

COMMERCIAL BASICS BOOTCAMP



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Property Types

Office Buildings: These are properties specifically designed to accommodate businesses and their employees. Office buildings can be classified into three categories:

- a. Class A: High-quality, prestigious buildings with excellent amenities and prime locations.
- b. Class B: Mid-tier buildings with average amenities and locations, often targeted by investors for upgrades.
- c. Class C: Older, lower-quality buildings with limited amenities, often in less desirable locations.

Retail Properties: These are properties that house businesses selling products or services directly to consumers. Common retail property types include:

- a. Shopping Centers: Large complexes with multiple retail stores and common areas.
- b. Strip Malls: Smaller, linear shopping centers with a row of stores, typically with shared parking in front.
- c. Standalone Retail: Single-tenant buildings, often occupied by businesses like fast-food restaurants, banks, or pharmacies.

Industrial Properties: These properties are designed for manufacturing, production, storage, or distribution of goods. They can be classified into different types based on their use:

- a. Manufacturing Facilities: Buildings equipped for the production of goods, including assembly lines and storage areas.
- b. Warehouses: Large structures used to store and distribute goods, often near major transportation routes.
- c. Flex Buildings: Properties that combine office, warehouse, and light manufacturing spaces, offering flexibility to tenants.

Multifamily Properties: These are residential buildings designed to house multiple families or individuals, generating rental income for the owner. Examples include apartment complexes, condominiums, and townhouses. Although primarily residential, they're considered commercial properties due to their income-generating purpose.

Mixed-Use Properties: These properties combine different property types within a single building or complex. For example, a mixed-use property might have retail space on the ground floor, offices on the next few floors, and residential units above.

Hotels and Hospitality: These properties cater to travelers, tourists, and temporary visitors. They can range from small motels to large luxury resorts and can be categorized based on service level and amenities.

Special Purpose Properties: These are properties built for specific purposes that don't fit into the categories mentioned above. Examples include amusement parks, sports facilities, churches, and self-storage facilities.

Land: Commercial land can be categorized based on its intended use and location. Some common types include:

a. Raw Land: This refers to undeveloped land with no existing structures, utilities, or infrastructure. It can be purchased for future development or as a speculative investment, anticipating that its value will increase over time.

b. Infill Land: Located in urban areas, infill land is vacant or underutilized land surrounded by existing development. This type of land is ideal for mixed-use or high-density projects, as it helps to maximize the use of available space in urban settings.

c. Brownfield Land: This type of land has been previously used for industrial or commercial purposes and may have environmental contamination. Brownfield land often requires remediation and cleanup before it can be redeveloped for new uses.

d. Greenfield Land: Greenfield land is undeveloped land, often located on the outskirts of urban areas. It is typically used for new construction projects, such as residential subdivisions, office parks, or industrial facilities.

e. Agricultural Land: This type of land is specifically used for farming, ranching, or other agricultural purposes. While not typically categorized as commercial property, it can be converted to commercial use in some cases, depending on zoning regulations and market demand.

FORMULAS

1. Net Operating Income(NOI):

$$\text{NOI} = \text{Gross Rental Income} - \text{Operating Expenses}$$

2.Cap Rate (Capitalization Rate):

$$\text{Cap Rate} = \text{Net Operating Income (NOI)} / \text{Property Value}$$

3.Cash on Cash Return (CoC)

$$\text{CoC Return} = (\text{Annual Pre-Tax Cash Flow} / \text{Total Cash Invested}) \times 100\%$$

4.Debt Service Coverage Ratio (DSCR)

$$\text{DSCR} = \text{Net Operating Income (NOI)} / \text{Annual Debt Service}$$

5.Internal Rate of Return (IRR)

<https://propertymetrics.com/irr-calculator/>

40 MOST COMMON COMMERCIAL REAL ESTATE TERMS

- 1. Capitalization Rate (Cap Rate) Definition:** The ratio of a property's net operating income (NOI) to its purchase price or market value. It's used to estimate the potential return on investment (ROI) for a property. Example 1: A property with an NOI of \$100,000 and a purchase price of \$1,000,000 has a cap rate of 10%. Example 2: Comparing two properties with different cap rates can help an investor determine which one is a better investment opportunity.
- 2. Net Operating Income (NOI) Definition:** The income generated by a property after deducting operating expenses, such as maintenance, taxes, and insurance. It does not include mortgage payments or income taxes. Example 1: A property generates \$150,000 in annual rent but has \$50,000 in operating expenses, resulting in an NOI of \$100,000. Example 2: A broker/agent may need to calculate the NOI of a property to determine its cap rate for a potential investor.
- 3. Gross Lease Definition:** A lease agreement where the landlord is responsible for all property-related expenses, including taxes, insurance, and maintenance costs. The tenant pays a single rent amount. Example 1: A tenant signs a gross lease for \$3,000 per month and does not have to worry about additional property expenses. Example 2: A landlord with a gross lease agreement may need to factor in all property-related expenses when determining the rent amount.
- 4. Net Lease Definition:** A lease agreement where the tenant is responsible for some or all property-related expenses in addition to the rent. There are three types of net leases: single net (N), double net (NN), and triple net (NNN). Example 1: A tenant signs a triple net lease for \$2,500 per month and also covers property taxes, insurance, and maintenance costs. Example 2: A broker/agent should explain the differences between gross and net leases to potential tenants, so they understand their financial obligations.
- 5. Usable Square Footage (USF) Definition:** The actual space a tenant can occupy and use within a commercial property, excluding common areas and structural elements. Example 1: A tenant rents a 1,500 USF office space, which includes three private offices and a reception area. Example 2: A broker/agent may need to measure the USF of a space to provide accurate information to potential tenants.
- 6. Rentable Square Footage (RSF) Definition:** The total square footage of a commercial property, including both usable square footage (USF) and a proportionate share of common areas, such as lobbies, hallways, and restrooms. Example 1: A tenant rents a 1,500 USF office space with a 20% common area factor, resulting in a total of 1,800 RSF. Example 2: Rent is typically calculated based on RSF, so a broker/agent should understand the difference between USF and RSF when discussing rent prices.
- 7. Common Area Maintenance (CAM) Definition:** The costs associated with maintaining the shared areas of a commercial property, such as cleaning, landscaping, and utilities. These expenses are usually passed on to tenants as part of a net lease agreement. Example 1: A tenant with a triple net lease is responsible for covering their share of the building's CAM expenses in addition to rent. Example 2: A broker/agent should be familiar with the CAM costs for a property in order to provide accurate estimates to potential tenants.
- 8. Tenant Improvement Allowance (TIA) Definition:** A financial incentive provided by the landlord to help a tenant cover the costs of customizing or upgrading their leased space. Example 1: A landlord offers a TIA of \$30 per square foot, allowing a tenant to renovate their 2,000 square foot space. Example 2: A broker/agent should be aware of any available TIAs when discussing lease terms with potential tenants.

9. Letter of Intent (LOI) Definition: A non-binding document that outlines the key terms of a proposed lease or purchase agreement between a tenant/buyer and landlord/seller. Example 1: A tenant submits an LOI proposing a 5-year lease term, base rent, and TIA for a space they are interested in. Example 2: A broker/agent may assist a tenant in drafting an LOI to ensure it accurately reflects the tenant's desired terms.
10. Build-to-Suit Definition: A development project where a property is specifically designed and constructed to meet the unique needs of a particular tenant. Example 1: A tenant with specific requirements for their operations works with a developer to create a build-to-suit property. Example 2: A broker/agent can help clients find build-to-suit opportunities or work with developers to create custom properties.
11. Due Diligence Definition: The process of investigating a property and evaluating its financial, legal, and physical aspects before finalizing a purchase or lease agreement. Example 1: A buyer conducts due diligence by reviewing property records, inspecting the building, and assessing environmental risks. Example 2: A broker/agent should assist clients in conducting thorough due diligence to ensure they are making informed decisions.
12. Escrow Definition: A neutral third party holds funds, documents, or assets during a transaction until all parties have met the required conditions. Example 1: A buyer places a deposit in escrow, which is released to the seller once the transaction is complete. Example 2: A broker/agent may coordinate with an escrow agent to ensure a smooth transaction process.
13. Lease Term Definition: The duration of a lease agreement, usually expressed in months or years. Example 1: A tenant signs a lease with a term of 5 years, providing long-term stability for their business. Example 2: A broker/agent should discuss lease term options with clients to ensure they meet their specific needs.
14. Lease Renewal Definition: The process of extending a lease agreement beyond its original term, typically under new terms or conditions. Example 1: A tenant with a 5-year lease may choose to renew for an additional 5 years if they are satisfied with the property and lease terms. Example 2: A broker/agent should be proactive in discussing lease renewals with clients to ensure they secure favorable terms.
15. Leasehold Improvements Definition: Modifications or additions made to a leased property by a tenant, typically to customize the space for their specific needs. Example 1: A tenant installs new flooring, lighting, and partitions as leasehold improvements in their leased office space. Example 2: A broker/agent should be familiar with the lease terms related to leasehold improvements, such as who is responsible for the costs and whether they become the property of the landlord upon lease expiration.
16. Percentage Rent Definition: A rent structure where the tenant pays a base rent plus a percentage of their gross sales over a certain threshold. Example 1: A retail tenant pays a base rent of \$5,000 per month plus 5% of their gross sales over \$100,000. Example 2: A broker/agent should explain percentage rent agreements to potential tenants, particularly those in the retail industry.
17. Sublease Definition: A lease arrangement where an existing tenant leases all or part of their space to another tenant, with the original lease remaining in effect. Example 1: A tenant with excess space subleases a portion of their office to another business to offset rental costs. Example 2: A broker/agent should be knowledgeable about the terms and conditions of subleasing and help clients navigate sublease opportunities.
18. Market Analysis Definition: A comprehensive assessment of current market conditions, trends, and competition to inform decision-making in commercial real estate. Example 1: A broker/agent conducts a market analysis to determine the optimal rental rate for a landlord's property. Example 2: A buyer relies on a broker/agent's market analysis to identify investment opportunities and make informed decisions.

19. **Absorption Rate Definition:** The rate at which available commercial space is leased or sold within a specific market over a given time period. Example 1: A high absorption rate indicates strong demand for commercial space in a particular area. Example 2: A broker/agent should monitor absorption rates to identify market trends and advise clients accordingly.
20. **Break-Even Point Definition:** The point at which the income generated by a property equals its total costs, including mortgage payments, taxes, and operating expenses. Example 1: An investor calculates the break-even point for a property to determine how long it will take to recover their initial investment. Example 2: A broker/agent may help clients analyze the break-even point for potential investments to ensure they are financially viable.
21. **Cash Flow Definition:** The net income generated by a property after all expenses, including mortgage payments, taxes, and operating costs, have been paid. Example 1: A property with a positive cash flow generates a profit for the owner. Example 2: A broker/agent should help clients evaluate potential investments based on their expected cash flow.
22. **Class A, B, C Buildings Definition:** Classifications of commercial properties based on their age, location, amenities, and overall quality. Example 1: Class A buildings are typically newer, high-quality properties in prime locations with top-tier amenities. Example 2: A broker/agent should be familiar with the different building classifications to match clients with suitable properties.
23. **Concessions Definition:** Incentives offered by a landlord to attract tenants, such as reduced rent, free rent periods, or tenant improvement allowances. Example 1: A landlord offers a one-month free rent concession to attract new tenants during a slow market period. Example 2: A broker/agent should be aware of potential concessions when negotiating lease terms on behalf of clients.
24. **Contiguous Space Definition:** Adjacent or connected commercial spaces that can be combined to create a larger unit. Example 1: A tenant requires 4,000 square feet of office space and combines two contiguous 2,000 square foot units to meet their needs. Example 2: A broker/agent should identify contiguous space options for clients with specific space requirements.
25. **Cost Approach Definition:** A property valuation method that estimates the cost to replace or reproduce the property, considering depreciation and the value of the land. Example 1: An insurance company may use the cost approach to determine coverage limits for a commercial property. Example 2: A broker/agent should understand the cost approach to assist clients in determining the value of their property.
26. **Covenant Definition:** A legally binding agreement, restriction, or promise between parties in a real estate transaction, often included in lease agreements or deeds. Example 1: A covenant in a lease may restrict the types of businesses that can operate within a property. Example 2: A broker/agent should be familiar with common covenants and their potential impact on a client's property use.
27. **Debt Service Coverage Ratio (DSCR) Definition:** A financial metric used to measure a property's ability to generate enough income to cover its debt payments. Example 1: A property with a DSCR of 1.5 indicates the property's income is 1.5 times its debt payments, which is a healthy ratio for most lenders. Example 2: A broker/agent should be familiar with calculating DSCR to help clients assess the financial viability of potential investments.
28. **Demising Wall Definition:** A wall that separates contiguous commercial spaces, providing a clear boundary between units. Example 1: A demising wall is constructed between two office spaces to create separate, private areas for each tenant. Example 2: A broker/agent should be aware of the location and construction of demising walls when showing properties to potential tenants.

29. Easement Definition: A legal right to use another person's property for a specific purpose, such as access to a neighboring property or utility lines. Example 1: A property owner grants an easement allowing a neighboring property owner to use a shared driveway. Example 2: A broker/agent should be aware of any easements affecting a property and communicate this information to clients.

30. Effective Rent Definition: The actual rent paid by a tenant after accounting for concessions, such as free rent periods or tenant improvement allowances, over the term of the lease. Example 1: A tenant with a \$3,000 per month lease and a one-month free rent concession has an effective rent of \$2,917 per month over a 12-month lease term. Example 2: A broker/agent should calculate the effective rent for clients to provide an accurate representation of the cost of a lease.

31. Equity Definition: The difference between the market value of a property and the outstanding debt, such as a mortgage or loans, owed on the property. Example 1: A property valued at \$1,000,000 with a mortgage balance of \$600,000 has \$400,000 in equity. Example 2: A broker/agent should help clients understand the equity in their property and how it may impact their financial decisions.

32. Fair Market Rent (FMR) Definition: The estimated rent that a property would command in the current market, based on comparable properties and market conditions. Example 1: A landlord sets the rent for an office space based on FMR to ensure it is competitive and attracts tenants. Example 2: A broker/agent should be familiar with determining FMR to help clients price their properties appropriately.

33. Gross Building Area (GBA) Definition: The total square footage of a building, including all interior and exterior spaces, measured from the exterior walls. Example 1: A property with a GBA of 10,000 square feet includes all rentable and common areas, as well as walls, columns, and mechanical rooms. Example 2: A broker/agent should be familiar with calculating GBA when discussing property size and value with clients.

34. Holdover Tenant Definition: A tenant who remains in a leased property after their lease has expired, without the landlord's permission. Example 1: A landlord may need to initiate legal proceedings to remove a holdover tenant from their property. Example 2: A broker/agent should advise clients on how to handle holdover tenant situations and their legal rights.

35. Landlord's Lien Definition: A legal claim by a landlord against a tenant's personal property or assets, used to secure payment of rent or other lease obligations. Example 1: A landlord may enforce a landlord's lien to recover unpaid rent by seizing a tenant's assets, such as equipment or inventory. Example 2: A broker/agent should be familiar with landlord's lien laws and advise clients on their rights and options in case of tenant defaults.

36. Load Factor Definition: A ratio that represents the percentage of common areas in a building relative to the rentable square footage. Example 1: A building with a 10% load factor means that 10% of the total square footage is allocated to common areas, such as lobbies and restrooms. Example 2: A broker/agent should be familiar with load factors when discussing rentable square footage with clients, as it affects the total rent calculation.

37. Market Rent Definition: The prevailing rental rate for a specific type of commercial property in a specific location, based on current market conditions and comparable properties. Example 1: A broker/agent researches market rent for retail spaces in a particular area to help a client determine an appropriate asking price for their property. Example 2: A tenant compares the market rent of several properties to ensure they are getting a fair deal on their lease.

38. Option to Renew Definition: A provision in a lease agreement that grants the tenant the right to extend their lease for a specified period of time, usually under predetermined terms and conditions. Example 1: A tenant with an option to renew can choose to extend their lease for an additional 5 years at the end of the initial lease term. Example 2: A broker/agent should be familiar with the terms and conditions of options to renew in order to advise clients on their lease rights and obligations.

39. Rent Escalation Definition: A provision in a lease agreement that allows for periodic increases in rent, typically based on a predetermined formula, such as a percentage increase or tied to an economic indicator like the Consumer Price Index (CPI). Example 1: A lease with a 3% annual rent escalation means that the tenant's rent will increase by 3% each year over the term of the lease. Example 2: A broker/agent should explain rent escalation clauses to clients and help them understand the potential impact on their rental costs over time.

40. Triple Net Lease (NNN) Definition: A type of net lease where the tenant is responsible for paying the property's operating expenses, such as property taxes, insurance, and maintenance, in addition to the base rent. Example 1: A tenant in a triple net lease pays a base rent of \$2,500 per month, plus their share of the property taxes, insurance, and maintenance costs. Example 2: A broker/agent should thoroughly explain the financial obligations associated with a triple net lease to ensure potential tenants understand the full cost of their lease.

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