


THE NATIONAL ASSOCIATION OF REALTORS®

# Discovering Commercial Real Estate



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## Mary Jean Agostini, CCIM

- 32 years experience selling, auctioning and exchanging real estate
- Bentley College-BS business management 1986
- Worked in family business instead of law school
- Licensed in MA, CT and RI
- Started career in 1986 selling commercial real estate ONLY
- Worked for family company
- MBA University of Hartford in 1994
- CCIM designation in 1994
- Repperst School of Auctioneering 1999



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## About the National Association of REALTORS®

*The Commercial Division represents commercial constituencies within the National Association of REALTORS® (NAR).*

- It comprises:
  - Commercial practitioners who hold REALTOR®, REALTOR – ASSOCIATE® or Institute Affiliate Membership
  - NAR commercial committees and sub-committees, advisory boards and forums
  - Local commercial boards and commercial structures
  - The five national Commercial Affiliates (CCIM, CRE, IREM, RLI and SIOR)
  - Commercial products and services



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### Benefits Offered

- Community Outreach Programs
- Commercial Real Estate Research
- Commercial Property Listing Platform (CommercialSearch.com)
- RPR Commercial
- COMMERCIAL CONNECTIONS - NAR's quarterly commercial publication
- Commercial Connections Podcasts
- Commercial Networking and Education at REALTORS® Conference & Expo
- NAR Commercial Field Guides
- The Source Blog- NAR's blog on all things commercial
- Additional benefits are shown on the Commercial homepage, REALTOR.org/Commercial




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### Course Outline

1. Principles of Commercial Real Estate: Players and Properties
2. Characteristics of Commercial Real Estate and Types of Commercial Transactions
3. Commercial Contracts and Resources for Further Exploration




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### Class demographics

- Years in business?
- Who has done commercial real estate?
- What types?
- Any advanced real estate designations?




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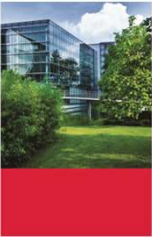
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SECTION ONE

## Principles of Commercial Real Estate: Players and Properties

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### Learning Objectives

- Describe roles and functions of the key players in commercial real estate deals.
- Recognize the characteristics of key categories of commercial real estate and their subcategories.
- Interpret key considerations for users of different types of commercial real estate.

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### Course Goal

This course **will not** equip an agent with the needed tools to practice commercial real estate. It is designed to explain this important side of the business and introduce many of the concepts, tools and other resources needed to pursue a commercial transaction or a career in commercial real estate.

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### Similarities with Commercial & Residential

- Represent your client
- Seller wants the best price, terms and conditions
- Buyer wants to get the best deal possible
- Landlords want the best lease
- Tenants want the best terms




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### Differences with Commercial Real Estate

- Buyers or Sellers are Landlords, Tenants, Investors, Business Owners
- Motivated by Financial Gain & Business Opportunities
- Transactions are complex
- Length of time to complete
- Not in MLS
- Client relies more heavily on the Broker for local market info
- Many Brokers from different companies can be involved
- Dealing with corporate real estate divisions
- No standard compensation agreements




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### Discussion Questions

What is your attraction to transitioning into or exploring commercial real estate as a career?

What challenges do you anticipate encountering as you proceed into commercial real estate?




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### Commercial Broker Facts

- 86% of Realtors focused on commercial sales BELOW \$2.5M
- Secondary and Tertiary Markets
- 20% of Realtors engaged in International Sales
- International Investors accounted for 8-10% of Sales over past 4 yrs
- 1 in 5 Commercial Sales are International clients




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### Types of Commercial Real Estate

OFFICE    COMMERCIAL    INDUSTRIAL  
 RETAIL        LAND  
 RESIDENTIAL (apartments, assisted living)  
 HOSPITALITY  
 STORAGE FACILITY




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### The Players

- Brokers
- Lenders
- Architects, Engineers and Land Planners
- Accountants
- Attorneys
- Appraisers
- Other Consultants




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### Brokers

- Commercial agents are often referred to as “brokers” regardless if they have a broker’s license

### Lenders

- Construction lenders
- Acquisition lenders
- Equity lenders
- Permanent lenders
- Combination

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### Architects, Engineers, Planners

- Development, redevelopment or the leasing of property

### Accountants

- Provide financial advice on acquisition or disposition of property; important for brokers to stay involved in process

### Attorneys

- It is critical that the attorney is experienced in commercial real estate transactions

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### Appraisers

- Similar to residential. Appraisers should be experienced in the type of commercial real estate being considered.

### Other

- Rezoning/land
- Historical designation
- Traffic/Department of Transportation
- Environmental
- Business brokerage

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## Types of Commercial Real Estate

### Office

- Converted homes, also called cottage style
- Low-rise
- Mid-rise
- High-rise
- Specialty

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### CONVERTED HOME TO OFFICE




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### OFFICE BUILDING-Low Rise




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### Key Factors Considered by Office Users

- Location of labor pool
- Location of owner/CEO
- Transportation (highways, bus, rail)
- Location of customers/clients
- Visibility
- Parking
- Image

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### Key Factors Considered by Office Users (cont.)

- Price
- Amenities nearby (restaurants, retail, daycare)
- Space configuration
- Incentives – local, state, national (ie GE)
- Convenience to other businesses
- Allowed users on the property
- Buy vs. lease

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### Industrial

- Office/showroom flex space, office/warehouse
- Warehouse
- Manufacturing

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## Industrial-Manufacturing




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### Key Factors Considered by Industrial Users

- Location of labor pool for manufacturing facilities
- Transportation – access to major highways, rail, ports, airports
- Location – proximity to end users/customers
- Price
- Space configuration
- Ceiling heights – clear

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### Key Factors Considered by Industrial Users (cont.)

- Utilities
- Floor loads
- Sprinkler systems
- Docking areas
- Incentives – local, state, national
- Allowed uses on the property (zoning and covenants)
- Buy vs. lease

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### Additional Resources

The CCIM Institute  
[www.ccim.com](http://www.ccim.com)  
 &  
 Society of Industrial and Office Realtors  
[www.sior.com](http://www.sior.com)

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### Retail

- Single user (freestanding)-Starbucks
- Credit tenants (Apple Store)
- Big Box (Walmart)
- Small strip center
- Neighborhood shopping center (Starbucks anchored)
- Community shopping center (Bishops Corner)
- Regional shopping center (Westfarms Mall)
- Specialty center (Evergreen Walk-Blue Back Sq)

For additional resources related to retail space, check with the International Council of Shopping Centers at [www.ICSC.org](http://www.ICSC.org)

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Strip Center

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## Land Sales

Land Sales may or may not:

- Be zoned for the intended use
- Have utilities available
- Have accessibility
- Have suitable soils
- Be “developable” because of soils, environmental issues, local issues, and archaeological issues
- Have needed amenities nearby

RLI: REALTORS® Land Institute

[www.riland.com](http://www.riland.com)

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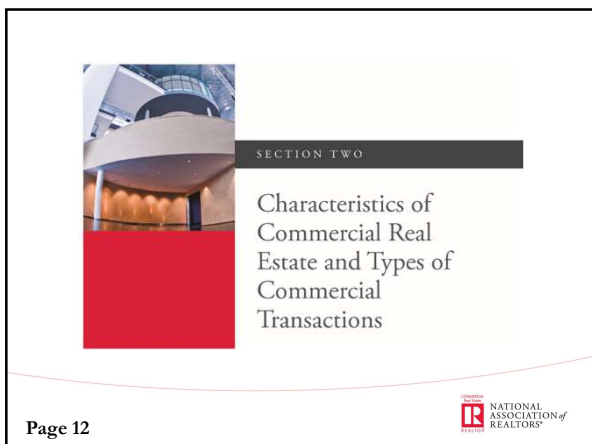
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## SECTION TWO

Characteristics of  
Commercial Real  
Estate and Types of  
Commercial  
Transactions

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### Learning Objectives

- Describe characteristics of commercial real estate, including similarities to and differences from residential real estate.
- Explain basic mechanics of commercial transactions, including issues of compensation, contracting, timing, and property management.
- Apply understanding of commercial real estate characteristics and transactions to practical situations.

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### Discussion Question

As a residential practitioner, what skills do you feel will easily transfer to commercial real estate?

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### Key Differences

#### Broker's Roles

- Coordination of Experts
- Due Diligence
  - Zoning
  - Environmental Issues
  - Traffic, roads, ingress and egress
  - Utilities
  - Public facilities
  - Easements
  - Building plans

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**Due Diligence (cont.)**

- Soils
- Financing
- Pre-Marketing
- Costs of Development
- Desirability of the project
- Physical improvements inspection
- Property boundaries (survey)
- Title issues
- Ownership structure (LLC, partnership, etc.)

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**Zoning/Rezoning Considerations**

- Current plans for the area
- Location of rail, transit, employment
- Planning staff recommendation
- Impact on private sector
- Other petitions in the area
- Neighborhood reaction (Golden Triangle Example)
- Conditional plan?
- Issues with schools, flood plains, roads
- Petitioner's reputation
- Politics – elections, etc.

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**Representation, Compensation  
Agreements and Practices**

- Most commercial properties do not appear in any MLS.
- Examples of representation agreements
  - One-time showing agreement
  - Territory specific
  - Property-specific
  - Non-exclusive

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## NAR Resources and Marketing Platforms

Commercial Search

[www.commercialsearch.com](http://www.commercialsearch.com)

Realtor.com

[www.realtor.com](http://www.realtor.com)

RPR Commercial

[blog.narrpr.com/commercial](http://blog.narrpr.com/commercial)

<http://www.narrpr.com/commercial>

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## Additional Key Differences

- Business Hours (no 9pm negotiations)
- Business vs. Personal
  - Clients will be less emotional than residential
- Experts Used
- Transaction Timeline
  - 30-45 days for residential, months – years for commercial

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## Transaction Scenarios

- Leasing unfinished office space
- Selling a currently operating convenience store
- Tract of land that requires rezoning
- Selling Environmentally challenged property
- Valuation Methods
  - Business Valuation vs. Real Estate Value
- Demographics

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### Leasing New Office Space




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### CONSIDERATIONS

- "VANILLA BOX"
- BUILD OUT EXPENSES (Upfront or over term of lease)
- CAM CHARGES(Common Area Maintenance)
- NNN (Triple Net) What does this mean?
- PASS THROUGH CHARGES
- SUB-LEASING
- SIGNAGE
- PARKING REQUIREMENTS (Town/City rules)




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### SALE OF GAS STATION/CONVENIENCE STORE



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### CONSIDERATIONS

- SALE OF BUSINESS AND LAND?
- GALLONS SOLD AND MARGIN PER GALLON
- AGE OF GASOLINE TANKS
- ENVIRONMENTAL STUDIES
- GAS FRANCHISE OR INDEPENDENT? (i.e. MOBIL)
- LENGTH OF TIME LEFT ON FRANCHISE LEASE
- LOTTO SALES
- FUTURE OPTION TO PURCHASE LAND




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### REZONING OF LAND




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### CONSIDERATIONS

- TOWN PLAN OF DEVELOPMENT
- LOWER DENSITY TO HIGHER DENSITY USE
- STATE OR FEDERAL HIGHWAY APPROVALS
- TRAFFIC LIGHT
- CURB CUTS
- TIME CONSTRAINTS FOR APPROVALS
- NEIGHBORS AND/OR PUBLIC OPPOSITION




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## ENVIRONMENTALLY CHALLENGED




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## CONSIDERATIONS

- HISTORY OF PROPERTY
- SURROUNDING PROPERTIES
- PHASE I, II, III
- LIABILITY OF CLEANUP
- FORM III
- UNDERGROUND STORAGE TANKS (UST)
- DRY CLEANING FLUID
- ASBESTOS TILES




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## Sales Transactions

- Commission and Representation Agreement
- Contracts
- Timing
- Lease Transactions




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\*Note: Any examples of commission structure or other compensation are for the purpose of explanation of concepts. These are not to be used as suggestions for compensation. Practitioners should refer to their office policy when structuring any commission or compensation structure.




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### Commission Structure

- Percentage of sale-upfront
- Percentage of sale-over time (installment sale)
- An amount per square foot
- Value of the lease-cash out or over time
- Value of the lease capped
- A combination or variation of the lease

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### Commission Structure Example

**Example:** The deal is for 2,500 sq. ft. at \$20/sq ft. for 3 years. The commission is 4% cash out with half at signing, and half at occupancy; of 6% over the term, paid quarterly

**Cash Out:**

2,500 sq. ft. x \$20 x 3 years = \$150,000 (value of lease) x 4%  
= \$6,000 total commission paid (half at signing, half at occupancy)

**Over the Term:**

2,500 sq. ft x \$20 = \$50,000/yr ÷ 4 quarters  
= \$12,500 x 6% = \$750 paid each quarter over the term  
(\$750 x 4 x 3= \$9000)

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## Property Management

This usually includes collecting rent, handling repairs and routine maintenance. Responsibilities may or may not include leasing and tenant upfitting. There needs to be a written property management agreement outlining the duties of the agent.

IREM: Institute of Real Estate Management

[www.irem.org](http://www.irem.org)

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### SECTION THREE

Commercial Contracts  
and Resources for  
Further Exploration

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## Learning Objectives

- Identify key components of purchase contracts and lease agreements for commercial real estate.
- Interpret practical implications of commercial contracts and contract clauses.
- Recognize resources for additional information on commercial real estate careers and transaction

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## Purchase Contract

### Key Clauses

- **Due Diligence**-traffic,title,feasility
- **Assignment**-add or take away partners, change LLC
- **Environmental**-Contaimination
- **Use**-zoning
- **Assignment of Leases, Estoppel Certificates**

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## Leases

Many businesses, institutions, governments and other commercial real estate users prefer to lease their quarters rather than purchase a property.

- Flexibility
- Cost
- Mission

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## Standard Commercial Lease Clauses

- **Term**-lease start date vs move in date
- **Rent Commencement**
- **Use**-liquor stores
- **Upfitting, Tenant Improv**- pay upfront or overtime
- **Default Issues**
- **Notices**-power outage, mergers and acquisitions

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### Standard Commercial Lease Clauses (cont.)

- Common Areas
- **Rent Calculations**- base + % of sales
- Net Lease vs. Gross Lease
- **Land Lease** –provision to buy at end of lease
- Deed restrictions
- **Assignments, Subletting**-danger to underlying tenant
- Insurance

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### Commercial Member Profile (2013)

- The median age of commercial members is 59-years-old.
- 78% of the practitioners are male
- 65% of commercial members have a bachelor's degree or higher.

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### Commercial Affiliates

Certified Commercial Institute Member (CCIM)

[www.ccim.com](http://www.ccim.com)

Counselors of Real Estate (CRE)

[www.cre.org](http://www.cre.org)

Institute of Real Estate Management (IREM)

[www.irem.org](http://www.irem.org)

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## Commercial Affiliates (cont.)

REALTORS® Land Institute (RLI)

[www.riland.com](http://www.riland.com)

Society of Industrial and Office REALTORS®  
(SIOR)

[www.sior.com](http://www.sior.com)

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## Other Resources

REALTORS® Property Resource (RPR)

[www.narrpr.com](http://www.narrpr.com)

The International Council of Shopping Centers (ICSC)

[www.ICSC.org](http://www.ICSC.org)

The Urban Land Institute (ULI)

[www.uli.org](http://www.uli.org)

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## Other Resources (cont.)

THE SOURCE BLOG

[bit.ly/TheSourceBlog](http://bit.ly/TheSourceBlog)

Commercial Connections Podcast

[www.realtor.org/CCP](http://www.realtor.org/CCP)

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## Comparison of CIE and C/I MLS

- Purpose
- Compensation
- Participants
- Non-members
- Access to Information
- Listings
- Filing Procedures
- Property Types
- Ownership of Information
- Dispute Resolution

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## APOD PROBLEM

- Annual Property Operating Data
- Owner Statement
- Proforma Statement
- Used to calculate Property Value
- Capitalization Rates
- Cash on Cash Return




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## MIXED USE INVESTMENT PROPERTY

484 Main Street, Middletown




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## 484 Main Street, Middletown Info

- 2 Retail units on first floor NNN lease \$5000 per month each
- 10 apartments Each \$1000 per month
- Common area utilities \$20,000 per year
- Snow plow \$10,000 per year
- Real Estate Taxes \$25,000 per year
- Laundry Income \$5,000 per year
- 5% vacancy rate-apartments
- Legal and Accounting \$3000 flat fee
- Insurance \$15,000 per year
- Advertising \$2000 per year




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## QUESTIONS

- What is the Effective Rental Income?
- What is the Gross operating Income?
- What is the NOI?
- Assuming these type of properties are capitalized at 6%, what is the value of the building?




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## Retail Pad Site

\$1,700,000 SALES PRICE  
5% CAP RATE  
FRANCHISE OWNER  
NNN LEASE

WHAT IS THE NET  
INCOME?



**Price: \$1,700,000**  
**Cap Rate: 5.00%**

- 10-Year Triple Net Lease with Over Nine Years Remaining
- Four, Five-Year Renewal Options with 10 Percent Increases Every Five Years
- Franchise is Southern Star Restaurant Management Which Owns and Operates 65 Dunkin' Donuts Locations
- Surrounding National Retailers Include Walmart Supercenter, Publix, Lowes, Staples, Marshall's, Ross, Michaels, Tractor Supply Company, PetSmart, Dollar Tree, Papa John's, Panera Bread, Pizza Hut, Taco Bell, KFC and Many More

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**PRICE REDUCED BY \$1,000,000**  
**MOTIVATED SELLER**

**KOHL'S** **ALDI**

**1899 Silas Deane Highway**  
**Rocky Hill, Connecticut**

**NOI: \$1,434,387 | CAP: 7.00% | PRICE: \$20,500,000**

- Aldi Recently Signed an Amendment to Build an Additional 3,752 Square Feet at Their Own Expense, Increase the Rent by 15% and Renew Lease to a Full 20 Year Term
- 41.8 Acre Lot Offers Additional Development | Property is Zoned for an Additional 44,000+ Square Feet of Retail
- Located Along Silas Deane Highway | Northern Connecticut's Most Active Retail Corridor
- Affluent Population Base | \$107,000+ in Surrounding Area | Expected to Increase by 15.7% by 2020
- Property Features Highway Signage on Interstate 91 (145,000+ Vehicles Per Day) & Signage on Silas Deane Highway (22,000+ Vehicles Per Day)

Exclusively Listed By:  
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**NNN**  
**FREE OFFER**  
**Maxwell & Noffsinger**  
**Real Estate**




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