Engage or Refer?

After completing this session, the attendee will be able to identify the complexities of commercial transactions and decide if they have the expertise to conduct a commercial transaction or should refer to a commercial agent.

Code of Ethics - Article 11

- The services which Realtors® provide to their clients and customers shall conform to the standards of practice and competence which are reasonably expected in the specific real estate disciplines in which they engage; specifically, residential real estate brokerage, real property management, commercial and industrial real estate brokerage, land brokerage, real estate appraisal, real estate counseling, real estate syndication, real estate auction, and international real estate.

Realtors® shall not undertake to provide specialized professional services concerning a type of property or service that is outside their field of competence unless they engage the assistance of one who is competent on such types of property or service, or unless the facts are fully disclosed to the client. Any persons engaged to provide such assistance shall be so identified to the client and their contribution to the assignment should be set forth.

What is classified as a commercial property?

- Multifamily
  Generally anything over 5 units
  Important to know rental rates, expenses
- Other types of commercial:
  Retail (shopping centers, stand-alone buildings); office (single vs multitenant, Class A, B, C), special use (churches, funeral homes)
- Some agricultural
- Income producing or non-income producing

Primary motivators of buyers

- Capitalization Rate
  \[
  \text{Income} \div \text{rate} = \text{value} \\
  \text{Income} \div \text{value} = \text{rate} \\
  \text{Value} \times \text{rate} = \text{income}
  \]
- Owner occupied
  The typical buyer is motivated by how the building can fit their needs. Often this is more important than the price.
- Investment
  The typical buyer is motivated by a capitalization rate; this is a way of converting income into value.
Why must agents recognize this and the cap rate? Price is very important! Cap rate is a function of the income and risk!

Buy at a “10” cap rate-NOI is very important; may need to know how to recognize irregular expenses (office that had a high HVAC cost)

What are the differences between commercial and residential transactions?

- Forms
  There are major differences in residential versus commercial forms including but not limited to how commission is structured, important addendum information, concessions and feasibility
- Lenders and vendors - Recognize that not all lenders and vendors (such as inspectors) do not always service commercial. Very important to make sure that any that you recommend has good experience! Note: if one bank doesn’t approve, another may!
- Zoning issues Always look up the zoning code; get a verification letter

Important Tips

- Residential Buyer who wants to run a business from their house
  - Importance of Zoning
  - Do not assume that because the previous owner ran a business the new owner will be allowed to run a business, too.
  - Make sure the buyer has checked themselves to be sure use is allowed
  - Make sure to check environmental
  - Get commission split in writing!
  - Understand terms like TIs, CAM, what is personal property/what is a trade fixture
- Most of all, do you know how to inform your client about commercial issues? Can you write the form properly?
- Do you have the proper MLS? Does your MLS cover commercial? Do all agents in the area use it (note many commercial agents are not members of the local MLS; they use other national databases)

Should I refer to another realtor? What is in the client’s best interest?

- How do I refer? Where is a good place to find qualified commercial agents to refer to others?
- CCIM.com
- Other organizations such as SIOR
- NAR find a realtor with commercial expertise
- Ask your broker

!!!!Make sure you are protecting your license and doing what is in your client’s best interest!!!!
Heather is a CCIM agent and a MAI/SRA designated commercial appraiser with over 20 years experience in commercial real estate. As an appraiser, she recently formed her own appraisal company, Placer Realty Advisors. As a Realtor® she is a commercial sales specialist in Richmond, Virginia. Heather has held many volunteer positions with various real estate organizations including the commercial and valuation committees of NAR, the 2019 President of Womens Council of Realtors Richmond and 2020 President of the Mid Atlantic CCIM. She was the 2018 President of the Virginia Commonwealth Chapter of the Appraisal Institute and recently appointed to the national board of directors for the Appraisal Institute.

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