

When a Residential Agent Sells Commercial Real Estate: Risk vs. Reward

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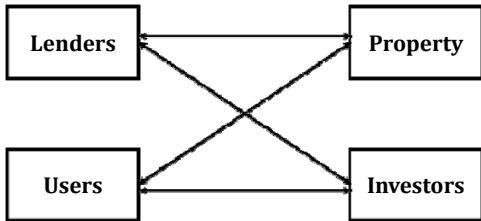


What Do Commercial Investment Agents Do?



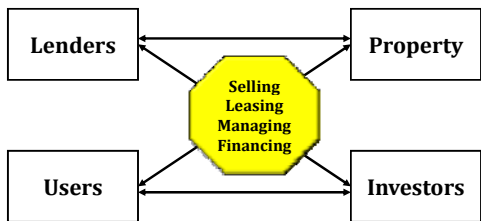
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The Investment Real Estate Process



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The Investment Real Estate Process



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Users vs. Investors

- Users want to control their real estate for the **lowest cost**
- Landlords want their real estate to generate the **highest income**

We help negotiate an agreement!



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What is Investing?

- To commit money to earn a financial return or profit
- To forgo current consumption

What is the investor buying?

Future cash flows



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Differences Between Residential and Commercial Real Estate Practice

- Valuation
- Ownership Entities
- Financing
- Holding period
- Maintenance
- Occupancy



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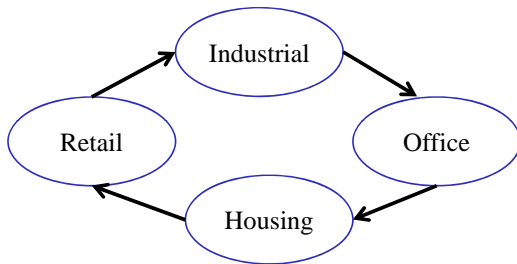
We Specialize by Property Types

- Industrial
- Office
- Multi-family
- Retail



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We Understand Demand



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We Calculate NOI

- Potential Rental Income**
- Vacancy and Credit Losses
- = **Effective Rental Income**
- + **Other Income**
- = **Gross Operating Income**
- **Operating Expenses**
- = **Net Operating Income**



We Understand Valuation

Income (NOI)

Cap Rate X Value

$I = R \times V$

$R = I / V$

$V = I / R$

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Determining Value Using the Cap Rate

- Data: NOI = \$100,000
- Cap Rate = 10.00%
- Value = ?

$$\$1,000,000 = \frac{\$100,000}{10.00\%}$$

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We Understand Sources of Cash Flows

- Cash flow from acquisition
- Cash flows from annual operations
- Cash flow from sale of the property

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Cash Flows and Investor Behavior: Initial Investment

Investment A		Investment B	
n	\$	n	\$
0	(500)	0	(1,000)
1	100	1	100
2	100	2	100
3	100	3	100
4	100	4	100
5	100 + 1,000	5	100 + 1,000

Cash Flows and Investor Behavior: Periodic Cash Flows

Investment A		Investment B	
n	\$	n	\$
0	(1,000)	0	(1,000)
1	100	1	90
2	100	2	90
3	100	3	90
4	100	4	90
5	100 + 1,000	5	90 + 1,000

Cash Flows and Investor Behavior: Timing of Returns

Investment A		Investment B	
n	\$	n	\$
0	(1,000)	0	(1,000)
1	500	1	100
2	100	2	100
3	100	3	100
4	100	4	100
5	100 + 1,000	5	500 + 1,000

Cash Flows and Investor Behavior: Reversion

Investment A		Investment B	
n	\$	n	\$
0	(1,000)	0	(1,000)
1	100	1	100
2	100	2	100
3	100	3	100
4	100	4	100
5	100 + 1,500	5	100 + 1,000

Summary of Investor Preferences

- Smaller Initial Investment
- Larger Periodic Cash Flows
- Earlier Periodic Cash Flows
- Larger Sale Proceeds



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NAR CODE OF ETHICS

Article 11 (part of)
 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.
(Amended 1/10)



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Three Areas of Participation

- Referral to Commercial Practitioner
- Work Alongside a Commercial Practitioner
- Go it Alone



Factors in Any Investment

- Risk
- Liquidity
- Leverage
- Management
- Tax impact
- Change in value (sales price)
- Holding period



Investment Comparisons

- How much money does the investment cost?
- When is each payment made?
- How much money does the investment produce?
- When does the investor receive each cash flow?



Investor Behavior: Comparing Uneven Periodic Cash Flows

Investment A		Investment B	
n	\$	n	\$
0	(1,000)	0	(800)
1	200	1	100
2	50	2	300
3	(150)	3	50
4	300	4	(200)
5	200 + 1,200	5	150 + 1,100

Definition of IRR

- The rate earned by each dollar each year that the dollar remains in the same investment



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Where Do You Learn About This?



www.ccimhawaii.org
CI Intro
CI 101

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