

TEXAS REAL ESTATE TRAINING

Residential to Commercial

*What Texas Agents Need to Know Before Taking
the Deal*

PARTICIPANT TRAINING MANUAL

Table of Contents

01	Introduction
02	TREC Competency Rule and Guidance
03	Why Residential Agents Should Understand Commercial
04	The Big Differences Between Residential and Commercial
05	Commercial Property Types Agents Need to Know
06	Basic Commercial Terms Residential Agents Must Know
07	The Basic Commercial Transaction Process
08	Common Pitfalls Residential Agents Must Avoid
09	How to Safely Get Started in Commercial
10	Helpful Designations and Training
11	Conclusion: Five Things to Remember
A	Appendix: Safety Checklist & Client Scripts

SECTION 01

Introduction

Many residential real estate agents are curious about commercial real estate. Some are also a little nervous about it. A common question arises regarding whether a residential real estate agent can sell commercial property.

The short answer is yes. In Texas, a real estate license does not specify "residential only" or "commercial only." A licensed Texas real estate sales agent can legally be involved in commercial real estate activity, provided they act through their sponsoring broker and follow the law, rules, and ethical standards that apply to their license.

There is a very big difference between being **legally allowed** to do something and being **competent** to do it. That is the heart of this training.

This manual is not designed to make anyone a commercial real estate expert in one hour. The goal is to help agents understand enough to recognize commercial opportunities, ask better questions, avoid dangerous mistakes, and know when to bring in help.

Commercial real estate can be a great opportunity. It can lead to larger commissions, repeat investor relationships, business-owner clients, leasing opportunities, land deals, and long-term wealth-building conversations. It can also cause trouble if treated like residential real estate with bigger buildings.

This manual covers whether residential agents can work commercial deals, the TREC competency rule, why new commercial agents need guidance, the main differences between residential and commercial, the

process, common pitfalls, how to get started safely, and helpful designations and training paths.

Most residential agents do not go looking for commercial real estate at first. Commercial real estate usually finds them through someone they already know. A past client opens a business. A family member wants to buy a building. A church needs property. An investor wants a small apartment complex. A seller has land that may have commercial use. A business owner asks about leasing space.

If an agent is not prepared, one of two things usually happens. Either they run from the opportunity because they are intimidated, or they take it and wing it. Neither option is ideal. The better answer is to understand the basics, respect the risks, and get the right guidance.

SECTION 02

TREC Competency Rule and Guidance

Before discussing commercial property types or deal structure, it is necessary to start with competency. This is a TREC issue.

Under **TREC Rule §531.4, Competency**, a license holder must be knowledgeable and competent as a real estate brokerage practitioner. The rule states a license holder must be informed on local market issues and conditions, informed on national, state, and local real estate industry issues, exercise judgment and skill in brokerage activities, and be educated in the characteristics involved in the specific type of real estate being brokered for others.

TREC specifically requires being **educated in the characteristics involved in the specific type of real estate being brokered**. Having a license is not enough on its own.

Commercial real estate is a specific type of real estate. Office is different from residential. Retail is different from residential. Industrial is different from residential. Commercial leasing is different from residential leasing. Commercial investment property is different from a traditional residential resale.

If a residential agent gets a commercial opportunity, the first question should not be whether they can legally do it. The better question is whether they are competent to handle it properly, and if not, who is guiding them.

TREC does not have a specific rule stating an agent must be mentored

brokerage standard and a risk-management standard, it is strongly recommended that for the first three commercial transactions, an agent should not go it alone.

The first three commercial transactions should be handled with the sponsoring broker's knowledge and involvement, guidance from an experienced commercial agent, broker, mentor, or co-broker, and someone reviewing the deal structure, forms, deadlines, due diligence, and red flags.

On the first commercial deal, an agent does not know what they do not know. On the second commercial deal, they know a little more, but not enough to be dangerous in a good way. By the third guided deal, they should start seeing patterns, understanding the questions, the process, the risks, the vocabulary, and the rhythm of the transaction.

"A license may allow participation in commercial real estate, but competence determines whether an agent should lead the deal alone."

There is no shame in partnering. There is no shame in co-brokering. There is no shame in referring. There is no shame in asking a broker for guidance. For the first three commercial deals, get guided, get supervised, get mentored, or get partnered. That is professionalism.

*"I can help you with this, but commercial real estate has specialized issues, so I am going to bring in the right **commercial expertise** to make sure you are fully protected."*

SECTION 03

Why Residential Agents Should Understand Commercial

Most residential agents think commercial real estate is a completely separate world. In some ways, it is. Commercial agents use different language. They analyze deals differently. They negotiate differently. They often work with investors, business owners, landlords, tenants, developers, lenders, attorneys, and property managers.

Residential agents are often much closer to commercial opportunities than they realize. Think about an existing database. An agent probably knows people who own small businesses, want to start a business, own rental property, want to buy investment property, need office space, need warehouse space, need land, attend a church that may need property, or know someone who is outgrowing a home-based business.

Commercial opportunities are already sitting inside existing relationships. The question is whether an agent knows how to recognize them.

A past residential buyer calls and says they are tired of leasing their salon space and want to buy a small building. That is commercial. A client says their church is looking for land. That is commercial or special-use property. A buyer says they want to buy a fourplex, then maybe move into larger apartment buildings. That may start in residential, but it moves toward commercial investment thinking. A seller says they have five acres on a busy road and think it could be used for retail. That may involve zoning, utilities, development potential, traffic counts, access, highest and best use, and commercial valuation.

Commercial can lead to larger deal sizes, longer-term client

opportunities, tenant representation opportunities, land and development opportunities, and referral income if partnered or referred properly.

Commercial clients are not usually buying based on emotion. They are making **business decisions**. Their questions are different, their risks are different, and their expectations may be different.

A good residential agent can absolutely grow into commercial. A careless residential agent can absolutely get hurt in commercial. There is a big difference.

SECTION 04

The Big Differences Between Residential and Commercial

The biggest difference is that residential real estate is usually emotion-driven. A residential buyer often asks if they love the house, if they can picture their family there, if it is the right neighborhood, if the schools are good, and if they can afford the monthly payment.

Commercial real estate is usually business-driven. A commercial buyer or tenant asks if the property will make money, if the location will help their business, if zoning allows their intended use, what the net operating income is, what the expenses are, what the cap rate is, what the lease terms are, and what the risks are. That is a different conversation.

Value is determined differently. In residential, agents often lean heavily on comparable sales. In commercial, value can be driven by income, use, location, lease terms, tenant quality, future potential, and risk. An investor does not just ask what the building down the street sold for. They ask what income it produces, what expenses it has, how stable the tenants are, how long the leases run, and what the return and risk are.

Financing is different. Residential financing often focuses heavily on the borrower. Commercial financing may focus on both the borrower and the property. A commercial lender may ask whether the property generates enough income to support the debt, what the debt service coverage ratio is, who the tenants are, how long the leases are, and whether there is environmental risk. Many residential agents are used to asking if the buyer can qualify. Commercial may also ask if the property can qualify. That is a huge distinction.

Contracts and forms are different. In residential real estate, Texas

residential transactions. Commercial transactions may use commercial forms, attorney-drafted forms, landlord forms, broker forms, developer forms, or custom agreements. Commercial transactions may start with a letter of intent and may involve confidentiality agreements, leases, amendments, estoppels, rent rolls, financial exhibits, zoning contingencies, environmental review, and attorney involvement.

Due diligence is much deeper. Commercial buyers may need to investigate zoning, intended use, environmental conditions, survey issues, easements, access, parking, utilities, floodplain, drainage, leases, rent rolls, tenant estoppels, operating statements, insurance, taxes, maintenance records, ADA concerns, building systems, fire code, signage rules, traffic counts, permits, certificate of occupancy, and deed restrictions. The agent's job is not to know everything. The agent's job is to know enough to raise the right questions and bring in the right experts.

Timelines are different. Commercial deals often take longer. A commercial buyer may have a feasibility period that allows time to investigate zoning, financing, environmental issues, leases, property condition, engineering, and future use. Commercial leasing can also take longer because the parties may negotiate build-out, tenant improvements, rent commencement dates, free rent, renewal options, personal guarantees, signage, exclusivity clauses, and operating expenses. In commercial, slow is not always bad. Sometimes slow is smart.

SECTION 05

Commercial Property Types Agents Need to Know

It is important to know the basic differences between the main commercial property types. An agent does not need to become an expert in every category, but they do need to understand the basic differences.

Office

Medical offices, professional offices, executive suites, small business offices, office condos, and multi-tenant office buildings. Key issues: parking, floor plan, accessibility, location, visibility, signage, lease terms, build-out needs, internet, utilities, tenant improvement allowance, and common area costs.

Retail

Strip centers, restaurants, salons, boutiques, coffee shops, fitness studios, showrooms, and service businesses. Key issues: visibility, traffic counts, parking, signage, access, co-tenants, anchor tenants, NNN charges, build-out costs, use restrictions, and exclusivity clauses.

Industrial

Warehouse, flex space, contractor yards, distribution space, light manufacturing, storage space, and service contractor buildings. Key issues: clear height, dock-high doors, grade-level doors, truck access, power capacity, yard space, zoning, sprinkler systems, floor

Multifamily

Duplexes, triplexes, fourplexes, apartment buildings, and complexes. Key issues: rent roll, occupancy, lease terms, operating expenses, deferred maintenance, property management, cap rate, financing, insurance, taxes, utility structure, tenant quality,

Land

Commercial development sites, retail pad sites, mixed-use land, industrial land, multifamily development land, infill lots, and raw land. Key issues: zoning, utilities, access, road frontage, topography, drainage, floodplain, environmental concerns, entitlements, development costs, and highest and best use.

Special Use

Churches, schools, daycares, event centers, car washes, hotels, self-storage, gas stations, funeral homes, and assisted living facilities. Key issues: smaller buyer pool, specialized financing, and limited conversion potential. Not a category for inexperienced agents to wing it.

SECTION 06

Basic Commercial Terms Residential Agents Must Know

It is necessary to understand basic commercial vocabulary well enough to follow the conversation.

Term	Definition
Cap Rate	Capitalization rate. Net Operating Income divided by purchase price. A \$100,000 NOI on a \$1,000,000 property equals a 10% cap rate. Higher cap rate may mean higher return or higher risk. Do not oversimplify.
NOI	Net Operating Income. Property income after operating expenses, but before debt service, income taxes, depreciation, and major capital expenses. What the property produces operationally before the loan payment.
Gross Lease	The tenant pays one rent amount and the landlord pays many or all of the property expenses. Can feel simpler to the tenant.
NNN / Triple Net	Tenant pays base rent plus their share of taxes, insurance, and maintenance. A base rent of \$3,000 plus \$1,200 NNN means total occupancy cost is \$4,200. Always ask for the total monthly occupancy cost.
CAM	Common Area Maintenance. Expenses for shared areas such as parking lots,

Term	Definition
	landscaping, lighting, exterior maintenance, and common hallways.
TI	Tenant Improvements. Modifications made to the space for the tenant's use, such as walls, offices, flooring, plumbing, electrical, or finishing out a shell space.
LOI	Letter of Intent. A preliminary document outlining major business terms before the full contract or lease is drafted. May be non-binding, partially binding, or create obligations depending on how it is written.
Due Diligence	The buyer's investigation period. May include physical condition, zoning, use, financing, environmental issues, title, survey, leases, financials, utilities, and development potential.
Estoppel Certificate	A document signed by a tenant confirming key lease facts. Helps confirm whether the lease, rent, deposit, term, and default status are what the seller says they are.
Rent Roll	A summary of tenants and lease information, including tenant names, suite numbers, rent amounts, lease dates, deposits, vacancy, and past due amounts.
Pro Forma	A projection. What the property might do, not necessarily what it is doing now. One of the biggest beginner traps. Hope is not underwriting. Actual numbers matter.

SECTION 07

The Basic Commercial Transaction Process

The basic commercial transaction process will vary depending on whether it is a purchase, sale, lease, investment property, owner-user deal, or land transaction, but generally there are eight common stages.

01

Initial Client Conversation

Slow down and ask better questions. For a buyer: intended use, financing, zoning needs, timeline, and advisors. For a tenant: business type, space needs, total occupancy budget, and move-in date. For a seller: property type, occupancy, leases, financials, and known issues.

02

Broker and Mentor Check

If this is one of the first commercial transactions, stop here and involve a broker or mentor. Do not wait until there is trouble.

03

Property Search or Listing Preparation

For a buyer or tenant, search based on use, location, size, budget, zoning, access, and business needs. For a seller or landlord, gather property information, financials, lease documents, operating expenses, photos, surveys, zoning information, rent roll, and property condition information.

04

Offer or Letter of Intent

Commercial deals may begin with a formal offer or an LOI. Major business terms are discussed: price, lease rate, earnest money, feasibility period, closing date, financing contingency, tenant improvements, renewal options, deposits, and due diligence documents.

05

Contract or Lease Negotiation

Be very careful about changing legal language or explaining

06

Due Diligence

May involve inspections, environmental reports, survey, title review, zoning confirmation, lease review, financial review, lender review, insurance review, contractor bids, and engineering review.

07

Financing and Final Negotiations

Commercial financing can take time and may involve appraisal, environmental reports, lease review, borrower financials, business financials, property financials, entity documents, insurance, survey, and title.

08

Closing or Lease Execution

For a purchase, closing may involve the title company, lender, attorneys, brokers, buyer, seller, and possibly tenants. For a lease, execution may involve deposits, insurance certificates, build-out timelines, commencement dates, keys, permits, and occupancy requirements.

SECTION 08

Common Pitfalls Residential Agents Must Avoid

- 01 Thinking real estate is real estate.** Commercial is not just residential with bigger numbers. The math is different, the documents are different, the due diligence is different, the financing is different, and the risk is different.
- 02 Taking a commercial deal without competency or guidance.** No broker involvement, no mentor, no experienced co-broker, and no real guidance creates unnecessary risk for the agent and their client. Remember TREC Rule §531.4. For the first three commercial deals, get guided.
- 03 Failing to verify zoning and use.** Just because a property looks right does not mean the client can use it for their intended purpose. Never say, "This should work." Say, "We need to verify whether your intended use is allowed."
- 04 Misunderstanding lease structure.** A tenant may think they can afford a space based on base rent, but then discover NNN, CAM, utilities, insurance, maintenance obligations, deposits, build-out costs, and personal guarantees. Always focus on total occupancy cost.

05 Relying on seller-provided numbers without verification.

Seller numbers may be accurate, incomplete, optimistic, outdated, or pro forma. Encourage the client to verify rent roll, leases, profit and loss statements, tax records, utility bills, insurance, maintenance history, deposits, vacancy, and expense reimbursements.

06 Ignoring environmental concerns.

Gas stations, auto repair shops, dry cleaners, industrial properties, manufacturing sites, underground storage tanks, and hazardous materials can create environmental risk. Do not diagnose it. Get the right professionals involved.

07 Using the wrong form or casually modifying legal language.

Commercial contracts and leases can be heavily negotiated. Do not play attorney. Use this phrase: "That is a legal question. We need to have your attorney review that before you rely on it."

08 Overpromising investment results.

Never guarantee returns, appreciation, occupancy, future rent increases, business success, development approval, or financing approval.

09 Not understanding who the client needs on the team.

Commercial clients may need an attorney, CPA, commercial lender, surveyor, inspector, environmental consultant, insurance agent, engineer, architect, contractor, zoning consultant, or property manager.

10 Protecting ego instead of protecting the client.

Sometimes the best move is to co-broker. Sometimes the best move is to refer. Sometimes the best move is to bring in a mentor. Sometimes the best move is to tell the client, "This is outside my expertise, but I can connect you with the right person."

SECTION 09

How to Safely Get Started in Commercial

A residential agent should get started in commercial by starting small, starting guided, starting humble, and starting educated.

Good entry points may include small office condos, small office leases, small retail leases, small multifamily, small owner-user buildings, referrals to commercial specialists, shadowing experienced commercial agents, and co-brokered deals.

Build a resource team. Build relationships with commercial lenders, real estate attorneys, CPAs, surveyors, environmental consultants, commercial inspectors, insurance professionals, title companies with commercial experience, zoning or planning contacts, commercial appraisers, and experienced commercial brokers.

Learn the forms. Get familiar with commercial listing agreements, commercial buyer representation agreements, tenant representation agreements, commercial contracts, commercial leases, letters of intent, confidentiality agreements, and commission agreements.

Learn the math. At minimum, understand cap rate, NOI, cash-on-cash return, price per square foot, rent per square foot, NNN, CAM, debt service coverage ratio, and break-even occupancy.

Find a commercial mentor. It is better to split the first few commercial deals and learn the right way than keep the whole commission and make a major mistake.

*"A guided deal is education with a paycheck. A reckless deal
is tuition with consequences."*

SECTION 10

Helpful Designations and Training

If commercial real estate is of interest, there are some designations and training paths worth knowing.

CCIM

Certified Commercial Investment Member

One of the most recognized commercial real estate designations, especially for agents interested in investment analysis, income-producing property, and commercial deal structure.

SIOR

Society of Industrial and Office Realtors

Especially relevant for agents who want to specialize in industrial and office brokerage.

TACS

Texas Accredited Commercial Specialist

A good Texas-focused commercial education path for agents who want a structured introduction to commercial real estate.

ALC

Accredited Land Consultant

Helpful for agents interested in land, ranch, development tracts, and investment land.

CIPS

Certified International Property Specialist

Useful for agents working with international buyers, global investors, or cross-border real estate interest.

CPM

Certified Property Manager

Helpful for agents who want to understand property management, asset management, and income-producing real estate operations.

Also look for local commercial board classes, Texas REALTORS commercial classes, CCIM chapter events, commercial lender workshops, commercial title company classes, broker-led transaction reviews, and mentorship opportunities. It is not necessary to get every designation. Pick the education path that matches the type of commercial real estate to pursue.

SECTION 11

Conclusion: Five Things to Remember

The point is not that every residential agent should immediately become a commercial agent. The point is that every residential agent should know enough to recognize commercial opportunities, ask better questions, and protect the client.

Commercial real estate can be a powerful addition to a business. It can open doors to investors, business owners, landlords, tenants, developers, churches, landowners, and repeat clients. Commercial real estate demands respect. A license may allow participation, but competency determines readiness to lead.

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. Become educated enough to recognize the opportunity, humble enough to ask for help, and professional enough to protect your client."

APPENDIX A

First Commercial Deal Safety Checklist

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

APPENDIX B

Client-Friendly Language Scripts

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

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

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

*"Let's **verify the zoning** before we spend any money on inspections."*

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

REFERENCES

- [1] Texas Real Estate Commission, Chapter 531 Canons of Professional Ethics and Conduct, §531.4 Competency. <https://www.trec.texas.gov/agency-information/rules-and-laws/trec-rules>
- [2] Texas REALTORS, Leading the Organization Student Manual. <https://www.texasrealestate.com/wp-content/uploads/Leading-the-Organization-Student-Manual-2022.pdf>