

# Commercial / Investment Training

Before you talk with a listing broker, research the property. Use the form and scripts below to help you research the property and confidently have a conversation with the Listing Broker.

The conversations you will have with agents and clients are critical. These following negotiation styles can be very helpful.

## Negotiation Styles

<b>Competing</b> (High concern for self, low concern for others)	Pushing for what you want without regard for other person wishes by using whatever power and influence needed to get your way.
<b>Avoiding</b> (Low concern for self & others)	Postponing or never facing an issue with another by either withdrawing, or not addressing the situation.
<b>Accommodating</b> (Low concern for self, high concern for others)	Giving to others without getting what you want. Motivated by selflessness.
<b>Compromising</b> (Sharing) (Medium concern for both)	Allows each person to get part (but not all) of what they want in an expedient manner that involves discussing the issue more directly than avoiding, but less thoroughly than collaborating.
<b>Collaborating</b> (High concern for self, high concern for others)	An attempt to find an in-depth solution that is fully satisfying to both parties. It is characterized by being direct, mutual sharing, problem solving, creative thinking and accountability.

## RESEARCH THE PROPERTY

### Drive by the Property

Do not walk the property or disturb the tenants. Many times tenants are unaware the property is being sold. It's very important no contact or questions regarding the property for sale. This could cause a problem for the owner.

### Assess the General Condition

Determine whether the property has deferred maintenance. Check for electric meters, parking, laundry, pool, elevator, courtyards. You should also determine if it is a Class A, B or C property type. Class A buildings also are well located, have good access and are professionally managed. As a result of this they attract the highest quality tenants and also command the highest rents. Class B buildings are generally a little older but still have good quality management and tenant. Class B buildings should generally not be functionally obsolete and should be well maintained. Class C, the lowest classification of office building and space, are usually more than 20 years old, are located in less desirable areas and are in need of extensive renovation. Ask Susan or Justin about class A, B or C.

### Assess the Area

Rate the neighborhood (poor, fair, good, excellent). Are there similar property types in the area? Is the property near power lines, an airport, runways or maybe a freeway? At this point, you would do more due diligence, similar to what you would do for residential regarding location. Is it located in an industrial park? If so then it will typically have an additional management fee called an association fee.

### Do Your Due Diligence

Research the property online on sources like Loopnet and the MLS. Google the address. Is it listed? Has it ever been listed? This should be done in the office (requires a code). Search for other similar properties to see what is on the market and sold.

### Talking to the Listing Broker

You've researched the property and it's now time to call the Listing Broker.

Do you know what to ask for when you call or email a commercial/investment broker?

Your mentor will make the first few calls with you. Your mentor has relationships with brokers that deal with commercial/investment properties. Coastal Pacific Commercial has sold many commercial properties. We often state what we have sold in the conversation so the commercial broker understands that we are very knowledgeable with commercial properties, e.g. we represented the sale and listing of the Starbucks shopping center in La Jolla. We also sold a flex/warehouse in an industrial park. We represented a block of properties in one sale which included an industrial shop, apartments, retail and single family homes.

The first thing you want to do is:

Ask for the "Set Up" Also called Marketing Package and Offering Memorandums (OM).

The Set Up or Marketing Package contains information about a commercial/investment property that is for sale. You may find this with a click of the mouse on Loopnet.

You Might Say:

*"I'm interested in such and such a property. Can you send me the Set Up or Brochure?"*

When talking with the Listing Broker, be sure to sound confident and professional, like someone who can get the job done. If you do then the chances are the commercial/investment broker is going to work with you because they want to get their listing sold and get paid just like everyone else.

But if you contact the listing broker and you sound like a residential agent or an agent who does not know what they are doing then the listing agent will probably hesitate to send information or work with you at all.

You will always do this with your mentor.

Always when contacting the broker ask:

- "Is the property available to tour?"
- "Are there any existing reports available regarding the property?"

Do not ask or make statements like a residential agent would, for example:

- *"I'm wondering if the property is still available?"*
- *"Can I show it tomorrow?"*
- *"Does the Property have a lock box?"*
- *"Is there a termite report?"*

These are signs that you are a residential agent who does not know how to handle the transaction.

Script: Talking to a Listing Broker

Before making the call, take a few minutes to review and maybe even role-play this script a few times.

Before making the call take time to review and prepare your conversation. Do not try to wing it.

Here is the script I use and recommend. It's California specific, but you can easily modify for your area:

*"Hi, this is Susan. I'm calling\* from Coastal Pacific Commercial. If (name of the property) is still available do you have any offers on it and would you be so kind as to send me a Marketing package?"* (At this point if your clients are interested in the property we can prepare and LOI.)

\*You can also use this script in an email

Back to the Script

I do not want to sound residential when I contact a commercial/investment broker or potential client so when I call I use the name of our company's commercial division.

It does not matter what name or what company you are affiliated with. What matters is that you do not sound like a residential real estate agency. *"We are Coastal Pacific Commercial located in La Jolla on Prospect Street."*

**For example:**

*"Hi, this is Susan. I'm calling from Coastal Pacific Commercial."*

**Then go on...**

*"I wonder if the property is still available and do you have any offers?"* That language is often used in residential and commercial/investment real estate, so you are probably familiar with it.

**Then ask...**

*"Can you send me a Marketing Package?"*

**And you may ask...**

*"Can you provide me with a brochure?"*

The Marketing Package

A Marketing Package contains the basic profile information about the property for sale. Depending on which area of the country you are in, other terms for this are Set- Marketing package or Offering Memorandum (OM).

There is no specific requirement regarding what a Marketing Package must contain. I have seen anything from a write up on a napkin or a one-page document to a package that is hundreds of pages long.

What the package contains and how it is organized depends on the agent (the capability of the agent, the tools available to the agent, the knowledge and experience of the agent) and the sales price and type of subject property.

Ideally, the package has the basic information necessary to understand the property. It typically includes year built, square footage, lot size and so on.

The approach you use to determine value will determine what you must also see in the Marketing Package. For example, when using the income approach for determining value, you must also see the income approach in the package. If the property is an apartment you may want to ask for the rent rolls.

The second thing you want to see answered is whether the income is actual (current) income or if it is projected or pro forma income (see below where pro forma is discussed further in detail).

If using the income approach, you will also need to know whether other income is available. Other incomes, for example, might come from laundry, vending machines, cell towers or billboards. If other income is not clearly defined you can inquire about the details.

It is also important to see a rent roll in the marketing package. If you do not find one I recommend that you call or email and ask for a copy of the current rent roll.

Other things you might find in a Marketing Package are comparable sales, maybe a rent survey or comparable rents, demographics, maps, pictures and perhaps a lease survey when the property is non-residential. We'll discuss this more later.

Use the Right Agreement for the Property Type

*"Oh, by the way, do you use the CAR agreement or AIR agreement? We will work on an LOI."*

Letter of Intent (LOI)

If the listing broker says an LOI will work, what does that mean?

LOI stands for letter of intent. A letter of intent will usually be one page. I have seen two and even three-page contracts that just had the main deal points: price, amount of deposit, the term of escrow and financing details. If you are building out a lease space you may have detailed information asking the landlord to provide a tenant improvement allowance. Some landlords allow tenants to do the interior improvements with the tenant's contractor. Other landlords require the tenant to use the landlord's contractor.

Commercial/investment agents typically use letters of intent because a property is subject to interior inspection. A letter of intent is an easy way to agree on the basic terms of the transaction. The next step would be the interior inspection. After the interior inspections are completed you would then move to a full purchase agreement.

So, a letter of intent will sometimes save time and avoid unnecessary paperwork. Clients and brokers do not want to do a full purchase agreement only for the buyer to walk through the property and then say, "No, I'm not interested in this property." In some cases, escrow may have been opened (in particular states) and good faith deposits may have been written only to be returned. The client or agent wants to avoid all this, which is why they start with a letter of intent.

## In-House Contracts

Sometimes firms want to use their in-house contracts. I think it is important that you be careful in doing that. If you proceed with an in-house contract be sure to advise the client that it may not be in their best interest always. Advise the client to have the documents reviewed by their attorney.

I have had commercial/investment agents insist that I use their in-house contract. I have also had counter offers asking me to write my offer on their attached in-house contract. If it is your listing you can specify in the agent remarks section (or in the MLS or LoopNet) that offers are to be written using a specific type of agreement.

When you are not the listing agent and the listing agent requests that the offer be written on an in-house contract you may not have a choice. If you want to do the transaction and your client wants to do the transaction you may need to use the in-house contract.

Realtor association agreements and AIR agreements are written by attorneys. Whose interests do you think they are protecting?

Attorneys are writing these contracts with all the disclosures, disclaimers, suggestions and recommendations that the buyer/consumer should consider when purchasing the property.

When an offer is written on a type of contract that is not common (something like an in-house agreement), there may be disclaimers or disclosures that are not in those contracts but that may be in the association or AIR agreements. Therefore, there may be an additional liability to you if you (or your client) use an in-house form.

## How to Analyze Income for Value Calculations

You will need to know the income a property will generate so that you can determine the property value. You may remember when you first studied real estate that you can use one of three approaches when determining the value of a property. These are:

- Comparable
- Income
- Cost

### **Use Comparables to Analyze Value**

Use the comparable approach for residential real estate income. Compare similar properties to the subject property. Remember that residential real estate is considered to be one to four units. Be aware that in the commercial/investment world multifamily properties are sometimes referred to as residential. Five units or more have different lending rules. Those loans will be different from 1-4 units.

## Use Income Analysis Value

For the most part, you are going to use the income approach for commercial/investment property. Once you have more than 4 units, a property is considered to be commercial and you will typically use the income approach to determine value. Remember, the lender fee's and rates will be very different on properties over four units due to the commercial status. Expect to pay a higher interest rate.

For example, if you are on the phone with an appraiser talking about a four-unit property you would use the comparable approach and talk about comps in the area.

But if you sold a five-unit property and you are on the phone with an appraiser, you would use the income approach. You would discuss information such as:

- Cap Rates
- Gross Rent Multiplier (GRM)
- Expense and Vacancy Factor
- Return on Investment (ROI)

## Income Approach

Gross Rent Multiplier

Sales Price / Gross Annual Receipt = Gross Rent Multiplier

$$\$600,000 / \$28,800 = 20.83$$

Indicate Value

Yearly rent X Gross Rent Multiplier = Indicated Value

$$\$28,800 \times 20.83 = \$599,904$$

Capitalization Rate

Net Operating Income / Estimated Value = Capitalization Rate

$$\$28,800 / \$600,000 = .048\%$$

Estimated Value

Net operating Income / Capitalization rate = \$600,000

$$\$28,800 / .048 = \$600,000$$

Cash on Cash

Net operating income / Cash Invested = Cash on Cash

$$\$108,000 / \$200,000 = 54\%$$

## Blended Yield

$(\text{Existing Rate} \times \text{Existing Loan Balance}) + (\text{Marketing Rate} \times \text{Net New Money}) = \text{Blended Yield Total Financing}$

Assume that you are buying a property that has an existing loan for \$80,000 at 10%. You need a total of \$180,000 after the down payment. The existing lender is 15% for new loans. What will be the probable charge at a blended rate?

$$[(10\% \times \$80,000) + (15\% \times \$100,000)] / \$180,000 = \text{Blended Rate}$$
$$(\$8,000 + \$15,000) / \$180,000 = 0.1278\%$$

## Calculate the Annual Income

When using the income approach:

1. List all the current income for the property
2. Add it up
3. Multiply by 12 (months) to obtain the property's annual income

***Always use the annual income when analyzing a property.*** You need the annual income to determine the value.

### **Example:**

Let's say you are looking at ten units and all the units are rented at \$2,600 a month. They are all two bedrooms/one bathroom units.

$$10 \text{ units} \times \$2,600 \text{ per month} = \$31,200 \text{ per month}$$

Then multiply the monthly income by 12 months to get the annual income

$$\$31,200 \text{ per month} \times 12 \text{ months} = \$374,400 \text{ per year for annual income}$$

Many times apartment buildings will have one, two and three units in the mix. They may also have additional income like laundry income.

## Projected Income

Most of the time you will find that people use projections or what is called *pro forma* when showing income. Projections indicate what the property *could* be getting, not what it *is* getting.

### **Be cautious when you see a projection.**

It means the present owner is not receiving that income now but the buyer might be able to get that income after purchasing the property.

**Be careful to assess the condition of the property at this time regarding pro forma income.** Check to see if this property has deferred maintenance (like old windows, needs paint, requires new roof, etc.) before considering raising rates to market value.

When you see Projected Income:

**Ask the seller:**

*"Hey, why aren't you getting the projected income and what makes you think the buyer can get it?"*

If the seller has a good reason for thinking the buyer can earn a higher income you might accept the projected income. For example, the seller may not have raised rents for a few years and so rent increases are due.

But if you do not find a reason for the projected income you may want to calculate the deal using the current (annual) income.

Many units are in need of repair or termites/roof/exterior age/window are original. In other words, deferred maintenance and economic obsolescence may be an issue.

If the commercial/investment property is a leased investment -- for example, a retail shopping center -- use the income of the lease to determine the value.

**As an example:** for a \$10,000 per month lease, \$10,000 multiplied by 12 months equals \$120,000. That is the annual income you would use to determine the value.

The key is to determine:

- What the income is now
- What kind of income it is
- How much income the buyer will be able to get

Then you will have the information you will need to determine the value. So, for example, in evaluating a church, you would find out how much income is coming from the present lease and when the lease will expire.

When the owner is an owner/user and the owner plans to sell and leave what would someone else pay to lease that same property? I will discuss how to do a lease survey in more detail later.

**Use Cost to Analyze Value**

Developers typically use a cost approach when determining the value of a vacant land.

For example, say you are interested in a vacant lot zoned R20, which means residential, and the maximum number of single-family homes is 20.

A developer would look at the lot and say, "Okay, I can build 20 single-family homes on the lot." Let's say the developer wants to build four-bedroom/two-bathroom homes and the homes are two-story, 2,000 square foot each. The developer will do this at a cost of \$200,000 per property.

Let's say that each single-family home would sell for \$1 million.

The developer is going to add up all the expenses or all the costs to build the homes at, for example, \$200,000 each. That includes costs for plumbing, electrical, sewer lines and so on. The developer will then determine the selling price for each home.

They would then back out their desired profit to determine what they would pay for that vacant lot. This is the cost approach briefly explained.

However, in my experience, the developer is going to ask, "What is the return on my investment going to be?" So, developers will typically tie their calculations back to the income approach.

What I am saying here is most often you are going to use the income approach to determine value for commercial/investment real estate.

Many developers are using the land in creative ways and building little park-like areas for kids to play in areas where they can't build. These areas can then be maintained by HOA associations. Developers may also have to factor in the additional cost of "Mello-Roos" Special tax for areas that need schools, etc.

Scheduled Gross Income (SGI)

**Scheduled Gross Income (SGI)** is the total income that can be generated from a property if the property were to be rented for twelve months out of the year with zero vacancies.

With the income approach, you want to use annual numbers to evaluate a property. Add up all monthly income and multiply by 12, as we previously discussed.

**Example:**

You have ten units all rented at \$2,600 per month.

To analyze annually, add that up and multiply by 12

$$10 \times \$2,600 = \$26,000 \times 12 = \$312,000 \text{ (SGI)}$$

Determine if the Property has Other Income

Sometimes income generated from a property is outside the normal rent being paid by a tenant.

This income is called **Other Income**. Here are typical sources of Other Income:

- Laundry
- Vending Machines
- Storage

- Cell Towers
- Billboards
- Parking

This income may be added to the Scheduled Gross Income (SGI) as one lump number or broken down by specific income. I prefer to break it down.

### **Other Income Broken Down by Source**

When you break down Other Income, it is easier to understand the sources.

Example:

Other Income as a lump sum \$12,000.

Other Income broken down:

- Laundry \$6,000
- Parking \$6,000

I have seen several variations for calculating a cash flow model using the income approach, as well as several variations of terminology and names. I am not saying there is only one way to do this and that only my way is the right way. I am simply sharing with you what I have found to be the simplest ways to understand commercial/investment property values and the cash flow model.

### **Variations in Income Calculations Methods and Terminology**

I have seen Other Income added to the Scheduled Gross Income (SGI) and then that total income is called Gross Operating Income (GOI).

Sometimes the total income of the property is called Potential Rental Income (PRI) with the vacancy and credit losses being subtracted (Effective Rental Income) and then the Other Income added in (Gross Operating Income).

Credit losses, by the way, are taken into consideration for units that are not vacant but they have tenants who are not paying rent. For example, if a property has 100 units rented at \$1,000 each (\$100,000 per month) and 3 of them are non-paying (but not vacant) there is a 3% credit loss.

It is also important to remember that the various cash flow models, variations and ways of doing business can create "analysis paralysis" where you spend all your time trying to figure out what it all means. I prefer a very simple cash flow model when analyzing the income from the property.

Add it up, multiply it by 12 and call it Scheduled Gross Income (SGI). This includes all Other Incomes, if any. Remember, at the end of the day, the value is the value and is simply going to be determined by the

income the property will generate. Do not get too distracted with variations of cash flow models. Think KISS, or Keep It Simple.

For the sake of simplicity, the cash flow model moving forward in the training will not include any other incomes.

### Vacancy Factor

Now that you have collected all the income and annualized it the next step is to subtract a percentage of the income for a Vacancy Factor.

The factor will vary depending on the property type and location. Commercial/Investment lenders determine this factor.

**In markets that are densely populated and in high demand a minimum Vacancy Factor is typically 5%.**

I often sit with a seller and show them the cash flow model of their property with a 5 percent vacancy factor. They often ask why I am using that number because they do not have a vacancy. I tell them it is because the lender will require that we analyze the income using a 5% minimum factor.

**The Vacancy Factor will be higher in areas not considered to be densely populated.**

For example, if you looked at 10 units in downtown New York and then you flew to John Day, Oregon and you looked at the same 10-unit property you would not expect the same Vacancy Factor to be used, would you? Commercial/Investment lenders do not either.

Commercial/Investment lenders use numerous tools to determine the factors in specific areas. The tools are beyond the scope of this training, although they are worthy of future discussion. The point to remember is that the commercial/investment lender determines the factor according to both property type and area.

**If you are uncertain about what to use for a Vacancy Factor, call a commercial/investment lender in the area where the property is located.** That lender will be able to give you the typical percentages for the area.

#### **Example:**

With an annual property income of \$100,000 and a 5% Vacancy Factor you would simply take 5% of \$100,000, which is \$5,000.

You then subtract \$5,000 from the total income.

Income \$100,000 - Vacancy Factor \$5000

Gross Operating Income (GOI)

**Gross Operating Income (GOI)** is the amount remaining after you subtract the Vacancy Factor from the Scheduled Gross Income. Please note, some lenders call this number Effective Operating Income (EOI).

In this training we will use the term Gross Operating Income (GOI).

We use a percentage of the GOI to calculate expenses.

**Examples:**

Scheduled Gross Income (SGI) \$100,000 - Vacancy \$5,000 = \$95,000 (GOI)

Expenses

**Expenses** are all costs associated with operating a property, everything, including the staples in the office. I want to point out that property taxes are included in commercial/investment expense calculations.

In residential properties (one to four units) property taxes are part of the payment, which is the sum of principal, interest, taxes and insurance (PITI).

In commercial/investment real estate, taxes drop from the payment side of the equation and float to the expense side of the equation.

What you have left is simply the principal and interest payment. This payment in commercial/investment real estate is called **Debt Service**.

So, when we talk about expenses, we are referring to all costs associated with and involved in operating the property. The only exception is capital improvements, which is beyond the scope of this training.

The percentage used as an Expense Factor, when analyzing commercial/investment property is going to vary depending on the location of the property and the product type. This is similar to the Vacancy Factor we discussed previously.

Most lenders are going to require at least a 35% Expense Factor for multi-family apartments. For example, even if the property is new construction or a completely remodeled rehab with new plumbing, electrical and so on, most lenders are going to be conservative and require a 35% Expense Factor minimum.

So, when analyzing multifamily apartments, you want to use a minimum 35% Expense Factor. There are times when it may be higher. The property may have a lot of deferred maintenance, or if it is an old property the lender may require reserves and a higher Expense Factor.

Another example of something that impacts the Expense Factor is whether the property is **master metered**. That means the property has only one meter for all the units. In this case, the Expense Factor should be 50% or higher. The Expense Factor should not be any less than that because of the costs involved to the owner in paying all the utilities for all the tenants. Note that master metered could refer to only on utility type, such as electricity for example.

Also, for product types other than residential multifamily, for example, for a leased investment that is **Triple Net (NNN)**, which means all the tenants are paying all the expenses) the Expense Factor will vary.

Note that there may be variations of Triple Net. For example, the owner may pay some of the costs, such as the costs associated with things like heating, air-conditioning and central vacuum. There are multiple variables to this, but in general Triple Net (NNN) means the tenants are paying all the expenses.

When you are selling a leased investment where the tenant is paying all expenses you would not want to use a 35% Expense Factor. It should be something lower.

*How would you determine what Expense Factor to use?*

Call a lender who is familiar with the area and the product type and ask them what they suggest as an expense factor. Ask you mentor for each property.

This suggestion does not apply only to product type. The same rule of thumb applies to location. If you are in an area where it gets extra cold, extra hot or if there are other variations in expenses then ask a commercial/investment lender to help you determine the Expense Factor to be used in that area and for that product type.

This is an example of why my training, consulting and coaching programs recommend that you build a team of lenders, inspectors, attorneys and other necessary resources and that you use this team to help you achieve your goals. Commercial/investment lenders are great resources for evaluating a property, which includes suggesting the appropriate Expense Factor and Vacancy Factor.

Here is an example of what the cash flow model looks like now that we are factoring in expenses:

Scheduled Gross Income (SGI) \$100,000 5% Vacancy \$5,000  
Gross Operating Income (GOI) \$95,000  
35% Expenses \$33,250

## Net Operating Income

The **Net Operating Income (NOI)** is what we have left after we subtract expenses from the Gross Operating Income (GOI).

The NOI is used to determine the Cap Rate, which I discuss later. And remember, the formulas we use in the commercial/investment real estate market are in your Glossary.

There are many variations for determining NOI, depending on what percentages are used for vacancy and expenses. These percentages impact the NOI. This is important to keep in mind when we discuss Cap Rate. We use NOI divided by sales price to determine Cap Rate. So how the NOI was determined and that it was determined correctly are important. Unfortunately, you will likely not see it done correctly most of the time, which is another reason this information is going to be so valuable for you.

### **Example:**

Scheduled Gross Income (SGI) \$100,000

%5 Vacancy \$5,000

Gross Operating Income (GOI) \$95,000

35% Expenses \$33,250

Net Operating Income (NOI) \$61,750

## Debt Service

In commercial/investment real estate when somebody has a loan, they are typically going to have a payment on that loan. That loan payment is called **Debt Service**. It consists of the principal and interest payment on the loan.

Note that most commercial/investment loan payments are amortized for 30 years to keep the payments low and commercial/investment loans are typically due in 10, 7, 5 or 3 years.

The interest rates will vary depending on the program, product type, condition of the property, year built, investor or owner occupied, financing ability of the borrower, and so on and so forth.

### **Example:**

The Debt Service is the principal and interest payments due. If the purchase price of a property is \$1,000,000 and the borrower puts down 30% and obtains financing for the remaining 70% Loan to Value (LTV) and the loan is amortized over 30 years at 6% then the payment will be approximately \$49,000.

**Example:**

Scheduled Gross Income (SGI) \$100,000 5% Vacancy \$5000

Gross Operating Income (GOI) \$95,000 35% Expenses \$33,250

Net Operating Income (NOI) \$61,750 Loan Payment (Debt Service) \$49,000

Cash Flow

When there is a loan payment (Debt Service), we subtract the payment from the Net Operating Income (noi) and hopefully what is left over is some cash flow. Obviously, the higher the cash flow the better.

If there is no loan (Debt Service) then the cash flow would be the same as the NOI.

**Example:**

Scheduled Gross Income (SGI) \$100,000 5% Vacancy \$5000

Gross Operating Income (GOI) \$95,000 35% Expenses \$33,250

Net Operating Income (NOI) \$61,750 Loan Payment (Debt Service) - \$49,000 Cash Flow = \$12,750

Return on Investment (ROI)

**Return on Investment (ROI)** is the annual return on the down payment (the money invested).

The ROI of a property is calculated by taking the cash flow and dividing it by the down payment.

The down payment can also include all closing costs. For example, if someone puts down \$300,000 and the closing costs are \$10,000 then the total cash invested would be \$310,000.

For simplicity, we are going to use the down payment (not the closing costs) and note that this example is simply ROI before taxes versus paying all cash.

**Consider the following scenario:**

In this example you can see that the investor can get a better return on their investment when they leverage paying all cash. See the next page where you will notice the Cap Rate is the ROI in this example.

The cash flow of the property is \$12,750. \$12,750 divided by \$3000,000 = 4.25% ROI (Remember to move the decimal two places to the right when converting from a fraction to a decimal).

Sales Price \$1,000,000 Down Payment \$300,000

Schedules Gross Income (SGI) \$100,000 5% Vacancy \$5,000

Gross Operating Income (GOI) \$95,000 35% Expenses \$33,250

Net Operating Income (NOI) \$61,750 Loan Payment (Debt Service) \$49,000 Cash Flow \$12,750

Cap Rate = NOI Divided by Sales Price

\$61,750 (NOI) Divided by \$1,000,000 (Sales Prices) = 6.1 Cap Rate

**Notice that if there were no Debt Service Payment the NOI would be the same as the cash flow. The Cap Rate in this situation would be the same as the ROI.**

Let's look at our cash flow model using all cash as an example.

Sales Price \$1,000,000

Down Payment \$100,000,000 (all cash, no financing)

Schedules Gross Income (SGI) \$100,000

5% Vacancy \$5,000

Gross Operating Income (GOI) \$95,000 35% Expenses \$33,250

Net Operating Income (NOI) \$61,750 (same as Cash Flow)

Cap Rate = NOI Divided by Sales Price

ROI = Cash Flow Divided by Down Payment

\$61,750 (NOI) Divided by \$1,000,000 (Sales Prices) = 6.1 Cap Rate

## Gross Rent Multiplier (GRM)

**Gross Rent Multiplier (GRM)** is a commonly used term in the commercial/investment industry. The formula is sales price divided by Scheduled Income (SGI).

GRM is a number that correlates the amount of gross income (income being received from the property) to the sales price. Generally speaking, the lower the Gross Rent Multiplier, the better the buyer.

The GRM reflects how many years it will take the buyer to recover their total purchase amount (the price they paid) based on the income the property is generating.

The buyer typically will want to recover the purchase amount sooner rather than later. So, the lower the gross rent the better multiplier for the buyer.

This is another great reason to invest in investment real estate. In this example, the buyer would pay \$1,000,000 for this asset and receive all their purchase money back in 10 years and they would keep receiving passive income! Now, obviously this does not account for operating expenses or for any vacancies.

### **Example:**

Sales Price \$1,000,000

Schedules Gross Income (SGI) \$100,000 GRM = Sales price Divided by SGI

\$1,000,000 (Sales Price) Divided by \$100,000 (SGI) = 10 (years to recover purchase price, although this obviously does not account for expenses to operate and for any vacancies).

## GRM, Cap Rate, ROI, Comparable Sales and Value

One of the questions you have probably been asking yourself is likely to be how to know when a deal is a good deal. How do I know if the deal has a good GRM? What is a good Cap Rate? I am sure you are asking because many people ask me the same thing. We have talked about how to calculate commonly used formulas. Now let's talk about how they relate to value.

## GRM, Cap Rate and ROI

When determining the value of a property we typically analyze the property using the GRM, the Cap Rate and the ROI. Use the Average of Three-to-Five Comparable Sales.

Then we typically pull comparable sales (comps).

Now we need to stop for another sidebar. If you use a source for comps that is not very accurate then the data is obviously not going to be accurate (garbage in, garbage out).

I say this because I do not know what you have seen but when I look on a MLS I do not see accurate data for commercial/investment real estate. Do you? I use and recommend sources that are more accurate for commercial/investment real estate comps.

I like to use three to five comps when I analyze value. Let's say, for example, that you use five comps. You will start by finding the average of those five comps.

You look for three things when you analyze comps: average GRM, average Cap Rate and average ROI.

### Look at GRM for the Averaged Comps

Let's start with the GRM and say that the average GRM of the comps is 8. A quick way of determining value is to look at the scheduled gross income of the subject property and multiply it times the average GRM of the comps (in this case 8).

So, if the schedule gross income was \$100,000 then

$\$100,000 \times 8 = \$800,000$  value. One definition of value could be SGI x GRM.

$\text{SGI } \$100,000 \times \text{GRM } 8 = \$800,000$

This is a quick way to determine value but it is not as accurate as Cap Rate. Why? Because the GRM does not take into consideration the Vacancy Factor of the Expense Factor.

Remember, the GRM is calculated by taking the sales price and dividing it by the scheduled gross income. It does not include the vacancy or expense factor. It just says what is the scheduled gross income, what is the price and then it gives you a number (GRM) based on those two factors only.

Look at Cap Rate for the Averaged Comps

The Cap Rate, on the other hand, is factored from the Net Operating Income (NOI). The Cap Rate says what is the NOI, which takes into consideration the vacancy and the expense factors and then what is the sales price. NOI divided by sales price equals Cap Rate. Therefore, Cap Rate will be a more accurate reflection of value.

Let's say that you pull five comps and the average Cap Rate of those five comps is 6.1. The other formula for value would be as follows:

NOI Divided by Cap Rate = Value

\$61,750 Divided by .061 = \$1,000,000

Schedules Gross Income (SGI) \$100,000 5% Vacancy \$5,000

Gross Operating Income (GOI) \$95,000

35% Expenses \$33,250

Net Operating Income (NOI) \$61,750 Loan Payment (Debt Service) \$49,000 Cash Flow \$12,750

And that is how you determine value.

Cap Rates

**Cap Rate is a correlation of the net operating income to the sales prices.**

Usually we find that the higher the Cap rate the better for the buyer. But be aware that a higher Cap Rate can sometimes reflect more risk to the buyer.

For example, say an investor buys a property in a class B area and the Cap Rate is 8. Another investor purchases a similar property in a class D area and the Cap Rate is 10.

The property with the 10 Cap Rate obviously has more cash flow and therefore may appear to be better for the buyer. However, there is likely going to be more risk in the D area.

So remember, a higher Cap Rate will reflect more cash flow and be more desirable for an investor but it may not be worth the extra risk and or uncertainty and may not be in line with the investor's goals.

**Formula:**

Calculate the capitalization rate (Cap Rate) by taking the Net Operating Income (NOI) and dividing it by the sales price.

**NOI/Sales Price = Cap Rate**

Example:

Scheduled Gross Income (SGI)  
\$100,000 5% Vacancy \$5,000

Gross Operating Income (GOI)  
\$95,000 35% Expenses \$33,250

Net Operating Income (NOI) \$61,750  
Loan Payment (Debt Service) - \$49,000  
Cash Flow \$12,750

**Cap Rate**

**NOI \$61,750 divided by Sales Price \$1,000,000 = 6.1**

Remember, the GRM is calculated by taking the sales price and dividing it by the schedule gross income. It does not include the vacancy or expense factors. It just says what is the scheduled gross income, what is the price and then it gives you a number (GRM) based on those two factors only.

Cap Rate Facts

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Cap Rate Compression

When Cap Rates are going down that means prices are going up. This is called Cap Rate Compression

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When Cap Rates Are Going Down

When Cap Rates trend downward, interest rates are trending upward.

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## When Interest Rates are Going Up

As interest rates trend upward and Cap Rates trend downwards there comes a point where the window of opportunity to buy and add to their commercial investment portfolios will close

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### Interesting Fact:

In recent years, interest rates were the lowest in Commercial Investment history, creating a wealth of opportunity for commercial investors and agents.

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## How to Increase the Value of a Property

When you use the income approach to determine value, increasing the income (for example, raising rents or increasing lease amounts) will increase the value of the property. That is because the value of the property is determined by the income it generates.

A common way to increase value is by increasing income through rent increases for multifamily units, and occasionally through lease increases. Other ways of increasing value are increasing occupancy, decreasing property expenses and finding other income.

Following is a discussion of how to use these methods to increase value and thus create upside potential.

### 1. Increasing Value by Increasing Rental Income

Assuming the property is not in an area with rent control, a rent increase may be possible. It is very common to find that rents are low and can be increased. To determine whether this is the case, we do what is called a rent survey.

## Rent Surveys

A rent survey can be done in several ways. For example, it could be done online. You could Google apartments for rent in the area of the subject property or you could go online and look at websites such as a LoopNet or Costar.

When you go online you are going to see other properties in the area that are for rent. Additionally, there are numerous tools available online for elaborate rent of lease surveys, depending on the area. There are far too many tools available for me to mention without being specific to a city. But you can find the tools online.

### Do a manual Survey

I have found the most reliable and accurate way to survey rents is by going out into the surrounding streets and manually doing a rent survey. Remember, just because something is on the internet does not necessarily mean it is true.

Experience has taught me that going into the neighborhood is the best and most accurate way to do a survey. When you compare value, you want to get as close to the subject property and subject property type as possible.

Go into the neighborhood and look for other apartments for rent that are similar to your property. Think of all the questions you need to ask for your situation. Is it a Class A or Class B property? Is it a garden-style low rise or is it a high-rise? All such factors are important, just as they are in residential real estate

So, let's say you see a property with a for rent sign across the street from the subject property and that property is similar to your subject property. You would then call or even knock on the property manager's door. Do not disturb the tenants, not ever. Ask the manager what the rent is. In my experience, apartment managers are cooperative. They do not mind giving you the information because they frequently have multiple apartments for rent and they would like to rent these properties.

If you do find hesitation, you can always tell the manager that you are doing a rent survey and that you would be happy to give them a copy of the rent survey when it is complete.

Your goal is to compile data about apartments for rent in the area. I like to have at least five other comparable property types that I can use for my rent survey. When you are done, you can see by looking at the comparable properties for rent whether the subject property rentals are at the market or if there is room for increasing them, which is what we call Upside Potential.

This method of doing rent surveys, in my experience, has proven to be the most effective and by far the most accurate when compiling data. Yes, it is also the most time consuming and the most labor-intensive method. You do not need to do it this way, but it is my recommended approach.

Who do you think you might run into now and then when you walk around doing a rent survey in a neighborhood? Property owners? Yes! So, I like this personal “boots on the ground” approach because it is another way to prospect.

Be ready with some marketing materials to give to your rent survey owners/participant. These contacts should be entered in your CRM program so you may revisit these potential future clients. Everyone you speak to should be in your CRM. Obtain emails and phone numbers with every contact.

## 2. Increase Value by Increasing Lease Amounts

As with rental income, it may be possible to increase lease income. To determine whether that is feasible, we would do a lease survey.

Let's look at the lease survey. As an example, say you want to determine the value of a lease investment and say the subject property is a single tenant retail store front. We know the value is based on the income of the property so let's look at two scenarios.

### **Scenario One**

Someone is selling a property and the property has a current lease in place that is going to remain for quite some time, say one to ten years.

In this case, the new buyer is not going to be able to change the income, and therefore changes the value, at least until the current lease expires. So, you would use the present annual income to determine the value.

### **Scenario Two**

In this situation, there is no lease in place, or the lease is going to expire soon. You will need to determine what the property lease amount could be and then determine the value of the property based on that new lease rate.

### Lease Surveys

For a lease survey, you will again find the closest property type to the subject property, class A, class B, retail store and so on. You must then determine the current lease amounts for the properties

I am simplifying this because of the numerous types of leases that are out there. I go into this more in depth in some of my training courses. Once you determine what the comparable properties in the area are leasing for you will apply that lease rate to the subject property.

For example, let's say the subject property is 10,000 square feet and you determine from your lease survey that the market lease rate in the area is \$2 per square foot.

You would then take the two dollars and multiply it times 10,000 square feet, which would give you \$20,000 per month and \$240,000 per year. You would analyze the property based on market lease rates using this method.

### 3. Increase Value by Increasing Occupancy

Increasing occupancy is another way to increase the value or find a property with an upside potential.

#### **Example:**

If you have an apartment complex with 100 units and it has 10 units that are vacant, that is a 10 percent occupancy Vacancy Factor (10 out of 100 units vacant).

If you were to decrease these vacancies, for example, by renting out some of the units, say 5 of the 10 vacant units, you would immediately increase the occupancy and decrease the vacancy factor 5%.

It may not seem like a large increase, however, let's say that each unit rents for \$1000 per month. Those five units would represent \$5000 per month additional income or \$60,000 per year of additional income.

This is a great example of how to increase Upside Potential.  
Advertising, management skills and knowing.

### 4. Increase Value by Decreasing Property Expenses

There are several ways to decrease property expenses. Some people are good at managing real estate and some people are not as good at managing real estate and everything in between, right?

Let this work to your advantage. It may be possible for you to locate a property that is currently not being operated or managed well. A better manager could come in and immediately increase the value by decreasing operating expenses. In other words, another person may be able to operate or manage the property more efficiently than was previously being done.

There are companies who specialize in decreasing expenses, although this is beyond the scope of the training. However, understand that this is a good and potentially big opportunity because you can increase the value by decreasing expenses.

Another example could be a property that has on utility meter or a "master meter". An investor comes in and installs individual meters. This might, for example, lower the expenses from 50% to 35%.

Let's look at what this could mean regarding income. Say you have 10 units and by installing individual meters it would save the owner \$50 per unit per month in utility costs. This change equates to \$500 per month (\$50 times 10 units) and \$6,000 per year in savings (and thus an increase in income).

Be careful not to discount the impact of such a strategy. Let's look at how decreasing expenses might impact the value of a property. A \$6,000 per year increase in the net operating income (NOI) in a market area where the Cap Rates, for example, are 6 equates to a \$100,000 increase in value or \$100,000 upside!

\$6,000 per year savings increased NOI.

$\$6,000 \text{ divided by } .06 = \$100,000$

Let's look at our cash flow model and see the impact. Sales Price \$1,000,000

Down Payment \$300,000

Scheduled Gross Income (SGI) \$100,000 Vacancy \$5,000

Gross Operating Income (GOI) \$95,000 Expenses \$33,250

Net Operating Income (NOI) \$61,750

Loan Payment (Debt Service) \$49,000 Cash Flow \$12,750

Cap Rate (NOI \$61,750 Divided by Sale Price \$1,000,000) = 6.1

New NOI (with increase of only \$6,000) = \$67,750 New Value with existing market 6.1 Cap Rate NOI \$67,750 Divided by Cap Rate .061 = \$1,110,655

**Note that the lower the cap rate is in an area the greater the impact when increasing NOI.**

These are great strategies to understand at a high level and can be incredibly lucrative in helping people build wealth.

And remember, we can help without professional property management services.

## 5. Increase Value by Finding Other Income

You can increase income and thereby increase property value by uncovering additional sources of Other Income. As you might imagine, there may be several ways of doing this if you get creative.

Start by examining the subject property and look at every aspect, including the area, the neighborhood, the building and property type, current tenants -- everything.

Then start listing every possible source of Other Income that you can imagine. Look above where we discuss Other Income and talk to other people to get their ideas. For example, a laundry might be a

possibility or you might convert carports into garages and think cell towers, billboards and vending machines.\*

I remember an apartment building in Long Beach that I listed. It had a huge basement underneath the apartment complex. I have no idea how the basement was originally used but during a walk-through with a potential investor he shared with me a drawing he had made. The drawing laid out this investor's plan for turning the entire basement area into storage facilities. I thought, "Wow, that is ingenious!" because in that area storage was in high demand.

If you are purchasing a shopping center with an extra large parking lot you may be able to install various kiosks, e.g. water stations and distribution, locksmiths, flower stands, reclamation center, or drive thru coffee, like Starbucks.

## Value Plays vs Vanilla

Let's recap the methods you can use to increase the Upside Potential on a property:

- Increase rent (or lease) amounts
- Increase occupancy
- Increase expenses
- Construction of more building space
- Find other income

When you can make use of one or more of the strategies you will have Upside Potential. In the investor world that is called Value Play.

If a previous owner had already implemented all these strategies then there is no Upside Potential in the property now and that is called Vanilla. In other words, if an investor is purchasing a property and they are aware that the Upside Potential has been maximized, meaning someone else has already maximized income, we say the investor is purchasing a property that is Vanilla.

So, one of the questions I love to ask and I suggest you consider asking is, "*Are you looking for something where you can do a Value Play or are you looking for something Vanilla?*"

Remember, this question demonstrates that you know what you are doing and that you have at least a little bit of experience. It also generates intrigue and establishes credibility.

In general, you will find that most investors are looking for something with upside potential where they can do a Value Play. This is especially true with fixer-uppers.

However, certain buyers, for example, Real Estate Investment Trusts (REITS), typically like to purchase Vanilla properties because they often do not want to do much management of the properties they purchase. These groups like to purchase with 60% down, for example, or more in some areas, park their money there and not have much hands-on involvement.

## Actual Expenses

Earlier we talked about expenses and using certain factors when analyzing the property. Let's return to this subject.

When you analyze a property, it is a good idea to plug-in the factor that we discussed for expenses because that is how the lender is going to analyze the property.

However, it is also important to look at the expenses to determine how the property is actually operating.

Lenders analyze an investment property as a business. They review how the business has been operating over the past several years. The lender is typically going to request three or so years of income and expense data.

The lender looks at the property and evaluates what income is coming in from rents and what monthly expenses are going out. What remains are the profits.

The lender is going to analyze the property very closely to ensure that the profit is steady, stable and sustainable. For example, they will determine whether there were dips in income over the past couple of years, were there any spikes in expenses and if so why?

You should do the same thing when you evaluate an investment property because it is a business. I get this question all the time:

*People ask me whether I look at the actual expenses or do I use a certain expense factor?*

**The answer is I use both.**

## A Four-Step Process System for Analyzing a Property

Experience has taught us that there is a four-step process to follow for all your commercial/investment real estate deals. Following these steps will take you a long way toward making a good transaction for your client and for yourself.

## **Here are the four steps and I recommend doing them in this order:**

1. What is it?
2. What can it be?
3. Analyze the property the correct way
4. Present (or re-present) the property using your letterhead and software

Not following these steps can lead to serious financial consequences for your client which will, of course, ultimately be a problem for you.

Also, present other properties in higher prices and lower prices. You may describe these as an education to your client maybe as their future investment. When we present new ideas to the client they may change their mind, discover a new upside potential that will yield a better return or make the investment with family or a partner. Be open to presenting all possibilities. Ideas can't change quickly.

### 1. What is it?

Just like it sounds, do a thorough review of the property and determine how the property is presently operating. This means, for example, that you need to review current rents, current leases and current expenses. You want to find out what you are dealing with in that property.

### 2. What can it be?

Is there a Value Play with this property? Is there Upside Potential? Can we implement one of the four strategies discussed previously? Can we increase rents? Can we increase occupancy? Can we decrease expenses? Can we find other income? In other words, what can the property be?

This is one of the most critical questions you can ask yourself when analyzing property. I often see people make decisions on whether a property is a good investment or not without taking the time to determine the potential of the property. They make the decision based on how the property presents and not based on what the property could be at some future time.

Perhaps there is a possible zoning or use change what would bring in better revenue. If the parking is more than adequate you may be able to add square feet or maybe a drive-thru building, like Starbucks, that could add 2.5 or 3 million dollars!!!

### 3. Analyze the Property the Right Way

Remember to use the correct vacancy and expense factors when analyzing a property. These are what I am referring to when I say you need to analyze a property the correct way. If you do then you can be sure you are getting an accurate Net Operating Income (NOI) which you need in order to determine an accurate value.

This step is vital because often the factors someone else used will not be accurate. Sometimes you will find that the person who created the Marketing Package fudged the numbers to make the deal look better than it is. You need to work the numbers yourself and you need to be familiar with everything in the package.

The person who created the Set Up package might, for example, have used a low Vacancy Factor or a low Expense Factor. So, if you see something with a 2% Vacancy Factor and a 15% Expense Factor what will that do to the Net Operating Income? In this case, the NOI is going to be higher than it should be, which will make the deal look better than it is. This is what I mean when I say analyze the property correctly.

#### 4. Present the property on Your Letterhead and Software

I often see a real estate agent who meets with their client and they present the Set Up package that came directly from another agent. Therefore, the Set Up package they present to their client will have the other agent's name, company name and telephone number on the paperwork! This is a huge, lazy mistake.

*Think about this:*

Do you want to market another agent to your client? Of course not! It does not make sense. Usually when I explain this the light bulb goes off and people say, "Of course that makes sense." But at the same time, in the heat of the moment it can seem easy just to use another agent's paperwork. You do not want to market the other agent and you must be sure that the numbers in the Marketing Package are accurate.

There is nothing better than working the information using the steps described here. Then you will be in a position to professionally present several scenarios to the clients.

When you present information to your clients you must add this verbiage. "We cannot provide advice on legal or tax consequences. Please seek the advice of an attorney or accountant." Please check any and all square footage and data as to the accuracy and source (e.g. there is a difference between building square footage, unit square footage and usable square footage).

#### Tips for Success:

Your goal is to have six to eight conversations every single day with people who might be interested in buying or selling commercial/investment properties. That is how you fill your pipeline with new leads.

## Lead Generation Systems

Generating leads is a matter of focus, a matter of priority and a matter of time blocking your daily activities.

Successful agents plan their day, everyday, in advance and they do not deviate from their plan.

A lead generation system is a way of generating leads with little daily effort. Working with a system means working smart.

When you work a system you will:

**S**ave  
**Y**our  
**S**elf  
**T**ime  
**E**nergy and  
**M**oney

And meet with great success!!

Everyone you meet must be noted in your CRM. In five, ten years you will have hundreds, thousands! These are your personal clients to be!! If not today then someday! Clients for life!!

## My Lead Generation Plan

As you implement these 4 powerful systems, keep in mind that this is a long-term plan. Match your personality and skills to the first system you put in place. Build one step at a time.

Don't try to do everything at once and get overwhelmed. Start with your first system. Get it up and spinning (working effectively). Then add a second system, a third a fourth. Once you make your plan, stick to it.

<b>System</b>	<b>Implemented?</b>
Referral Sphere (People I already know)	
Grid System (Sellers)	
Internet System (Buyers)	
Market of the Moment (respond to market conditions)	
Time Blocking Scheduled?	
Am I having 6-8 conversations per day?	

### **Lead Generating: Use Your Referral Sphere System**

Your referral sphere is made up of the people you know. It is a good starting point because you already know these people and the people in your sphere already trust you. Start by setting up your marketing, branding, slogans, etc. and then begin to contact everyone you have ever met.

Before we go on, here is a side tip on branding. The best approach is to develop a theme, such as the color of your postcards, background templates, etc., and use the theme in all your marketing.

Your Referral Sphere system needs to be an automated system. Trust me. You must have an automated customer relationship management (CRM) system.

Every agent needs a customer relationship management (CRM) system. If you do not have this software, stop everything and get it. Put every person you know, have met and not met -- all leads, friends and acquaintances -- in your CRM. This one process is literally worth thousands of dollars, and for those with significant contact it is worth hundreds of thousands of dollars!

When I started teaching, I assumed that everyone had an automated system. But after years of coaching and consulting thousands of agents, I have learned that this is not so. Many agents use Outlook and their smartphone to manage their customers information. This is called losing money. Do not be one of those agents! Be smart. Yes, setting up a CRM is a pain in the neck and in some cases time consuming. But your database managed the right way will lead to higher profits.

Let people know that you have completed training courses and ask them questions. Not just one or two questions, but several. As discussed in this training, I use scripts or lists of questions. Your questions

should help people discover that they should be investing. And the logical conclusion should lead them to YOU as their agent to help them do it.

We have many knowledge content marketing materials that will help keep you on track.

Your real estate investment planning techniques will help everyone you meet, from the novice investor to the advanced investor.

Start with your closest advocates, your absolute raving fans who support you in every way. They can talk about you and influence others in the community. These are your core advocates. Call them. Do not mail. Do not text. Do not email. Do not instant messenger them. Do not post on their social media pages. Get back to basics and call them. Even better, drop by their home or office.

In most cases, these people know you, like you and trust you. They want to help you succeed.

After that, start working outward in your database, from there to the B, C, D people in your database. You may also consider partnering with an experienced commercial/investment agent or mentor and market together with that person. This can be useful as you build your commercial/investment resume.

Remember, to say this, *"I am partners with the owners and they have 40+ years experience, from Silicon Valley to Maui to Northern California, Santa Cruz, Monterey, Carmel Pebble Beach, Newport Beach and La Jolla San Diego."*

Your ultimate goal is to build this into a system that is automated. So it is generating leads for you on its own every single day. Just start doing this on a regular basis; build it into your normal daily habit.

*Done correctly, working your Referral Sphere system will lead to massive numbers of leads, transactions and commissions!*

### Lead Generating: Use Your Grid System

Before discussing your Grid system, let's talk about one of my favorite things, LISTINGS!

The grid system is all about getting more listings.

Keep in mind that every investor is a seller and a buyer. Be cognizant of the fact that investors are always looking for deals. When you contact an investor as a seller, the investor will often spin the conversation on you and ask if you have any deals. You must be careful not to get caught up in spending all your time searching for deals. Remain mindful of time blocking and focus on securing your listings. Buyers are one big distraction from you getting the gold, getting the listings and keeping control of your business.

## The importance of Focusing on Listings

Three important aspects of working with listings are:

### 1. Add Transactions

For every listing, run your current system. Even if that listing sells in one day, treat the listing as you would any other new listing. Put up your sign when possible and mail 100 postcards around that listing. Residential statistics show that for every listing someone on the same street will list their property.

The same thing goes for commercial. Pinpoint the area directly around your listing. Mail 100 postcards and follow up the postcards with telephone calls. Statistics show there is roughly a 1% return on a mail-out and when followed up with a telephone call that return goes up to roughly 15%. Door knocks happen in residential and you can do those in commercial/investment as well. So run your listing through your system and get more leads.

When you visit a potential client in person with market news you have the best odds of obtaining a new listing or sale.

### 3. Control Volume

The third important aspect of a listing is the control factor, the ability to work more volume with ease. You can manage a large volume if you have a system in place to control that volume.

When the market shifts up and down, monitor your listing inventory based on your goals. When the market is hot, perhaps you only need to carry five to ten listings at any one time to meet your goals. When the market is soft, you may need to carry more listings because those listings are not selling as quickly, and therefore you need a greater inventory. Monitor and track your business by monitoring your volume based on the market.

A high listing volume is not difficult to maintain if you have systems in place. Recall, that means you have secured a listing and held an initial in-person meeting; your mutual expectations are in place and you and your seller have agreed on the date to meet and review marketing efforts and feedback. If the seller calls on a different date because they are anxious about progress tell them you do not have the information available. Keep to the set date. This is a way of controlling your business. Control your large volume through sticking to your system.

**As long as they are priced right you can never have too many listings. Listings should be the foundation of your business.**

## Use Your Grid System to Obtain New Listings

There are many sources for getting listings in commercial real estate. In this book I am going to focus on my favorite, the Grid System. This is one of the keys to the success I have experienced.

The Grid System is all about helping you get listings. The listings you have in your Grid System are valuable to the typical investment buyer because they already have access (in most cases) to MLS/LoopNet, so buyers don't want that. They want deals, off-market properties or pocket listings.

If you are a listing agent and you are constantly focusing on listings (and you are using your Grid System) then you will have those deals that are off-market. This makes you a valuable person to buyers.

## Set Up Your Grid System

Setting up your Grid System can be time-consuming. Be patient and set it up correctly. Do not start it if you are not willing to hang in there and develop the Grid System properly.

I do not want to see you spend your time, energy and money if you are not going to do it right and give it time to "kick in".

Common reasons for failure in the real estate business are a lack of patience and persistence. Be aware that the Grid System is not a get rich quick system! The Grid system will work for you but you will still need to be patient, persist and do the work.

If you follow my suggestions and set up your Grid System correctly, work it correctly are patient and persistent then you can expect a long-term, strong business of massive return.

## The Goal

- You want to target 400 to 500 properties and build your Grid System with them
- The properties can be any property type
- Ideally, the smallest property in your grid is valued at over \$750,000
- You do not want to have lots of smaller properties, they are too much work

## What To Do

1. Contact your title company and get a list of properties sold in the last six, seven and eight years or more within your target area. The chances are those property owners already have some equity established unless the property has been refinanced. Of course, a refinanced property will not have as much equity and you can request that your title company eliminate anyone who has refinanced.

You can get property owner names from the title company or use one of the several commercial/investment search tools that are available out there. Attend one of our events live or online for more information.

2. The input this information into your customer relations management system (CRM). You may also consider hiring a virtual assistant to do this. I strongly suggest that you delegate work.

You can be very successful and make a lot of money working commercial/investment real estate. It is not easy but can be very rewarding. You are targeting the investor as a consultant. You are not targeting them to sell and you will not have competition. For the most part, others in the industry are not doing this. They do not offer much in the way of consulting services. But this is a long-term process. Do not bother putting work into this if you do not think you are going to do it long term.

Your level of marketing depends on your budget. I recommend that you present marketing pieces (postcards, newsletters and letters mailed) to the investors in your Grid system once or twice a month. The way you approach contacting the sellers in your Grid System is key to you success.

3. Contact the investors using a combination of marketing methods, For example, you might use snail mail, email, social media, calling and investment seminars.
4. We have put on investment seminars with tax and trust attorneys to educate investors about the new tax laws specific to real estate, i.e. 1031 tax exchange., 121-1031 bifurcation (a tax situation using a combination of your residence and investment property), cost segregation rules and the Delaware Statutory Trust (DST) properties that are now allowed in a 1031 exchange. (Internal Revenue Code section 2004-86) "Like Kind Exchange". The DST entity can be used to hold title to most types of real estate, however, a typical DST 1031 property is a Triple Net (NNN) leased retail or office property or a multifamily apartment community. A NNN leased property is a property whereby the tenant (and not the landlord) is typically responsible for property maintenance costs, insurance premiums and property taxes. Other types of DST 1031 properties that have been available to investors have included shopping centers, government leased buildings, self-storage facilities, senior living commercial warehouses, distribution facilities, medical office buildings, fast food buildings, pharmacies and grocery stores.

## Return on Equity

You want to be able to consult with investors concerning Return on Equity (ROE). You will talk to them concerning the diminishing return on equity. As an owner's equity in a property increases, the return on equity decreases.

Look at the chart below for an explanation of this concept.

	Year of Purchase	Today
<b>Loan Balance</b>	\$750,000	\$650,000
<b>Equity</b>	\$250,000	\$1,150,000
<b>Cash Flow</b>	\$25,000	\$50,000

### Observations:

The first year the owner received a 10% return on his equity (\$25,000 divided by \$250,000).

The property has increased in value by 80%. The cash flow has doubled, however, regarding the owner's equity today, his return is on 4.35% (\$50,000 divided by \$1,150,000).

The investor can leverage by selling or exchanging his current equity of \$1,150,000 into a larger building with more future appreciation or perhaps a \$3,000,000 to \$4,000,000 building instead of the current \$1,800,000 value. Obviously, the \$3,000,000 to \$4,000,000 property will return more dollars in appreciation than the \$1,800,000. An estate will build at a much faster rate with maximum leverage. Anytime the loan to value ratio is less than 50% then the size of the holding can be increased by at least 2 (assuming a 25% down payment on the new property).

### A Call to Action

When the owner understands the analysis of his current position (that as his equity is increasing his REO is decreasing to a very unattractive 4.3%) he should be open to one of three possible calls to action:

- Sell the building and purchase a larger one
- Exchange the building for a larger one
- Keep the building, refinance it and acquire an additional building with the refinance proceeds. However, there are some disadvantages to refinancing. Managing properties in several locations rather than a single larger property (vertical versus horizontal), moving less than 100% of equity and retaining little or no depreciation versus increased depreciation on a new, larger property are all considerations.

Note, in the first two suggested actions, the seller becomes both seller and buyer.

If you have an appreciation buyer, return on equity is not typically going to be their focus. If your Grid System includes appreciation buyers understand they will not likely be as interested in that concept.

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**Note:** If you sell both residential and commercial/investment property (Resimercial) and you happen to have a farm in a desirable area (near the ocean, on a hill or a high-end area), set up different databases including residential and your Grid System of five and up units.

There are many ways to set this up. The approach you take depends on your specific situation. What are your goals? How much time do you have available?

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You could also have a distressed Grid System (depending on your market). Ask your title company for properties purchased during the down real estate market in your market plans and you are probably going to get many properties that are upside down. You are going to market to this grid in the same way, but using different marketing messages, scripts and materials.

**Note:** When properties have multiple owners you will usually still see a primary owner corporation or trust on the title.

It takes some work but use your Grid System and think of the owner's needs. They own at least one property, the investment property. They most likely own their residential property and the chances are that they own additional investment properties. It is worth it to you to find these people and work this system. It works?

Lead Generating: Use Your Internet System (Buyer)

The Internet System generates buyers. A buyer system gives you a place to feel you inventory, a place to send your new listings (those on the market and your off-market pocket listings), sell them and double end them if possible.

This system also helps you market to your sellers. You can tell them you have X number of buyers coming at you every single day. This system, done correctly, will generate leads every day. For me, on average this system generates five leads per day.

So, if you generate five leads per day every day, that is 35 leads per week and approximately 140 leads every month. That's good, right? And this can definitely be done.

Contact the folks in your Grid System and say you are looking for a product to sell and ask if they would be interested. Who do you know? Now the Grid System conversation is easier. Your sellers are listening and more interested in what you say. Why? Because you have all these buyers and because you are a marketing genius and can get them the best price. Being a marketing genius is key.

Remember, a lot of the deals in commercial/investment real estate are done off-market. Investors like to do deals this way; in most cases they have a bit of fear centered around confidentiality. They do not always like to have their tenants aware that their property is on the market because it can sometimes alarm the tenants. So then, what happens when you show up with solutions to their problems and concerns? More transactions! This is another reason why the Grid System works so well and is so effective when done correctly. Also, showing the property off market and being discreet not to disrupt the tenants is critical.

When you have a base going then you can easily create a database of all these leads. Now when you get a listing (whether it be a pocket listing, a listing from a networking event, a listing from your Grid System or an exclusive listing) drive it into your Internet Buyer Database. Then send out emails to the investors in your system. The result is usually a feeding frenzy.

**A word of caution:** You need to do this so that you also protect client confidentiality and commissions. Keep that in mind as you work your process.

The Grid System and the Internet System work together. But it all starts with the Grid System. Consult with your mentor on how to deal with commissions.

#### Lead Generating: Use Your Market-of-the-Moment System

Market-of-the-Moment, the fourth lead-generating system, is a dynamic system that continues to change depending on current trends.

When the market is strong (seller market, low inventory) you may want to implement a marketing system. For example, you might do press releases or work from your Grid System. If the market is distressed then you may want to use a different system such as short sales, REO, expireds and so on.

This of residential sources of business: for sale by owner, farming, expired, cold calling and so on. The same sources apply in the commercial/investment world. If you are a residential agent then your advantage is your residential background and your residential marketing skill set.

Both set you apart from strictly commercial/investment agents who typically do not share the marketing skill set. Strictly commercial/investment agents do not have the same training available to them that

residential agents do. In fact, there is no real training for systemizing in the commercial/investment environment that I have seen, which is one reason I am doing this.

### Securing & Working with Your Buyer

Before we discuss ways to work with your buyers, let's do a quick recap of the training:

1. Commercial Buyers are everywhere, and they are a distraction from sellers.
2. All investors are buyers
3. We are listing agents and should be going after listings
4. We have a certain number of hours to work with to get listing and that needs to be the priority
5. Before you plan to work with buyers, look at your time and think about how you are distributing your time among sellers, networking and buyers. Start breaking down your calendar. If you are having success with your calendar, in other words, you are on track to get the number of listings you want, then you may be ready to work with more buyers.

But if you are not having success yet, that is, you are not on track (you are struggling and cannot find the time to get the number of listings you want), then you should not bring in buyers.

The bottom line is you cannot spend all your time with buyers and you need to keep that in mind as you plan your schedule.

### How to Secure & Work with Buyers

#### Internet System

Another name for the Internet System is the Buyer's System. Technology provides you with several ways to go about using it.

You must have a website; this is your main vehicle. The number one thing people are looking for is properties. Your website should focus on properties for sale. Some of the content on your website will be properties you have sold and other content will be helpful information specific to the area such as buying tips.

But the main purpose of your site is lead conversion. And in case you are wondering, your website should not be about "stuff" (agents, recipes and resumes).

Remember: Content is King! We have many marketing materials with content.

## 1031 Exchanges

Another way to prospect for buyers is through 1031 exchanges. Go to your title company and ask if they can give you a list of everybody who is going through a 1031 exchange right now.

They may be hesitant to give the information due to confidentiality but if you dig, dig, dig then you will find a source who will give that information.

Sometimes the exchange clients are awesome. Perhaps a client is going through a delayed exchange, which means they are under certain time requirements to close escrow or they may have tax consequences. If a client is in that position and they do not purchase something they will pay the IRS. Or should the client go ahead and close, pay a little more than market value and avoid paying the IRS? The client is probably willing to pay a little over market value to avoid paying the IRS.

## Tenants and Business Owners

The third prospecting source is contacting business owners or people who are renting or leasing commercial/investment properties. This is a great way to find buyers.

## The Importance of Appointments

Whether you have a fall-on-your-plate buyer or you prospected for your buyer, you should not go into much information on the phone. It is important that you get a meeting in person. That meeting is important for several reasons.

First, you need to build rapport. Without rapport there is a very slim chance of doing any business.

You need to understand what your buyer wants. Statements like, "I'm looking for something that makes sense," or "something with a good cash flow," or "I'm looking for a deal," means one thing to the one buyer and another thing to a different buyer. Use the in-person meeting to learn what the buyer you are working with means. Without good communication, a buyer can become frustrated and walk away.

You also need to use the meeting to separate you from everyone else to make you special to the buyer. The residential client is used to appointments; the commercial/investment client not so much.

## How to Get an Appointment

How do you get an appointment when you are on the phone with a buyer? We all know the goal is to get them in the office when they are on the phone with you. There is not one source of listings we can go to and give to a prospective buyer. Most of you investors are this. Use this to show the importance of coming in to meet with you.

How do you do this?

### **First, take control of the conversation**

Use your scripts. We should all be scripted. Most buyers have the same questions and concerns. Why not become masters of language and objection handling?

Top producers all role play. They start their morning with role playing; first as an agent, then as a buyer. All of them role play and you need to as well. You must use your scripts and get comfortable. So, take control of the conversation. If the buyer calls the agent asking questions about a listing and the agent gives them everything they want to know the buyer hangs up because he has all the information he needs.

### **When the buyer calls, ask:**

*"What can I tell you about that property?"*

You then give them the information but you follow with your scripted questions. The point is that by you taking control of the conversation the buyer will be so busy answering your questions that they will not think to ask additional questions. This allows you to lead them to the path that you desire, which is the appointment!

Now you will roll into your investment planning consulting language. At the start of this training I focused on the importance of consulting versus selling. Now is the time to start consulting and learn what the client wants to achieve. At the same time you will be pre-qualifying the client regarding how you can help them.

### Investment Planning Language

As a reminder, here are the kind of questions I recommend asking the buyer:

- Where do you see yourself in two years, in five years?
- Why are you investing?
- In a perfect world, what is your ideal passive income goal?
- How long will it take you to achieve this goal?
- If I can show you how to do this in X amount of time instead of Y amount of time, would that be valuable to you?

Next, you will move into the investment planning language script. This script includes further questions to throw them off track a bit.

- Do you want to invest horizontally, or do you want to invest vertically?
- Do you have a written real estate investment plan?
- Do you have a tax scenario in mind?
- Are you looking to purchase property with upside potential?

- Okay, so you are looking to do a value play versus something vanilla?

Many times they will answer but they will not understand your questions. The investor will say something like, "That's a great question. I have never thought about it much, what would you suggest?"

*What does that mean?*

They do not know but they are not going to admit they do not know what that means!

**So, then you say something like:**

*"I am glad you asked. I have quite a bit more information on that. When would be a good time to get together to discuss this more in detail. Does tomorrow at 11a or Thursday at 2p work for you?"*

Suggesting an alternative time is always a good idea. These scripted questions accomplish several things:

- Scripted questions get the buyer to start thinking. They think "maybe I should know what this agent has in mind; maybe it is not good that I do not understand."
- Scripted questions cause the buyer to recognize that you are experienced and good at what you do (and without you selling yourself and telling them how great you are).
- Scripted questions lead the buyer into working with you. Instead of the old fashioned "here is my card and call me if I can be of assistance," technique, which mostly does not work, you are showing the buyer the value you can provide.

**Then, ask the buyer this key question:**

"Are you looking for properties that are on the market and don't require much work? Or are you looking for a property with some upside potential?"

"I have access to properties that are not on the market through CoStar, a program we have that analyzes properties, owners and recent comparable properties. I'd love to talk with you about them and share the details of those properties. When is a good time to get together? Tomorrow at 2 or Thursday at 11?"

**Asking questions (consulting) instead of selling is a better and easier way to get people to meet with you in person.**

When Meeting with a Client

You can meet at a neutral location, their home or office or your office. If reasonable, go to their office. If they sound like a great buyer then drive to them. If they sound unsure or like a smaller buyer then you may want to refer the buyer to someone else.

Bringing a potential commercial/investment buyer to your home? Not a great idea. If you work out of a home office then meet at a restaurant or someplace quiet where you can meet with them and talk.

The best place is the office. It's professional and the big screen computer is at your fingertips to show property and provide data. We also have a meeting packet prepared for them that will help address tax and term scenarios.

## How to Handle the Buyer Appointment

On the phone the buyer probably has said things to you like, "I am looking for something that makes sense," or "I am looking for cash flow," or "I am looking for a good deal, something that pencils out."

You used your elevator script and helped them understand the importance of meeting with you in person and now you are meeting. If you recall, you will start by building rapport, asking questions about family, occupation, recreation and dreams (FORD).

Now you need to find out what they meant when they said they were "looking for something that makes sense." By the way, this is another reason you need to know your numbers and why I suggest you become an expert in one area. Specializing in one product area and knowing this area inside and out is key to your success. This is especially true when you first start working with commercial/investment properties.

Besides finding out what the buyer means by a property that "makes sense," you have another objective in this meeting. You want to make sure that you and the buyer are on the same page. An effective way to get on the same page with a buyer is to discuss the overall term (hold time) of the investment. Realistically what the client wants to see as a return and if they are willing to add value to the property.

These are the categories you want to determine:

- Cash flow
- Appreciation or
- Middle-of-the-road investors

**The Cash Flow Investor** does not mind marginal or rough areas and does not mind holding class C and D properties. They are typically ex-policeman and ex-marines and they do not mind going into these areas and collecting rents. Their objective is cash flow, no matter how bad the area.

**The Appreciation Investor** is on the other side of the spectrum from the Cash Flow investor. The appreciation investor buys in areas that are on the water, near the water or on a hill with a view. They are not concerned with cash flow. This investor wants something nice, a Class A property. They typically want something clean, newer and something they hope will appreciate. This investor usually must put 70% or more down (depending on the area) just to break even.

So, the Cash Flow investor is way over on one side of the spectrum and the appreciation investor is way over on the other side. Then there is the **Middle of the Road Investor**.

**Ask the buyer:** “where do you see yourself on this spectrum?”

Most often they will say middle-of-the-road. They say this because you presented the other sides as extremes. Middle of the road is where you want to steer investors because it is important that you have a little room to move around.

The bottom line is you need to understand what the numbers look like in the area the investor picks. You need to have a spreadsheet ready so you can show the investor what the numbers look like for the investor’s goal.

You want to use an example of a property (in the middle of the road) that you have or that you can find for the investor right now. You know what the numbers are right now and that is what you show them.

**Do not show them examples of what you cannot find.**

Next, educate the buyer on how to analyze the deal.

Educating the Buyer on How to Analyze a Deal

**Continue with your dialogue, saying something like:**

*“I will start sending properties to you. Call me when you see something that interests you. But first, we need to discuss a few things so that we know we are on the same page.*

*If it is okay with you, I am going to use a 5% Vacancy Factor. The lender will require at least a 5% Vacancy Factor and I want to protect your interests and be conservative.”*

**Pause and ask your client:** *“Is that okay with you?”*

You want them to say “yes.”

**When they agree, you can go on.**

*“Then I am going to deduct another 35% for expenses. That will protect your best interests because I am being conservative, and again, the lender will require that as well.”*

**Pause and ask your client:** *“Is that okay with you?”*

The buyer will likely agree and then you can continue with your spreadsheet.

At this point what are you doing? Educating the buyer.

You are educating the buyer on how to analyze the deal. You are doing this without belittling the buyer, without pulling out a calculator and saying something like “let me show you how to calculate your expenses and other important factors.”

You are also getting on the same page with the buyer. After this appointment you will be able to discuss properties in email or by texting because you will have agreed as to how to calculate the Net Operating Income (NOI).

Now that you have agreed on how to calculate NOI, you can have a conversation about Cap Rates (because you have agreed on how you get to the NOI, which determines Cap Rate). Also, we are determining if the property needs major work (deferred maintenance, like a roof or exterior paint/resurface). As an aside, often I will have an investor say that they want to us 40% for the expense factor. I usually say, “No problem. And I also just want you to understand how we look at properties. What is most important is that we agree on how to do it so that we are on the same page.”

By doing this you are demonstrating your expertise. You are demonstrating, not showing the buyer by driving them all around, that you are experienced and that you know what you are doing. You are consulting versus selling. This is much more effective than trying to be a hard salesman.

Get the Buyer to Say Yes

The other thing you are doing is getting the buyer to say “yes”

In this appointment with your buyer you want them to say “yes” at least seven times. You want the buyer to become accustomed to saying yes.

For example, if you go to the buyer’s office or home for this appointment, ask if you can set down your folder on a table or desk. Or compliment the office or home and then ask if they enjoy working there (hopefully it is a yes). Ask for a glass of water (yes).

### **Develop questions for the buyer to answer with a yes**

Statistics show that when you get them saying yes, obtaining the signature will be easier. By the time they get the contract they will have said yes so many times that they are more apt to sign than not to sign. It works. Try it!

## Get a Signed Confidentiality Agreement

Now you can confirm what you have discussed and then get the buyer's signature on your confidentiality agreement.

### **Say something like:**

"What we have agreed to is that when we see a property with a total income of \$100,000 (for example) we are not going to use \$100,000. We are going to use 60% or \$60,000 (NOI not SGI)."

At this point, the buyer is happy because you are being conservative and looking out for their best interest.

### **If the buyer agrees, continue...**

"Based on a down payment of 30%, you will have a loan of X, an interest rate of Y and your payment would be roughly Z. This shows we are going to have a cash flow of roughly (amount) per year when you put down 30%. To confirm, is that what you had in mind when you said you were looking for something with cash flow?"

They will either say yes or no.

If yes, have them sign your confidentiality agreement and either go out and find the property of offer the one you used as an example. If yes, you may also be sending them properties and they will be contacting you on the ones they are interested in.

Now, you are ready to go separate ways. For the most part, you are not going to see this buyer again until it is time to write the offer or Letter of Intent (LOI).

Or the buyer may say, "No, that's not quite what I meant. I was hoping for something with more cash flow."

Well, now you know that you need to move a little more to the left, more toward the cash flow side of the equation, Class C and D properties (or the buyer would need to put down more money).

In this case, you would say something like, "Okay, we can look at properties that are going to generate more cash flow. These properties are likely going to be Class C or D, they will likely be in marginal areas and they will probably need a significant amount of work. You are okay with that, is that what you are saying?"

What if the buyer does not agree?

If a buyer does not agree to your process or if you are not able to find a scenario that is what they want you may need to have the conversation that what they are looking for may not be out there.

**One way to put it might be something like:**

“Sorry, I do not know if what you are looking for can be found in this area.”

And then you go your separate ways.

There are no right or wrong answers to the meeting. The purpose of the meeting is for you to gather information so that you understand what the investor wants and for you to gain clarity so that you know that all parties are on the same page.

The Same-Page Script guides you through what to say when you meet with the buyer for the first time. You secured the appointment. Now you can use this script as much or as little as you like. It works!

Review of Your Buyer Process

I cannot emphasize enough the importance of having your buyers go through hoops. You will need a process in place to make sure that they go through these hoops before you work with them. There are many buyers out there. Going through hoops is a process that you must have and it is one that clients like. It will ensure that clients get great service and that you are not running around in circles wasting your valuable time. Having a process in place is a win for everyone.

I covered much of this when I walked you through how to handle the buyer meeting. But here is a review so that you have the process firmly in your mind.

Your Three-Step Process for Working with Buyers

Follow these three steps with all your buyers and you will save yourself a lot of time and money:

1. Work only with clients who are willing to come to the office (or you meet them at their location) for the initial meeting. That is the first hoop. In my opinion, you should not work with anyone who will not agree to meet with you in person.
2. Use the initial meeting to make sure everyone is on the same page. This is the second hoop.
3. Get the agreements that you use signed. Numerous agreements are available for you to use. I have had custom agreements drafted that I use. However, here are some other examples: Non-Disclosure Agreements (NDA), Non-Circumvent/Non-Disclosure Agreements (NCNDA) and Confidentiality Agreements.

What if the Buyer Resists a Meeting?

Most people do not like to meet in person anymore. We live in a text, email and beam-me-up world. When I ask for an in-person meeting, often buyers will say something like, *"Can't you just send the information to me?"*

**A great script for this is:**

*"In order to present the property the listing broker requires a buyer agreement from us indicating the intentional use of the property, price range and terms. The listing agent and owners need this information to formulate a listing agreement regarding commission."*

The listing agent will contact their client and put a listing agreement together formally for our buyer specifically. This determines what commission the companies will be charging.

Then you go on to explain that you have access to properties that are not on the market and, therefore, it is difficult for you to send that type of information.

I like to use this script to help the investor understand this point, however, the reality is that I want to stand out and be different than all other agents. I want to build relationships where they want to work only with me. The only way to do that is to earn it and that usually takes a face-to-face meeting.

At the end of the day it boils down to how you want to operate. In reality, your choices are typically determined by the number of leads you have and, of course, if you are lead generating at a high level every day you will have multiple choices.

Types of Agreements

I mentioned before that I use agreements that I have customized over the years. I like to use a confidentiality agreement when I work directly with buyers. I use a different agreement when I work with other real estate agents for properties that may be off-market. It is called a Non-Disclosure Agreement (NDA). And we always obtain a buyer agreement outlining general price and terms from the client.

Typically, an investor will not want to sign anything that binds them only to you as an exclusive agent (an exclusive). They want to work with multiple agents so they will have access to properties that may be off market.

However, you need to have an agreement signed to protect your client, the tenants and your commission. I use my confidentiality agreement for this purpose. It is not exclusive. It allows them to

work with anyone they want, yet it meets the requirements that I have for working with them and protects all parties on and off market.

The typical investor is familiar with this process and understands these agreements are normal. You should not have problems getting them signed. However, if an investor will not sign that is an indication of a problem.

It could be a trust issue. If that is the case, you need to go back and build rapport with the buyer. The problem could be something else. Perhaps they intend to use you in order to do the work and then to go around you and have someone else represent them. Wow, does that happen? Yes, it does!

If that is the case, the right agreement will sift it out. You can stop that from happening in the beginning so that is not a waste of your time by obtaining a buyer agreement specifically for that buyer and properties you introduced to them and to determine representation.

What if a Buyer Cannot Meet in Person?

If a buyer cannot meet with you in person, perhaps they live and work out of the area, you can suggest other ways to work with them.

You can send them a Buyer/Investor Criteria Sheet, which is a list of interest-piquing questions, along with your confidentiality agreement. Ask the investor to sign them and send them back. If they do you can start sending them listings.

These methods have been highly successful for me personally. I have made hundreds of thousands of dollars (in reality millions, but that sounds like a cliché to me) using these strategies. I can assure you they work.

Remember the saying, SW, SW, SW, SW:

*"Some will, some won't, so what, someone's waiting!"*

Think of it as a funnel. Only a few are going to jump through these hoops. You want those quality folks rather than wasting your time on others. Spend your valuable time prospecting for A leads. Do not waste your time on C leads.

In summary, here are the steps you need to follow when working with a buyer:

- Meet In-person, at your office, their office or home or a neutral location
- Get all parties on the same page.
- Get an agreement signed

When you make these three things happen what do you think your conversion ratio will be? Good, right?

Yes, it will be. Sure it can take more of your time in the beginning to work this way. And sure, it will eliminate many of your leads, but at the end of the day you are more likely to have more satisfied customers and frankly you will make more money faster.

The only question is, do you have the courage to operate your business this way? Or will you cave in and succumb to pressure when someone asks you to do it "their way" or another way? In that situation, you have no choice but to do a little bit of everything.

Remember, what you think about you bring about. Let's be professional and earn the living we deserve.