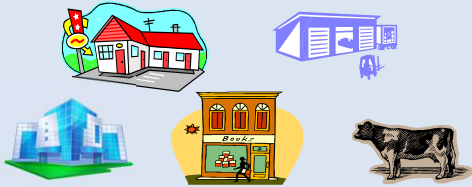


So You Think You Want to Be a Commercial Real Estate Professional

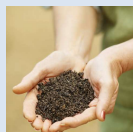


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WHAT IS COMMERCIAL REAL ESTATE?

DEFINITION OF COMMERCIAL REAL ESTATE

▶ “Under all is the land”



- ▶ Greater than four residential uses and land zoned for more than four residential units
- ▶ Centers on business or investment use



TYPES OF COMMERCIAL REAL ESTATE

TYPES OF COMMERCIAL REAL ESTATE

Office/Institutional
Retail

Industrial/Warehouse

Leisure

Land

Residential


Agriculture




TYPES OF COMMERCIAL TRANSACTIONS

TYPES OF COMMERCIAL TRANSACTIONS


▸ Sales




▸ Lease



▸ Property Management



▸ Business Brokerage



WHO ARE THE “PLAYERS”?



THE “PLAYERS”

▸ Brokers



◦ Websites:

- Loopnet www.loopnet.com
- Cityfeet www.cityfeet.com
- Catylist www.catylist.com
- Realtor Property Resource www.narrpr.com
- Commercial Investment MLS www.cimls.com
- Biproxi www.biproxi.com
- Brevitas <https://brevitas.com>
- CREXi www.crex.com
- Local Association Commercial MLS (e.g. www.commercialgcar.net; www.kaarcie.com; www.netarcmls.us;

THE "PLAYERS"

- ▶ Lenders 
- ▶ Architects/Land Planners/Civil Engineers/Surveyors/Environmental Consultants 
- ▶ Accountants/Tax Specialists 

THE "PLAYERS" CONT'D

- ▶ Attorneys 
- ▶ Appraisers 
- ▶ Local, State, & Federal Agencies 
- ▶ Other

KEY DIFFERENCES BETWEEN NON-RESIDENTIAL AND RESIDENTIAL REAL ESTATE

COMMERCIAL VS. RESIDENTIAL

- Business vs. Personal
- Time Commitment/Timeline for Transactions
- Agent/Client Relationship
- Commission
- Coordination

COMMERCIAL VS. RESIDENTIAL CONT'D

- Demographics/Demand for Land Use/Highest & Best Use
 - Location, Location, Location
 - Local demand for types of land uses
 - Income
 - Other factors
 - Highest & Best Use



COMMERCIAL VS. RESIDENTIAL CONT'D

- Due Diligence:
 - Caveat Emptor
 - Due Diligence Issues
 - Land Use
 - Site
 - Building Code/Development
 - Transactional/Business/Finance
 - Market



COMMERCIAL VS. RESIDENTIAL CONT'D

Due Diligence Issues: Land Use

- Zoning/Planning
- Buffers
- Signage
- Local Ordinances/Policies



COMMERCIAL VS. RESIDENTIAL CONT'D

Due Diligence Issues: Site

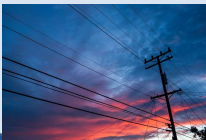
- Size & Shape
- Surveys
- Easements/Rights-of-ways
- Traffic, Roads, Ingress, Egress
- Environmental Issues
- Soil Characteristics & Topography
- Other



COMMERCIAL VS. RESIDENTIAL CONT'D

Due Diligence Issues: Building Code/Development

- Engineering & Building Plans



- Utilities

COMMERCIAL VS. RESIDENTIAL CONT'D

► Due Diligence Issues: Transactional/Business/Financing

- Transactional
- Business
- Financing
- Cost of Development



COMMERCIAL VS. RESIDENTIAL CONT'D

► Due Diligence Issues: Market

- Position in relation to surrounding area
- Competition
- Need for Use
- Local Amenities for support
- Local Economy

COMMERCIAL VS. RESIDENTIAL CONT'D

► Valuation Methods

- Sales Comparison Approach
- Cost Depreciation
- Income

VALUATION OF NON-RESIDENTIAL PROPERTY

VALUATION: SALES COMPARISON APPROACH

- ▶ Pay no more for the property than cost of acquiring an equally acceptable substitute property
- ▶ Review recent sales (comps)
 - Sales must have occurred recently in the same market area
 - Comparable properties must be similar to the subject property

VALUATION: COST DEPRECIATION APPROACH

- ▶ A knowledgeable purchaser will pay no more for a property than the cost of acquiring a similar site and constructing an acceptable substitute structure.

VALUATION: COST DEPRECIATION APPROACH

Formula: Cost-Depreciation Approach

	Reproduction/replacement cost of the building
Less	Accrued depreciation
Equals	Indicated value of the building
Plus	Estimated value of the site
Equals	Indicated value of the property

VALUATION: COST DEPRECIATION APPROACH

Step One: Estimate Current Reproduction (Replacement) Cost

- Quantity Survey Method
- Unit in Place Method
- Comparative Unit Method

VALUATION: COST DEPRECIATION APPROACH

Step Two: Estimate Accrued Depreciation

Formula: Accrued Depreciation

	Effective Age
Divided by	Total economic life
Multiplied by	Reproduction cost new
Equals	Estimated total accrued depreciation

VALUATION: COST DEPRECIATION APPROACH**Step Two cont'd:** Estimate Accrued Depreciation

- Loss in value for any reason
- 3 Types
 - Physical depreciation
 - Functional obsolescence
 - External obsolescence
- Land is never depreciated
- Straight line method/age-life method

VALUATION: COST DEPRECIATION APPROACH**Step Three:** Estimate the Value of the Site & Non-structural Improvements**Step Four:** Derive the Property's Estimated Value

VALUATION: COST DEPRECIATION APPROACH

Example Property Value Using Cost Depreciation				
Estimated reproduction cost new:				
Structure	Size (sf)	Cost/sf	Replacement Cost	
Office building	1500	\$100	\$150,000	(1500 sf x \$100)
Outbuilding	200	\$50	\$10,000	(200 sf x \$50)
Total Estimated Replacement/Reproduction Cost New			\$160,000	(\$150,000 + \$10,000)
Accrued Depreciation:				
Reproduction cost new			\$160,000	
Economic life		25		
Annual depreciation		\$6,400		(\$160,000/25 yrs)
Age of building		5		
Total accrued depreciation			\$32,000	(\$6,400 x 5 yrs)
Depreciated Reproduction Cost			\$128,000	(\$160,000 - \$32,000)
Value of Land			\$20,000	
Total Value of Property via Cost Depreciation Method			\$148,000	(\$128,000 + \$20,000)

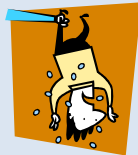
VALUATION: INCOME CAPITALIZATION APPROACH

- ▶ Measure flow of income projected into the future.

VALUATION: INCOME CAPITALIZATION APPROACH

▶ Types of Income

- Potential Gross Income
- Effective Gross Income
- Net Operating Income



VALUATION: INCOME CAPITALIZATION APPROACH

Formula:	Net Operating Income
	Potential gross income (PGI)
	Vacancy and collection losses
	Other income (Laundry, parking, etc.)
Minus	
Plus	
Equals	Effective gross income (EGI)
Minus	Operating expenses
Equals	Net operating income (NOI)

VALUATION: INCOME CAPITALIZATION APPROACH

Formula: IRV

$$NOI/R = V$$

Net Operating Income (NOI)/Capitalization Rate (R) = Present Value (V)

Or

$$R \times V = NOI$$

Capitalization Rate (R) X Present Value (V) = Net Operating Income (NOI)

VALUATION: INCOME CAPITALIZATION APPROACH

Example: NOI & CAP Rate		
Property: Main Street Mall		
10,000 sq ft strip center with five units		
	Monthly	Annually
A - Vacant	\$0	\$0
B - Barber Shop	\$600	\$7,200
C - Thrift Store	\$1,000	\$12,000
D - Bakery	\$1,200	\$14,400
E - Home Health Agency	\$1,200	\$14,400
Total Rental Summary	\$4,000	\$48,000
Projected Gross Income* (PGI)	Monthly	Annually
	\$4,700.00	\$56,400.00
*Assumes one vacant unit is leased at \$700/mo		
Effective Gross Income** (EGI)	Monthly	Annually
	\$4,000.00	\$48,000.00
**Assumes there is one vacant unit - Effective Gross Income = Projected Gross Income - Vacancy & Collections		
Expenses (OE)	Monthly	Annually
Water/Dumpster	\$50.00	\$600.00
PPL (outside)	\$30.00	\$360.00
Maintenance/ Landscaping	\$75.00	\$900.00
Building Insurance	\$500.00	\$6,000.00
Real Estate Taxes	\$750.00	\$9,000.00
Total Annual Operating Expenses	\$1,405.00	\$16,860.00
Net operating income (NOI) - NOI=EGI-OE		\$31,140.00

VALUATION: INCOME CAPITALIZATION APPROACH

Formula: IRV

$$NOI / R = V$$

Net Operating Income (NOI) / Capitalization Rate (R) = Present Value (V)







CONTRACTS & LEASES

- Contracts
 - Commercial Letter of Intent to Purchase (CF402) or Lease (CF423)
 - Commercial Purchase and Sale Agreement (CF401)
- Leases
 - Commercial Lease Agreement (Single-Tenant) (CF421)
 - Commercial Lease Agreement (Multi-Tenant) (CF 422)

THANK YOU!
