

RE94C15:

Introduction to Commercial Real Estate Basics: Principles and Concepts

I. Introduction:

- a. The new broker to the commercial real estate world will be exposed to the commercial real estate basics to understand its terminology, jargon, principles and concepts
- b. The course will review the basics in the leasing and purchasing of commercial real estate

II. Learning the Terminology and Techniques:

- a. Commercial real estate has different lingo and language than residential
- b. Rents are priced on a square foot basis, not a monthly dollar amount
- c. Terms can be confusing with such acronyms as CAM, CAF, PSF, triple net, quoted rent, etc.

III. Different commercial real estate organizations exist for the commercial practitioner:

- a. Examples of professional designations/honorary memberships such as the Society of Industrial and Office Realtors (SIOR), The Royal Institute of Chartered Surveyors (RICS), Certified Leasing Specialist (CLS), Certified Developer, Design and Construction Professional (CDP), CoreNet Global's Master in Corporate Real Estate (MCR), Certified Commercial Investment Member (CCIM), Counselors of Real Estate (CRE), Lambda Alpha International honorary land economics society (LAI), etc.
- b. Examples of commercial real estate trade associations such as Urban Land Institute (ULI), National Association of Industrial and Office Properties (NAIOP), International Council of Shopping Centers (ICSC), CoreNet Global, International Facility Management Association (IFMA), National Association of Realtors Commercial
- c. Examples of commercial real estate resources, newspapers, on-line services, national publications

IV. What's included in Commercial Real Estate:

- a. How should we define it? Google can offer definitions but industry trade associations have definitions. The point is that the definition can be broad base. There are many types of commercial real estate that redefine the concepts.
- b. Examples:
 - i. Real Estate Portion - Land and Buildings
 - ii. Business or "Going-Concern" Aspects
- c. Type:
 - i. Investment Apartments

- ii. Office
- iii. Retail
- iv. Industrial/Warehouse
- v. Mixed Use
- vi. Other examples

V. Needs of Commercial Real Estate:

- a. The Business Owner/End-User Buyer and the Real Estate Investor Buyer Matching Their Needs

VI. Real Estate Owner as an End-User Buyer:

- a. Purpose/Goal of ownership
- b. Identifying the anticipated holding period
- c. Marketing resources to find a building
- d. Identifying possible disposition strategies such as Sale, Sale/Leaseback, 1031 Exchanges
- e. Estate Planning Considerations

VII. Real Estate Investor/Buyer:

- a. Purpose/Goal of Investing
- b. Identifying possible Exit Strategies such as a 1031 Tax Exchange
- c. Desired Return On Investment
- d. Does the investor seek appreciation, rental income or both?
- e. Identifying the geographical target for an investment
- f. Conducting a broker's Market Study, the components of a market study, lease concessions, marketability, etc.
- g. Developing a Business Plan for the investment and identifying any appreciation possibilities
- h. Identifying marketing tools to find a real estate product
- i. Developing a marketing plan to lease any vacancies
- j. Financial Projections - Financing (Include Blanket Mortgages, Mortgage Originators and Equity Use) - Holding Period

VIII. Other Issues Pertinent to Both an Investor and End-User:

- a. Identifying any expansion possibilities of a property
- b. Identifying allowed zoning uses
 - i. Possible rezoning on possible changes to zoning district
- c. Conducting a location analysis, inventory market study, absorption rate study, etc.
- d. Title and Property Survey, mechanic or financing liens, environmental liens, covenants, etc.
- e. Environmental issues to research include: Title V, wetlands, 21E assessment and other considerations
- f. We don't Practice as an:
 - i. Attorney

- ii. Accountant
- iii. Insurance Agent
- iv. Discuss need for these Professions to be involved

IX. Lessor/Lessee:

- a. Landlord/Tenant relationship is very different than a seller/buyer relationship
- b. Mutual Needs and Mutual Agreements for a lease execution to include: Length of lease, Type of Lease, Rental rate negotiated, Right of 1st Refusal, Options to renew, Options to extend lease, option to purchase, Option of first refusal, Option of first right; Effect of Lease on Lessor's Resale and Lessee's tenancy.
- c. Defining types of leases:
 - i. For example, full service lease, gross lease, modified lease, net lease, triple net lease, etc.
 - ii. Understanding the confusion of the terminology to the consumer tenant on leasing terms.
 - iii. No uniformity or standardization therefore the broker has to be clear with the tenant on costs
- d. Rental rate could be based on per square foot annually or monthly. Rental rate could be on a per square foot or per cubic foot (for warehousing). Other examples of commercial real estate pricing methods.
- e. Broker should have knowledge of the building's physical characteristics and tenant needs. Such information should be minimally: Square footage amount, amount of power, clear height, parking availability and amount, common areas, storage possibilities, after hour access to the building, property security, HVAC and general utilities, etc.
- f. What is the effect of death of a company's president or founder? Can the company survive and continue with its lease obligations?

X. Business Owner/Lessee:

- a. Purpose/Goal of Business Owner who is to be a tenant
- b. What is the tenant's business plan and space needs?
- c. Square Footage/Type: Defining rentable square foot, usable square foot, buildable square foot and the differences to a landlord versus the tenant
- d. How square footage can be confusing to a tenant? Discussion on how commercial space is measured. Different methods in the industry to measure space. How the rent amount is determined based on the square footage.
- e. Examples of other space measurements used internationally, for example, square meters, tsubo, etc.

Resources:

- a. *Introduction to Commercial Real Estate Sales*, by Bill W. McCoy III, Dearborn Real Estate Education

- b. *Commercial Real Estate, Listing Properties*, by Edward S. Smith, Jr., RECS, Dearborn Real Estate Education
- c. *Commercial Real Estate, Understanding Investments*, by Edward S. Smith, Jr., RECS, Dearborn Real Estate Education