a grocery store and other retail stores visited on a daily or weekly basis by the surrounding residents.

Community shopping center

- Larger than neighborhood shopping centers, community shopping centers are 250,000 to 500,000 square feet.

- They have multiple anchor tenants and a larger trade area. Depending on who the big tenants are, where their other locations are, and where their competition is located.
- The trade area might be as much as 10 miles or more. A neighborhood center may be part of the community center.

Regional Centers, Open Malls, and Enclosed Malls

- At 500,000 square feet and up, many regional centers cover more than 1 million square feet and have extensive trade areas depending on their department stores.
- A mall can have a trade area of 100 miles or more. In many ways, a mall development is like a small city and should be treated differently than other types of retail.
- While demographic reports are still key for them, mall developers and small tenants will look at a much larger trade area because of the mall size and the fact that some are totally enclosed.
- The success of a regional shopping center will influence surrounding development.

Demographics

- Retailers and retail developers typically use some type of demographic information when making decisions. Doing the data compilation yourself can be daunting because you must use the raw census tracts and extract the information you need.

Some of the data categories you'll find are the following:

- Population
- Age
- Race
- Income by household and per capita
- Number and ages of children
- Drive time to work
- Education level

INDUSTRIAL, MULTIFAMILY, AND INSTITUTIONAL-USE PROPERTIES

- Industrial, multifamily, and institutional-use properties are routinely handled by industry specialists.
- Larger developments may be purchased by institutional investors, such as pension funds, life insurance companies, and real estate investment trusts (REITs).
- This is also true of some large office developments. It is unlikely that a beginning commercial broker will be involved in properties such as these except to handle a lease for a small commercial industrial property or a small apartment building.

Industrial Developments

- Industrial developers may be building for one or more large users or for multiple smaller users. The business may be manufacturing, warehousing, or office.
- Industrial properties are handled by industrial specialists who know the market and the trends, and particularly the needs of industrial users.
- Some of the things important to industrial users include location in an FTZ (or other area with tax incentives), proximity to the airport or intermodal facility.

Multifamily Properties

Multifamily investors have certain sizes they prefer. For example, institutional investors typically look for high-quality (called "class A") apartment properties over 200 units.

In the list below are some of the things a typical renter might consider when deciding where to live.

- Reasonable topography
- Attractive landscaping with trees and other natural features
- Visibility to major roads
- Proximity to amenities (shopping, restaurants, houses of worship)
- Good access
- Convenience to places of employment

- Public transportation (depends on the market)
- Jurisdiction—city, county
- School district
- Taxing district
- Voting district
- Nearby properties or land features
- Where the competition is located
- Traffic congestion

Special-Use Properties

Churches

A church development is typically started by the church's congregation. They may have a site or go to a developer for a site.

- Churches can be among the most difficult clients because the members of the church, mosque, or synagogue are volunteers, not land-use experts or architects.
- They may have strong opinions about how the development should proceed.

Government buildings and public structures

- Sometimes public buildings will be built in an area needing revitalization, and the government is the first to start the redevelopment process.
- The government agencies may have traded for the land or may be using land that was in their inventory. Their site selection may have nothing to do with highest and best use for the intended use.

Hotel Sites

- The hotel and hospitality business is very specialized.
- The operators will tell the broker their exact needs and requirements for their sites.
- Factors like visibility and access will always be important, and there will be other specifics that may pertain only to a hospitality product.

Land

- Land brokerage is a specialty that will be covered in detail later in this book.
- There are many details to know when assisting a buyer or seller with the sale of land (see Unit 4). In many ways, it is the most complicated.

Summary

- Each type of commercial real estate has characteristics that set it apart from the others. A good commercial broker will know and understand these characteristics before undertaking any involvement.
- There is much more to learn about each one. Read industry publications, browse the internet, and check organizations mentioned in Unit 1 for details.