

TEXAS REAL ESTATE TRAINING

Residential to Commercial

Slide Reference Handout

FOLLOW ALONG • TAKE NOTES • KEEP FOR REFERENCE

SLIDE 1

60-MINUTE INSTRUCTOR DECK

Residential to Commercial

What Texas Agents Need to Know Before Taking the Deal

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

SLIDE 2

TODAY'S AGENDA

Learning Objectives

What You Will Walk Away With

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

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LEGAL FOUNDATION

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

- 01 A Texas real estate license is not designated "residential only"
- 02 A sales agent must always act through the sponsoring broker
- 03 Competency — not the license — determines whether an agent should lead the deal alone

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

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REQUIRED FOUNDATION

TREC §531.4 Sets the Competency Standard

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 Property Type Knowledge
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BROKERAGE BEST PRACTICE

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

<p>01</p> <p>Broker Involvement</p> <p>Your sponsoring broker must be informed and engaged throughout the entire deal process.</p>	<p>02</p> <p>Commercial Mentor or Co-Broker</p> <p>An experienced commercial professional guides the structure, forms, and due diligence.</p>	<p>03</p> <p>Deal Review</p> <p>Someone reviews critical dates, red flags, and transaction structure before you proceed.</p>
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This is a risk-management standard, not a direct TREC rule.

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OPPORTUNITY RECOGNITION

Commercial Opportunities Are Already Inside Your Database

<p>01</p> <p>A past buyer: "I'm tired of leasing my salon. I want to buy a small building."</p>	<p>02</p> <p>A client: "My church is looking for land."</p>	<p>03</p> <p>A buyer: "I want to buy a fourplex and scale up later."</p>
<p>04</p> <p>A seller: "I have five acres on a busy road — could suit retail."</p>	<p>05</p> <p>A friend: "I need to lease warehouse space for my business."</p>	<p>06</p> <p>An investor: moving toward income-producing commercial property.</p>
<p>07</p> <p>A business owner asks about leasing retail or office space.</p>		

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THE VALUE OF COMMERCIAL

Why Pursue Commercial Opportunities?

<p>Larger Deal Sizes</p> <p>Commercial transactions often involve significantly higher price points, leading to larger commission potential per transaction.</p>	<p>Longer-Term Relationships</p> <p>Commercial clients are not just buying a home; they are building a business. This leads to clients who buy, lease, and expand over years.</p>
<p>Repeat Investor Business</p> <p>Successful investors are constantly looking for the next deal. A strong relationship can yield multiple transactions from a single client.</p>	<p>Business-Owner Referrals</p> <p>Successfully navigating a commercial deal builds your reputation within the local business community, generating high-quality referrals.</p>

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MINDSET SHIFT

Residential Is Emotional. Commercial Is a Business Decision.

Residential Questions	Commercial Questions
"Do I love it?"	"Will it make money?"
"Can I picture my family here?"	"Does zoning allow my intended use?"
"Is the neighborhood right for us?"	"What are the operating expenses?"
"Can I afford the monthly payment?"	"What is the risk profile?"

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CORE DIFFERENCES

Commercial Is Not Residential With Bigger Numbers

01	Value	Driven by income, use, risk, and tenant quality — not comparable sales alone.
02	Financing	Both the property's income potential and the borrower's financials are underwritten.
03	Forms	Commercial contracts and leases vary significantly from standard residential 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.

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PROPERTY TYPES

Know the Category Before You Advise

<p>Office</p> <ul style="list-style-type: none"> • Parking requirements • Floor plan layout • Accessibility & ADA 	<p>Retail</p> <ul style="list-style-type: none"> • Visibility & traffic counts • Signage rights • Co-tenancy clauses 	<p>Industrial</p> <ul style="list-style-type: none"> • Dock-high & grade doors • Clear height • Power capacity
<p>Multifamily</p> <ul style="list-style-type: none"> • Rent roll analysis • Operating expenses • Occupancy history 	<p>Land</p> <ul style="list-style-type: none"> • Zoning & entitlements • Utilities availability • Access & drainage 	<p>Special Use</p> <ul style="list-style-type: none"> • Limited buyer pool • Specialized financing • Specific building codes

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PROPERTY-TYPE THINKING

Each Property Type Asks Different Questions

<p>Retail</p> <ul style="list-style-type: none"> ▶ Can customers see it? ▶ Is parking adequate? ▶ Are there use restrictions? 	<p>Industrial</p> <ul style="list-style-type: none"> ▶ Can trucks move through it? ▶ Is power sufficient? ▶ Is outdoor storage allowed? 	<p>Land</p> <ul style="list-style-type: none"> ▶ What can be built here? ▶ Are utilities available? ▶ Is access adequate?
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The space looking good is only the beginning.

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COMMERCIAL VOCABULARY (PART 1)

Terms Every Agent Must Recognize

<p>Cap Rate</p> <p>Net Operating Income divided by purchase price. A key metric for comparing income-producing properties.</p>	<p>NOI</p> <p>Net Operating Income. The property income remaining after operating expenses, but before debt service.</p>
<p>Gross Lease</p> <p>Tenant pays one rent amount; landlord covers most or all of the property expenses.</p>	<p>NNN (Triple Net)</p> <p>Tenant pays base rent plus their share of property taxes, insurance, and maintenance.</p>
<p>CAM</p> <p>Common Area Maintenance. Expenses related to shared areas of a property (parking, landscaping, lighting).</p>	<p>TI</p> <p>Tenant Improvements. Improvements or modifications made to the space for the tenant's specific use.</p>

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COMMERCIAL VOCABULARY (PART 2)

Terms Every Agent Must Recognize

<p>LOI Letter of Intent outlining preliminary deal terms before a full contract or lease is drafted.</p>	<p>Due Diligence / Feasibility The buyer's investigation period to verify zoning, physical condition, and financials.</p>
<p>Estoppel Certificate A tenant-signed document confirming key lease facts, rent amounts, and default status.</p>	<p>Rent Roll A summary of tenants, lease information, rent amounts, deposits, and vacancy status.</p>
<p>Pro Forma Projected financials showing what the property <i>might</i> do, not necessarily what it is doing now.</p>	<p><i>"Hope is not underwriting. Actual numbers matter."</i></p>

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BASIC MATH

Commercial Analysis Starts With the Cap Rate

NOI	÷	Purchase Price	=	Cap Rate
\$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.

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TRANSACTION PROCESS

From First Contact to Closing: The Commercial Transaction Flow

01 Client Intake	05 Contract or Lease Execution
02 Broker / Mentor Check-In	06 Due Diligence Period
03 Search or Listing Preparation	07 Financing and Repairs
04 LOI or Offer	08 Close or Execute

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

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DUE DILIGENCE

The Buyer's Core Question: Can I Do What I Intend to Do 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 Concerns Determine if a Phase I or Phase II 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 Systems, ADA, and Parking Conduct a thorough physical and compliance review of the property.

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

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RISK MANAGEMENT (PART 1)

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

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RISK MANAGEMENT (PART 2)

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

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SAFE ENTRY PATH

How to Transition Safely and Professionally

<p>01 Start Small</p> <p>Focus on small leases or simple purchases first. Avoid complex development or large multi-tenant deals until you have experience.</p>	<p>02 Build a Team</p> <p>Partner with an experienced commercial mentor or broker. Share the commission to ensure the client is protected and you learn the process.</p>	<p>03 Learn the Basics</p> <p>Take commercial-specific education courses. Understand the vocabulary, the math, and the standard forms before taking on a client.</p>
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DESIGNATIONS AND EDUCATION

Building Commercial Credibility

<p>TACS</p> <p>Texas Accredited Commercial Specialist</p> <p><small>Foundational commercial training specific to Texas practitioners.</small></p>	<p>CCIM</p> <p>Certified Commercial Investment Member</p> <p><small>The gold standard for commercial investment and financial analysis.</small></p>	<p>SIOR</p> <p>Society of Industrial and Office Realtors</p> <p><small>Elite designation for top-producing industrial and office brokers.</small></p>
<p>ALC</p> <p>Accredited Land Consultant</p> <p><small>Specialized expertise in land brokerage, agriculture, and development.</small></p>	<p>CIPS</p> <p>Certified International Property Specialist</p> <p><small>Expertise in handling international real estate transactions.</small></p>	<p>CPM</p> <p>Certified Property Manager</p> <p><small>Premier designation for real estate and property management professionals.</small></p>

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CLIENT-FRIENDLY LANGUAGE

Professional Scripts to Protect You and Your Client

<p><i>"That's a great question. Let me consult with my commercial broker and get back to you."</i></p>	<p><i>"Commercial deals have different timelines. Let me map that out for you."</i></p>
<p><i>"I want to make sure we have the right experts on this. Let me recommend a commercial attorney."</i></p>	<p><i>"Let's verify the zoning before we spend any money on inspections."</i></p>
<p><i>"I specialize in residential, but I partner with a commercial expert to ensure you're protected."</i></p>	

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SAFETY CHECKLIST

First Commercial Deal Safety Checklist

<input checked="" type="checkbox"/> Do I know the deal type?	<input checked="" type="checkbox"/> Has the client consulted a real estate attorney?
<input checked="" type="checkbox"/> Am I staying within my area of competence?	<input checked="" type="checkbox"/> Has the client consulted a CPA?
<input checked="" type="checkbox"/> Is my broker aware of this transaction?	<input checked="" type="checkbox"/> Is the zoning verified for the intended use?
<input checked="" type="checkbox"/> Do I have a commercial mentor or co-broker?	<input checked="" type="checkbox"/> Is the environmental risk being assessed?
<input checked="" type="checkbox"/> Are we using commercial-specific forms?	<input checked="" type="checkbox"/> Are we relying on verified financials, not pro forma?

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CONCLUSION

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 your license, depend on it."

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SOURCES & REFERENCE

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 documentation.
- 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.
