

# Residential to Commercial

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What Texas Agents Need to Know Before Taking the Deal

*"Legality is the starting point. Competency is the standard."*

# Learning Objectives

## What You Will Walk Away With

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- 01** Explain whether a Texas residential agent may legally participate in commercial transactions.
- 02** Understand the TREC competency rule and why a license is not enough.
- 03** Apply the first three commercial transaction guidance standards.
- 04** Recognize the biggest differences between residential and commercial real estate.
- 05** Identify common commercial property types and basic valuation methods.
- 06** Understand the basic commercial transaction process.
- 07** Spot common pitfalls involving zoning, leases, financials, title, and environmental concerns.
- 08** Identify helpful designations, education paths, and professional resources.

# A Texas License Permits Commercial Work — Competency Determines Whether You Should Lead

**01**

A Texas real estate license is not designed for "residential only."

**02**

A sales agent must always act through a sponsoring broker.

**03**

Competency — not the license — determines whether an agent should lead the deal.

*"A license may allow participation, but competence determines whether you should lead the deal."*

# TREC §531.4 Sets the Competency Standards

• A license holder must be knowledgeable and competent as a brokerage practitioner, including being educated in the characteristics of the specific type of real estate being brokered

— *TREC Rule §531.4, Competency*

Local Market  
Issues

Judgment  
and Skill

Specific Pro  
Type Know

# For Your First Three Commercial Transactions: Do Not Go It Alone

01

## Broker Involvement

Your sponsoring broker must be informed and engaged throughout the entire deal process.

02

## Commercial Mentor or Co-Broker

An experienced commercial professional guides the structure, forms, and due diligence.

03

## Deal Review

Someone reviews contracts for red flags, and transaction structure before you sign.

*This is a risk-management standard, not a direct TREC rule.*

OPPORTUNITY RECOGNITION

# Commercial Opportunities Are Already Inside Your Database

01

A past buyer: "I'm tired of leasing my salon. I want to buy a small building."

02

A client: "My church is looking for land."

03

A buyer: "I want to buy and scale up later."

04

A seller: "I have five acres on a busy road — could suit retail."

05

A friend: "I need to lease warehouse space for my business."

06

An investor: moving toward producing commercial products

07

A business owner asks about leasing retail or office space.

THE VALUE OF COMMERCIAL

# Why Pursue Commercial Opportunities

## Larger Deal Sizes

Commercial transactions often involve significantly higher price points, leading to larger commission potential per transaction.

## Longer-Term Relationship

Commercial clients are not just buying a product or service; they are building a business. This leads to clients that buy, lease, and expand over years.

## Repeat Investor Business

Successful investors are constantly looking for the next deal. A strong relationship can yield multiple transactions from a single client.

## Business-Owner Referrals

Successfully navigating a commercial deal builds trust and credibility, leading to your reputation within the local business community and generating high-quality referrals.

# Residential Is Emotional. Commercial Is Business Decision.

## Residential Questions

*"Do I love it?"*

*"Can I picture my family here?"*

*"Is the neighborhood right for us?"*

*"Can I afford the monthly payment?"*

## Commercial Questions

*"Will it make money?"*

*"Does zoning allow my intended use?"*

*"What are the operating expenses?"*

*"What is the risk profile?"*

CORE DIFFERENCES

# Commercial Is Not Residential With Bigger Numbers

01

Value

Driven by income, use, risk, and tenant quality — not comparable

02

Financing

Both the property's income potential and the borrower's financials underwritten.

03

Forms

Commercial contracts and leases vary significantly from standard forms.

04

Due Diligence

Zoning, leases, financials, and environmental concerns all apply and require expert review.

05

Timelines

Often longer, more conditional, and more negotiation-intensive than residential deals.

# Know the Category Before You Advise

## Office

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- Parking requirements
- Floor plan layout
- Accessibility & ADA

## Retail

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- Visibility & traffic counts
- Signage rights
- Co-tenancy clauses

## Industrial

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- Dock-high & grade
- Clear height
- Power capacity

## Multifamily

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- Rent roll analysis
- Operating expenses
- Occupancy history

## Land

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- Zoning & entitlements
- Utilities availability
- Access & drainage

## Special Use

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- Limited buyer pool
- Specialized financing
- Specific building code

# Each Property Type Asks Different Questions

## Retail

- ▶ Can customers see it?
- ▶ Is parking adequate?
- ▶ Are there use restrictions?

## Industrial

- ▶ Can trucks move through it?
- ▶ Is power sufficient?
- ▶ Is outdoor storage allowed?

## Land

- ▶ What can be built?
- ▶ Are utilities available?
- ▶ Is access adequate?

*The space looking good is only the beginning.*

# Terms Every Agent Must Recognize

## Cap Rate

Net Operating Income divided by purchase price. A key metric for comparing income-producing properties.

## Gross Lease

Tenant pays one rent amount; landlord covers most or all of the property expenses.

## CAM

Common Area Maintenance. Expenses related to shared areas of a property (parking, landscaping, lighting).

## NOI

Net Operating Income. The property income after operating expenses, but before debt service.

## NNN (Triple Net)

Tenant pays base rent plus their share of property taxes, insurance, and maintenance.

## TI

Tenant Improvements. Improvements or modifications made to the space for the tenant's specific use.

# Terms Every Agent Must Recognize

## LOI

Letter of Intent outlining preliminary deal terms before a full contract or lease is drafted.

## Estoppel Certificate

A tenant-signed document confirming key lease facts, rent amounts, and default status.

## Due Diligence / Feasibility

The buyer's investigation period to verify physical condition, and financials.

## Rent Roll

A summary of tenants, lease information amounts, deposits, and vacancy status.

## Pro Forma

Projected financials showing what the property *might* do, not necessarily what it is doing now.

*"Hope is not underwriting.  
Actual numbers matter."*

# Commercial Analysis Starts With the Cap

NOI ÷

Purchase Price =

Cap

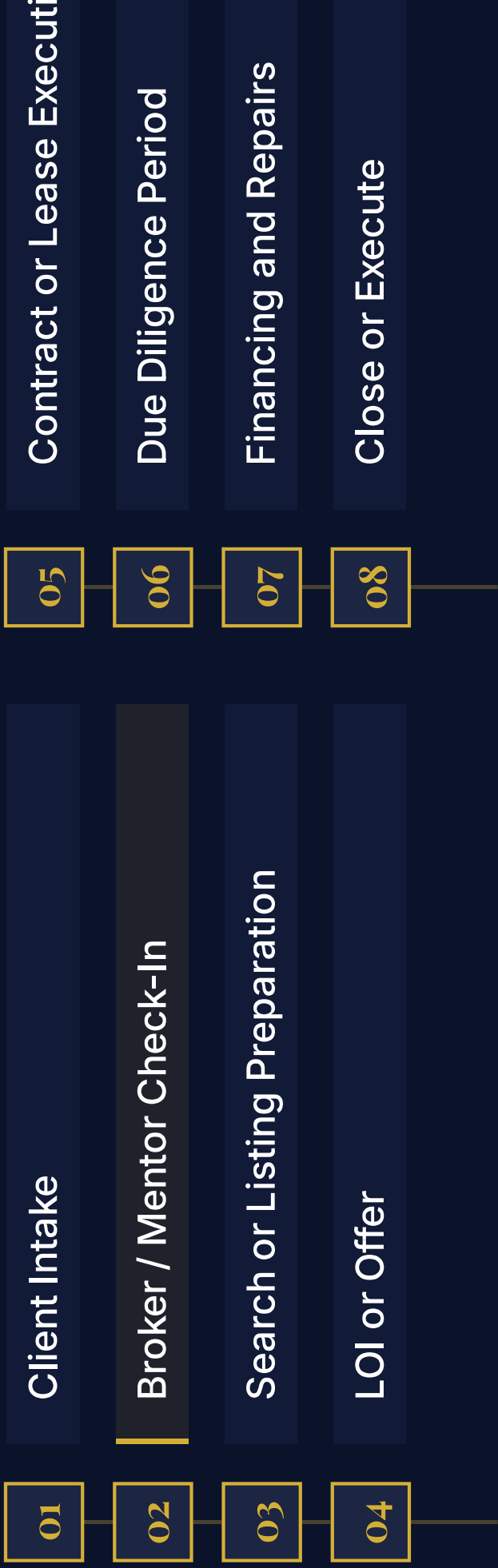
\$100,000 ÷

\$1,000,000 =

10%

Cap rate compares income to price, but **context still matters**: location, tenant quality, lease terms, property condition, and risk profile all influence value.

# From First Contact to Closing: The Commercial Transaction Flow



## PAUSE POINT

*Involve your broker or commercial guide before the deal becomes complicated.*

DUE DILIGENCE

# The Buyer's Core Question: Can I Do What I Intend Here?

## Zoning and Intended Use

Confirm permitted use before proceeding with the transaction.

## Survey, Title, and Access

Verify boundaries, easements, and ingress/egress rights.

## Environmental C

Determine if a Phase I environmental assessment is appropriate.

## Leases, Rent Roll, and Estoppels

Verify actual income, tenant obligations, and lease terms.

## Financials, Insurance, and Taxes

Confirm the actual operating history and expenses of the property.

## Building System and Parking

Conduct a thorough physical compliance review of the building and parking areas.

*Your role is to manage the process, raise the right questions, and bring in the right experts.*

# Pitfalls That Create Liability for Beginners

**01**

"Real estate is real estate" thinking

**02**

No competency or guidance in place

**03**

Failure to verify zoning and intended use

**04**

Misunderstanding NNN and total occupancy cost

**05**

Relying on unverified seller-provided numbers

# Pitfalls That Create Liability for Beginners

06

Using residential contracts for commercial deals

07

Not understanding environmental liability

08

Failing to advise clients on ADA compliance

09

Not knowing who the client needs on their team (attorney, CPA, inspector)

10

Ego: Faking expertise instead of asking for help

# How to Transition Safely and Professionally

01

## Start Small

Focus on small leases or simple purchases first. Avoid complex development or large multi-tenant deals until you have experience.



02

## Build a Team

Partner with an experienced commercial mentor or broker. Share the commission to ensure the client is protected and you learn the process.



03

## Learn the

Take commercial education courses. Understand the math, and the forms before talking to a client.

DESIGNATIONS AND EDUCATION

# Building Commercial Credibility

## TACS

**Texas Accredited Commercial Specialist**

Foundational commercial training specific to Texas practitioners.

## CCIM

**Certified Commercial Investment Member**

The gold standard for commercial investment and financial analysis.

## SIOI

**Society of Industrial Realtors**

Elite designation for top industrial and office

## ALC

**Accredited Land Consultant**

Specialized expertise in land brokerage, agriculture, and development.

## CIPS

**Certified International Property Specialist**

Expertise in handling international real estate transactions.

## CPN

**Certified Property**

Premier designation for property management

# Professional Scripts to Protect You and Your Client

“That’s a great question. Let me **consult** with my **commercial broker** and get back to you.

“I want to make sure we have the right experts on this. Let me **recommend a commercial attorney**.

“I specialize in residential, but I **partner with a commercial expert** to ensure you’re protected.

“Commercial deals have different timelines. Let me **map that out** for you.

“Let’s **verify the zoning** before we spend **any money on inspections**.

# First Commercial Deal Safety Checklist

Do I know the deal type?

Am I staying within my area of competence?

Is my broker aware of this transaction?

Do I have a commercial mentor or co-broker?

Are we using commercial-specific forms?

Has the client consulted a real attorney?

Has the client consulted a CPA

Is the zoning verified for the intended use?

Is the environmental risk being assessed?

Are we relying on verified financials pro forma?

## Five Things to Remember

- 01** The math drives the deal, not the emotion.
- 02** Due diligence is the buyer's responsibility.
- 03** Commercial forms are not residential forms.
- 04** You must know your local zoning and use laws.
- 05** Build a team before you need one.

*"Do not fake being a commercial expert. Your client's business, and license, depend on it."*

# Educational Foundations and Legal Standards

## Texas Real Estate Commission (TREC) Rules

Specifically §531.4, Competency, which mandates knowledge of the specific type of real estate being brokered.

## Texas Association of REALTORS® (TAR)

Commercial Forms and Contracts, highlighting the distinct differences from residential documents.

## CCIM Institute

Commercial Real Estate Financial Analysis Standards, including Cap Rate, NOI, and investment metrics.

## National Association of REALTORS® (NAR)

Commercial Code of Ethics and professional standards for commercial practitioners.