VAULT CAREER GUIDE TO THE REAL ESTATE INDUSTRY

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AND THE STAFF OF VAULT

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Table of Contents

Introduction

CHAPTER 1

Real estate is big money and big business. The real estate industry is home to some of the wealthiest businesspeople on the planet, like Donald Trump, Leona Helmsley and Sam Zell. Yet the industry also touches each one of us, whether you're looking for a new apartment with a backyard or checking out the new "big box" store that's opening up in your city.

In the last 10 years, the domestic real estate industry has been a motor of the United States economy - and that means that real estate is a hot spot for jobs. Read this guide and you'll learn more about the hottest careers in the business from real estate brokerage to property management to high-rolling real estate finance.

THE SCOOP

Industry Overview

CHAPTER 2

What is Real Estate?

Real estate is tangible. It s a piece of land, including the air above it and the ground below it, and including any buildings or structures on that land. Everyone comes into direct contact with real estate. The places we live, work, go to school, vacation, shop and exercise, are all assets to be bought, sold and rented. And it s always been an important element of the economy. As of 2000, the industry represented a whopping 11.3 percent of the gross domestic product of the United States of America.

History of Real Estate

Real estate has always been big business in the United States. After the Revolutionary War, the federal government began a process where it transferred one billion acres of land to private owners through land sales and land grants. For example, in the 1830s the government sold 20 million acres for roughly $1.25 per acre. Although this sounds like a bargain to us today, at the time the vast majority of citizens couldn t afford the price. Consequently, a grassroots group called the Free Soil Movement formed and lobbied the government for an alternate method of distributing land.

The Homestead Act of 1862 was Congress answer to the appeal. Those settlers who did not already own what was considered a judicious amount of land were given title to 160 acres per each adult in the family. There was no cash exchange. Instead, the understanding was that the settlers would live on and improve the land for a period of at least five years. This program was very successful and similar federal programs that distributed land followed until the later part of the 19th century. In total, the government distributed over 300 million acres of public property to private landowners and created the basis for the real estate market.

For the first time in the history of the young country, there was a system in place where one landowner could transfer property rights to another through sale, lease or trade. As you can imagine there was a tremendous amount of speculation. Some investors accumulated a tremendous amount of wealth, while others lost everything.

At the end of the 19th century, America was in transition from an agricultural society to a manufacturing economy. Citizens flocked to urban areas to work at the burgeoning factories. Midwestern industrial center Chicago, for example, reached a population of one million people quicker than any other city in history. Settled in the 1830s, Chicago grew from less than 1,000 inhabitants to become the fifth largest city in the world by 1900.

The values of urban properties skyrocketed. By 1920, 50 percent of the American population lived in cities. This density in urban America created opportunities for real estate development as housing, office buildings, industrial facilities, hotels and retail centers were constructed to meet the demands of city dwellers.

The skyrocketing property values and associated costs began pushing the people and businesses that could not afford them outside the city. Advances in transportation made moving outside the city easier and suburbs, communities just outside urban centers, began to spread. Developers made these planned communities attractive by building along the transportation routes so people could easily commute to work in cities.

Technological advances influenced the building boom of the 1920s. There were significant technological improvements, such as new machinery (i.e. the elevator) and electricity, which created additional demand for more space and changed the way real estate looked. Planned communities began taking shape in the suburbs. In urban centers, skyscrapers changed the way the cities looked. One hundred buildings higher than 25 stories were constructed in this decade. Most of these skyscrapers were built in New York City, with Chicago a distant second.

The Great Depression crippled most industries including real estate. Values dipped below debt levels, which caused a collapse. The federal government put the domestic financial markets through a major overhaul and was shrewd enough to include the real estate financing market as part of the New Deal programs.

The Federal Housing Administration (FHA) was created in 1930 to provide mortgage insurance, which lowered the risk on real estate loans and made lending more palatable for savings and loans and banks. The government also created the Federal Home Loan Bank System (FHLB) to supervise and regulate local banks. In 1938,the Federal National Mortgage Association (FNMA or Fannie Mae) was created to provide a secondary mortgage market as well as to lure investment capital in the mortgage market, and today continues to play a very important role in supplying capital to the mortgage market. As a result of the New Deal programs, the real estate finance market became more sophisticated and secure.

America and the real estate industry slowly climbed out of the Depression, but just when things were turning the corner we entered World War II. Development was put on hold during the war, but this quickly changed once the GIs returned from overseas and another era of prosperity began. Virtually overnight there was a tremendous amount of demand for housing. By 1946, new housing construction quadrupled to over 500,000 homes. In the postwar period, a white picket fence and peaceful green lawn proved very appealing for two-thirds of the fifteen million homes that were built in the 1950s and were constructed in the suburbs.

The decade was also a period of the expansion for the highways, which provided access to more areas by car and truck. Consequently, this enabled all types of real estate (e.g. hotels, industrial and retail centers) to be located further outside the city. Hotel chains like Holiday Inn started popping up along the roadways across the country. The suburban shopping mall also became popular in this era.

As the suburbs grew, the cities slumped. By 1960, there were many urban centers that hadn t seen new office building development in 30 years.

The decay of America s urban areas didn t go unnoticed. Community activism and political pressure led to the creation of a cabinet position in 1965 focused on improving urban housing or what today is known as the Department of Housing and Urban Development (HUD). The central business districts in America s urban centers saw a number of new buildings (both commercial and retail) constructed during the last three decades of the 20th century, spurred by the growth of the service industry, the availability of financing and municipal incentives. Today, real estate is considered one of the most dynamic and healthy sectors in the American economy after all, people may divest from their stocks, but they always need a place to live, work and shop.

Industry Trends

Today, the real estate business employs close to five million people in various roles. Opportunities abound for candidates with or without MBAs and the chance to earn staggering income levels is greater here than nearly any other industry. Those who work in this sector enjoy greater flexibility and a wide array of social activities. There can be drawbacks, though, in the way of competitive co-workers and long hours when starting out. Once established, relocation can be detrimental to your career, as this industry is geography specific.

The real estate sector is largely dependent on the economy and small shifts can turn trends significantly. The technology industry certainly helped the market boom of the 1990s. With the dot-com crash came a decline in home buying. Commercial firms that concentrated on more office and retail development projects may soon find the market glutted with available space. The health care sector seems particularly affected as construction and revenues continue to fall.

The residential market is most affected by economic swings as the unemployment and interest rates directly tie into consumer confidence. However, real estate is a safe bet for diversified investors, so some do find a silver lining. When the stock market gets shaky, property becomes an attractive investment alternative.

Whatever the buying trend, most can agree that a career in real estate is rarely boring and having the opportunity to work on exciting deals, as well as determine the size of your pay check through your own efforts can be highly rewarding in and of itself.

Building your Real Estate Foundation

CHAPTER 8

Real Estate: What s it Worth?

Although there are varying ways to value the different kinds of real estate, there are a few things that make it valuable regardless of the asset type. There is a popular industry adage, The three most important things in real estate are location, location, location. There is no substitute for being located in a central, aesthetically pleasing area that s close to transportation. (For residential real estate, other location plusses include proximity to a wide array of good retail options and a top-rated school district.)

A few other things affect value as well. Real estate in good repair is more valuable than fixer-uppers. Some properties have intrinsic aesthetic value or history -this adds to the value. Basic macroeconomic factors also play a major role in the market. If interest rates are low, people rush to buy a house because attractive financing costs. And if demand is greater than supply, property prices rise.

A Quantitative Approach to Valuing Real Estate

There are three generally accepted analytical approaches to valuing real estate: income, sales and cost. The income approach is the most quantitative of the three. Both it and the sales method involve the use of net operating income (NOI) but the former uses the discounted cash flow model (or DCF) to determine real estate value while the latter uses capitalization rates, a market mechanism. Think of NOI as the lifeblood of the building or the reason most investors would buy it. The investment community talks about NOI ad nausea so be sure to grasp this concept. The capitalization rate is a market mechanism, so don t worry about what goes into the calculation just how it is used. In practice, the cap rate is generally used in a formula with the following year s NOI divided by today s sales price. For example, suppose you were buying an industrial facility whose net operating income in the following year was projected to be $500,000. Furthermore, assume the market cap rate for industrial facilities was 10 percent. To arrive at the value of the building, you divide NOI by the cap rate. In our example, the value of the building would be:

$$\text{Value} = \frac{\text{NOI}}{\text{Cap Rate}} = \frac{\$500{,}000}{.10} = \$5{,}000{,}000$$

The DCF approach is a conventional finance method that is used to value more than just real estate.

$$\text{DCF} = \frac{\text{cash flow year one}}{(1+\text{discount rate})^{n}} + \frac{\text{cash flow year two}}{(1+\text{discount rate})^{n+1}} + \frac{\text{residual value}}{(1+\text{discount rate})^{n+1}}$$

In the example above the numerator represents the cash flows that the building generates today and in the coming years, which theoretically provides a value for the asset. Note, that there is also a future residual value listed in the formula. The discount rate reflects the cost of capital; your client may provide it for you or you may have to estimate the discount rate based on similar transactions and your knowledge of the market. The discount rate is necessary because it allows you to bring all future cash flows back to today s dollars or present value (PV). The discount rate factors in the opportunity cost of money or the return that you could expect elsewhere with the cash flows. The exponent n in the denominator represents the period or number of years in the future that you would receive that cash flow. The DCF is calculated based on a stated number of years and the sum of the PVs. At some point in the future cash flows, you assume a residual value that aggregates all future cash flows beyond the stated number of years. Some investors use different time periods when calculating the DCF, but 10 years is generally accepted to value an asset.

The DCF is used for income-producing property, while a single-family house may rely more on the sales comparison method or cost approach. There are proprietary databases that track home and commercial building sales, which makes it easier for real estate professionals to access market information. One of the more popular databases is the multi-listing service (MLS), used in residential real estate. It contains useful information about homes such as: the sales history, tax records and property amenities that you can access for a annual fee. In the sales comparison approach, appraisers will use the MLS to look for homes with similar characteristics (location and house specifics) as the subject property, and the recent sales information to value the property. For instance, in valuing a four-bedroom, two bathroom house in the Pacific Heights section of San Francisco, it s logical to base it on the most recent sales information of properties in that same area with similar characteristics. Obviously not every house is the same, so this is where an appraiser s training plays in to arriving at a fair market value.

In markets where it s difficult to find similar properties, an appraiser can value the real estate based on the cost of replacing or reconstructing it. The cost approach involves estimating replacing the property less depreciation and then adding back the value of the land site. Although there are different methods to value property, someone looking for a real estate job should be familiar with each one.

Understanding Real Estate Finance

Generally speaking, real estate finance can be divided into equity and debt. You ve probably heard the expression down payment in the context of buying a house. The down payment is usually the equity contribution or amount of capital that a buyer will supply toward the property purchase. For example, if you put $20,000 down toward buying a house that costs $100,000 you now have 20% equity, or ownership, in the house and you borrow the $80,000 balance..

When the real estate involved is a more sophisticated asset, like an office building or a high-rise apartment, there may be multiple equity contributors.

There are many institutions that lend money (or supply debt). One of the more common lenders is a bank. It will lend money in return for interest payment on the debt. Keeping with our example, assume the bank will lend the $80,000 needed to buy the house in return for 8 percent interest for 30 years. These debt payments, also called mortgage payments, include a principal portion and the interest portion. In our example, the principal portion is the $80,000 needed to buy the house and the interest portion is the amount that the bank charges the lender to borrow its $80,000. Over time, the buyer pays back the $80,000 and builds additional equity or ownership in the house.

Banks offer many different types of loans with different rates of interest and payback periods. Interest rates vary according to the associated risk and term. Loan products with the interest rate and accompanying term are published in the Wall Street Journal and the business section of most papers. Every lender has different criteria for its loans e.g. some banks require that buyers to put down at least 20% of the purchase price of the house, while others are more flexible. Banks perform a thorough background check on the borrower and the property.

In the event that the borrower cannot make the principal and interest payments the bank holds the house as collateral and ultimately may have to foreclose upon, or take back, the property. During a foreclosure, the borrower is essentially relieved of all rights to the property. This may be difficult for some people to accept, but the reality is that the bank typically supplies most of the money and retains protective provisions in the event the borrower does not uphold his or her end of the bargain.

The preceding example involved a house, but the concept of equity and debt introduced is applicable to buying an office building, hotel or warehouse. In principle, real estate sponsorship is no different than other forms of finance lenders expect to be repaid and compensated for risk, while those who contribute equity are not guaranteed a return on their investment.

Mortgage Brokers

Companies or individuals hire a mortgage broker to find the best financing fit for the mortgage transaction. The transaction could involve a property purchase or refinancing assets that the client already owns. Mortgage brokers act as intermediaries between real estate buyers and lenders and are a valuable resource throughout the lending negotiations. Mortgage brokers use a network of banks and other real estate lenders to find the best financing deal for their clients, often this means finding the most cost-effective loan.

If you want to find out more about this field, visit the National Association of Mortgage Brokers web site at www.namb.org. This organization promotes the field by offering various programs and services.

Segmenting the Market

Real estate can be divided in two categories: residential and commercial. The home is the centerpiece of residential real estate, whereas commercial real estate is comprised of the office, apartment, hotel, industrial and retail sectors. Office buildings are the centerpieces of the office sector, apartment buildings are the focus of the apartment sector, traditional hotels and resorts makeup the hotel sector, while stores and shopping centers are the centerpieces of the retail sector. Industrial real estate revolves around manufacturing facilities. This category also includes storage and distribution facilities as well as research and development.

Regardless of sector, real estate is often discussed in terms of square feet. For example the price to lease or buy real estate is usually discussed based on an annualized square foot basis.

Example: Company X occupies 10,000 square feet of space and pays an annual rent of $500,000. This rent translates into $50 per square foot-the annual rent divided by the total square feet. Almost every market adheres to this practice of calculating rent payments. California, one of the exceptions, calculates per square foot payments on a monthly basis. So, $50 per square foot is divided by 12 (months) and quoted as $4.17 per square foot per month.

Classification

The following section focuses on commercial real estate because residential relies less on classification and more on amenities-e.g. number of bedrooms and baths. Since each property is different, a classification system was created to segment commercial real estate. If you plan on working in commercial real estate it is recommended that you become familiar with the terminology. While architectural significance plays a role in the classification, characteristics such as: location, construction quality, amenities, and technology infrastructure are the main drivers behind the classification.

Office buildings use a system that puts buildings in classes that range from A to D. There is a direct correlation between property classification and the cost to lease space. Consequently the rents are higher per square foot in A properties and lower in D properties. Class A properties, sometimes called trophy buildings, typically have excellent access to transportation, high end finishes, contemporary design, strong management and have amenities such as: fitness facilities, white tablecloth restaurants, parking and convenient stores. Class B properties have good locations and solid management but typically display lesser quality construction and fewer amenities. Class C properties are dated buildings with a noticeable lack of upkeep and amenities. Class D properties are older buildings that are in sore need of renovation.

Retail real estate

Retail space consists of shopping malls, standalone tenants like Home Depot and mom and pop stores such as the local dry cleaners. There are three types of retail: shopping centers, strip commercial and freestanding stores. Shopping centers have their own sub classification. Often you will hear the phrase anchor tenant in retail, which usually refers to the largest tenant at the mall.

Super regional centers are the biggest of the big retail centers. The famed Mall of America in Minneapolis and the Galleria in Houston fall into this category. Super regional centers have three plus major department stores and draw customers from 12 miles or more. These malls are massive, normally at least 750,000 square feet.

A regional center has at least one and sometimes two department stores, with an assortment of smaller stores. These malls are usually 300,000 square feet or larger. A community center has a smaller sized department store and variety stores. Community center shopping centers are larger than 100,000 square feet and draw from a three to five mile radius.

A neighborhood center has a supermarket or drugstore as an anchor tenant with other retail that provides goods and services to the community. These malls will draw from a one to three mile radius.

Convenience centers are a collection of small stores that serve the immediate area. These centers range from 5,000-40,000 square feet.

A specialty center is a facility meant for a specific narrow purpose, such as auto service and sales.

Big box stores are meant for one user and are located near major shopping centers and along major thoroughfares. A tenant like Home Depot or Costco that serves a specific need would occupy these buildings. Strip commercial refers to a collection of smaller stores with no leasing, management or theme.

Industrial real estate

Industrial buildings are not generally as aesthetically pleasing as other buildings, yet they are critical to the production process of many of items that society uses on a daily basis. Industrial buildings have a wide variety of uses such as: research and development, manufacturing, transporting and warehousing. Industrial buildings differ from other real estate properties in a few distinct ways. For example, ceilings are often quite high because of the space requirements for equipment and storage racks. (Industrial space is sometimes converted to residential loft space; the high ceilings are an attractive feature for many potential residents.) Height (of ceilings) is also sometimes called clear. Industrial property must also have access to sufficient power to run any machinery on site.

Industrial properties also use a classification system.

Heavy industrial properties are used for manufacturing purposes like auto making and material handling.

Warehouse and distribution properties are used for storage purposes.

Light assembly properties have limited manufacturing and focus on assembly of parts that were manufactured elsewhere.

Research and development (R & D) facilities often have a combination of uses and are commonly used by biotech and product development firms. They may be research labs, traditional office space or storage.

Real Estate Investors

Real estate investing has become more sophisticated over the years and like other ventures, there are both private and public markets. Anyone with sufficient capital can buy a house, office building, shopping center or industrial building as a private investor. However, if you don t have enough money or you prefer to spread the risk of ownership among a group of people and properties, you can buy shares in a real estate investment trust (REIT).

REITs are an efficient way for sponsors to invest in the commercial and residential real estate businesses. As an asset, REITs combine the best features of real estate and stocks, and they give an investor a practical and effective means to include professionally managed property in a diversified investment portfolio.

REITs were created by Congress in 1960 in an effort to allow small patrons to make investments in more sophisticated, income-producing real estate. The government believed that the average investor could only access these sophisticated properties through pooling vehicles. Consequently, REITs were designed to pool the capital of multiple investors into a single entity dedicated to real estate investment.

They were anything but an overnight sensation. REITs had to adhere to certain restrictions; initially they were allowed to own property but not manage it. This kept Wall Street money away because investors didn t like the idea of having third parties managing the assets. Nonetheless, REITs experienced a period of growth in the early 1970s, but that ended when a recession hit in the middle of the decade.

The REIT market was relatively quiet until the late 1980s, when a series of events changed the marketplace. The Tax Reform Act of 1986 had a major impact. For the first time, this law enabled REITs to operate and manage most types of income-producing commercial properties. The act also eliminated tax-motivated paper losses through depreciation deductions for most individual investors. This removal of real estate s tax-favored status, combined with the effect of the savings and loan crisis as well as overbuilding, led to a real estate slump in the late 1980s.

Ironically, REITs benefited from the dip in the real estate economy for two reasons. First, more REITs were formed than ever before. This growth was due to many private real estate companies struggling to survive in an environment where raising capital was difficult and they recognized that forming a REIT allowed access to public capital. Second, many investors were gambling on the real estate market. Many REIT investors thought that the real estate market had bottomed out and wanted to get on board before the market rebounded.

The modern REIT

Domestic REITs have exploded over the past 10 to 15 years. Today, there are over 300 REITs with over $300 billion in assets. REITs own roughly a third of commercial investment properties in the United States. Although most are public, there are also many private REITs. Like stocks, public REITs are traded on the major exchanges and they ve historically performed on par with other major indices like the Russell 2000 and S & P 500. They re available on every major exchange and many are included in mutual fund offerings. REITs invest in all types of real estate (e.g. hotels, malls, office buildings, even trailer parks!) directly through property purchases or mortgages.

REITs are run like most other public companies: there are corporate officers and a board of directors who answer to stakeholders. Management makes decisions on which properties to buy and to sell and often have ownership positions, and they re regional, national and international.

Defining REITs

There are three main types of REITs: equity, mortgage and hybrid.

Equity REITs develop, manage and invest in and own properties. Revenue from equity REITs comes principally from the rents that are charged in the buildings owned by REITs.

Mortgage REITs center around property mortgages. These loan money to people or companies that buy real estate. Mortgage REITs also purchase existing mortgages or mortgage-backed securities. They generate revenue from the interest on the loans and don t own real estate.

Hybrid REITs invest in both properties and mortgages. These have the qualities of both Equity and Mortgage REITs, hence the name.

In principle, the main benefits of REITs are liquidity for the real estate investor and a single level of taxation . Unlike most corporations, REITs are not taxed on the dividends paid to shareholders. The drawback associated with REITs is, because virtually all earnings are paid to shareholders, there is a limited amount of available cash. Therefore, REITs must constantly pursue capital for operations.

REITs have transformed the real estate industry and will continue to evolve. Before them, the industry lacked liquidity and was less transparent. Now they re subject to complex tax laws and like other public companies, public REITs are bound by SEC guidelines.

In order for a corporation or trust to qualify as a REIT, it must comply with certain provisions within the Internal Revenue Code. As required by the Tax Code, a REIT must:

Be a corporation, business trust or similar association;

Be managed by a board of directors or trustees;

Have shares that are fully transferable;

Have a minimum of 100 shareholders;

Have no more than 50 percent of the shares held by five or fewer individuals during the last half of each taxable year;

Invest at least 75 percent of the total assets in real estate assets;

Derive at least 75 percent of gross income from rents, real property or interest on mortgages on real property;

Derive no more than 30 percent of gross income from the sale of real property held for less than four years, securities held for less than one year or certain prohibited transactions; and

Pay dividends of at least 95 percent of REIT taxable income.

For more information visit the National Association of REITs at www.nareit.org or call them at 800-3-NAREIT. Additionally, are analysts are a great resource, such as Green Street Advisors (www.greenstreetadvisors.com), which is devoted to tracking REIT performance. The following is a list of some of the higher profile REITs.

COMPANY	PROPERTY FOCUS	WEB SITE
Equity Office Properites	Office	www.equityoffice.com
Equity Office Residential	Apartment	www.eqr.com
AMB	Industrial	www.amb.com
Duke Realty	Mixed	www.dukerealty.com
Boston Properties	Office	www.bostonproperties.com
General Growth Properties	Regional Malls	www.generalgrowth.com

Non-REIT Real Estate Investors

Pension funds are also active investors in real estate. Almost any large pension fund will invest a portion in real estate as a means of diversifying the portfolio. Some are very sophisticated real estate investors; some of the better known and active are California Public Employees Retirement System (CalPERS), Teachers Insurance and Annuity Association (TIAA-CREF) and General Motors pension fund.

Life /insurance companies have a long history of real estate investment. Like pension funds, they diversify a portion of their investment portfolio in real estate. There s a good chance that your insurance company invests in real estate either lending or investing in property- related projects. National insurance giants like Allstate, Northwestern Mutual Life, Metropolitan Life and Prudential are all active real estate investors.

Opportunity funds are another type of real estate investor. Their definition is just as it sounds. These funds tend to invest in riskier transactions or assets and expect a high yield in return. They re extremely sophisticated and tend to be very analytical. Some of the prominent funds are affiliated with Wall Street banks like Goldman Sachs, Morgan Stanley and JP Morgan.

ON THE JOB

Real Estate Job Search Basics

CHAPTER 4

Unconventional Recruiting

There are two things that set real estate apart from other industries when it comes to hiring practices. The first is the lack of conventional recruiting. The second is the focus on personality fit when hiring. Real estate companies typically don t head to campuses or job fairs to recruit undergraduates and graduates, nor do they post openings on job boards. In fact, in a survey of real estate companies, a paltry 17.9 percent of last year s new hires were recent graduates of real estate or MBA programs. It s a tight knit community. The job market is opening up a bit (i.e. there are some postings on www.hotjobs.com), but most firms still rely on personal relationships to fill openings.

Leslie Boudreaux, a recruiter at Kforce who places candidates in the real estate industry, advises, Our real estate clients look for a someone with three traits: a Rolodex, quantitative experience and excellent interpersonal skills. The Rolodex is necessary because you will be expected to access your network to get deals done. Quantitative experience is important because real estate companies do not want to train someone. Therefore, they look for someone who already has proven himself quantitatively ideally at a competitor. Finally, the person should be polished, intelligent gregarious and sharp. She adds, Overall, I would say the bulk of hiring within the industry is word of mouth, so individuals looking for work should reach out to as many people in the industry as possible.

Since most companies don t follow conventional recruiting processes, you need to be aggressive in your job search. While there are opportunities, be prepared to do a lot of networking to uncover them.

A networking plan

Create a plan of attack to get the job you want. First, learn as much as you can about the company or companies of your choice, as well as the local real estate market. The best way to get a handle on the market, frankly, is to read local business publications, as real estate markets, by definition, are quite localized. At the very least, you ll get a grasp on the major players in your local market; some of these publications include job listings as well. Some good web sites also offer market-specific information like Globe Street (www.globest.com). (See the appendix for a listing of other helpful web sites.)

Undergraduates who are interested in real estate should take advantage of resources available on campus. Many universities offer real estate concentrations, classes and may even have a real estate club. This is a great introduction to the industry and will make you attractive to employers. If your campus has no real estate activities, take a few accounting and finance classes. A firm grasp on finance is essential to a career in the real estate industry.

Education

One possible higher educational route into real estate is to get an MBA at an institution with a specific real estate program. Some of the best programs, based on U.S. News and World Report rankings, are Wharton, University of California-Berkeley s Haas Business School, MIT s Sloan School of Management, University of Wisconsin-Madison and The Ohio State University s Fisher School of Business. These schools also have strong real estate clubs that produce annual real estate conferences and other activities.

Jobseeking Advice from a Real Estate Professor

Joseph Pagliari, a clinical assistant professor and director of the Real Estate Center at the Kellogg School of Management, says, There are host of opportunities in real estate for MBAs, the issue is identifying the best fit for the candidate. Positions that are good fits for MBAs are with the firms that are supplying the capital to the industry. Typically these are large sophisticated financially oriented firms. MBAs should identify these institutions and aggressively pursue them for employment. In today s marketplace, this means looking at REITs, mezzanine funds and private equity firms.

In general the high profile real estate positions and financially rewarding jobs are on the capital side, adds Pagliari, who is also a principal of a real estate investment firm. These jobs are almost self-selecting because they are tough to get and you have to be smart and aggressive to succeed. Given that positions in the capital side of the business are reserved for the elite, MBAs should pursue these positions because many MBAs possess these qualities.

Employers look for different skill sets.   It is difficult to narrow it to just a few things.,   he says.   Some positions are very quantitative while others emphasize strong interpersonal skills.   Having a combination of both is a competitive advantage.   In general, I tell all my students to look for roles that speak to their skill sets.   It is going to be hard enough to get the interview, so don t blow it by going after a job that probably doesn t fit your background.   MBAs should do their homework on the types of roles out there and match your background and interest with the best fit.   However, you still want to shoot for the sky and leverage your MBA.

Job seekers shouldn t be shy about using their contacts   This industry is very tough for outsiders or newcomers to break into and students should be ready to accept that,   he advises.   Get in the hunt as soon as possible and network, network, network.   Using alums or anyone else you know in the industry is something I always recommend.   When you have the interview, be prepared to talk about the local market or any in which the company operates. If it s a public firm, check Wall Street for the scuttlebutt. Also, be certain they ll welcome your MBA.

In the interview you will most likely be asked about why you are interested in real estate and a few technical questions,   Pagliari warns.   Be ready to describe a cap rate and market specifics like rental rates and general economic conditions.

To those MBAs just starting a real estate program who know they want to enter the industry, he stresses,   Don t rely on simply taking real estate classes, especially if you have no prior real estate experience. You need to demonstrate passion by joining a real estate club or getting active in real estate-related activities at school.   Do whatever it takes to be able to demonstrate your enthusiasm for the industry,   he adds. If it takes starting a real estate club or being the driving force behind an event, then so be it.

The professor also offered advice to individuals who are evaluating MBA programs that offer real estate curriculums: make sure that the real estate professors have some practical experience, that the curriculum will give you a skill set that will meet your end goal, and don t sacrifice the overall MBA experience for a school that simply offers a strong real estate curriculum and lacks in other areas.

For those MBAs that are interested in real estate but whose MBA programs do not offer real estate classes, Pagliari offers a solution.   Classes related to finance and economic principles that help you price risks are very useful,   he says. The ability to price risk will separate you from other candidates. Also, when possible, take some business law classes.   Because there are many legal issues involved, these will be helpful. Which is why you should not be surprised to find so many attorneys in the business, Pagliari says.

 I was a career switcher and was repeatedly asked in interviews about why I was interested in real estate, says Rich Monopoli, a recent graduate from business school. Many of the interviewers wanted an explanation of how my background tied to my interest in real estate. I can t emphasize enough how important it is to be prepared to answer the question of why you are interested in real estate.

Job Hunting For Career Changers

If you re nowhere near an undergraduate or MBA program and you d like to pursue a career in real estate, you ll have to work harder to develop your qualifications. The first step   get your real estate salesperson license. Pursuing your license will demonstrate your interest in the field and will expose you to real estate principles. And it isn t terribly expensive or time consuming.

You should also read and learn as much as possible about the industry. One great way to do this is to pick up one of the local periodicals that cover real estate. In New York, professionals read Crain s, Commercial Property News and Real Estate Alert. In Chicago, some of the more popular publications are Crain s, Illinois Realtor and Midwest Real Estate News.   In Los Angeles some favorites are the Los Angeles Business Journal and Southern California Real Estate Journal. On a national level, The Wall Street Journal publishes a real estate report in every Wednesday s edition. Everyone in the real estate industry reads the Wednesday Wall Street Journal (or should).

One thing that all undergraduates, MBAs and career switchers looking for positions in the industry should do is to contact alumni from their schools who are active in real estate. A lot of schools do a great job of segmenting alumni by industry. In fact, some schools, like the University of Wisconsin and the University of Texas, go as far as publishing a real estate directory. Reaching out to alumni is very effective and common because of the lack of formal recruiting. Many people in the business find out about their jobs from networking. Don t be shy! The real estate industry rewards the bold.

Once you get an interview you must be prepared to turn on the charm   Fit with the company culture is vital, regardless of the specific position.

Interpersonal skills are used in almost every facet of real estate, and interviewers will look for evidence of your charm and articulateness. Make sure you re relaxed and confident.

What to Expect

Over five million people in the United States work in real estate fields such as construction, mortgage banking, property management, real estate appraisals, brokerage and leasing, and development. In addition, many others are engaged in corporate property and in real estate lending in commercial banks, savings and loans and insurance companies.

Something that you should come to grips with is that real estate companies tend to be lean and like to keep overhead low. That means that entry-level salaries are low; in many cases, they re based on commission. However, if you prove yourself, there are few industries that pay as well.

Although careers in real estate are varied, there are some common qualities that will help you succeed. Industry professionals are often entrepreneurial by nature and attentive to detail. Employers will take note if you re analytical, creative and charismatic as well as a good negotiator.

You may also want to contact a recruiter that specializes in real estate to get some additional ideas. Two top recruiting firms are Whitney Group (www.whitneygroup.com) and FPL Advisory Group (www.fplassociates.com).

Getting a real estate scholarship

Did you know that there are some scholarships offered by professional real estate organizations? For example, PREA, or the Pension Real Estate Association, offers a scholarship to students. Getting money for school is great, of course, but perhaps even more valuable is the opportunity to list the scholarship on your resume. See PREA.org for more information.

Residential Real Estate Agents/Brokers

CHAPTER 5

The Scoop

Real estate agents help buyers and sellers in the process of selling or renting residential property. Some agents work with buyers, helping them find places to live and negotiating with sellers. Other agents work with the sellers. Agents rarely represent both buyers and sellers; for property rentals, almost all agents represent property owners. It s a popular field; there are close to 500,000 real estate brokers and agents in the United States.

Agents are usually independent sales professionals who contract their services to sponsoring real estate brokers in exchange for a commission-sharing agreement. The commission on a home sale varies by market but is roughly five to six percent of the sale price. This commission is split four ways among the seller s agent, buyer s agent and the sponsoring brokers with whom each agent is associated. Many agents work solely on commission and don t get much in the way of benefits. Agents are expected to cover most of the overhead necessary to perform their jobs.

In order to sell real estate services you must be a licensed professional in the state where you do business. To become a realtor, all states require that you pass a written exam focused on real estate law and transactions, and that you re affiliated with a broker. Most states require that you be at least 18 years old, a high school graduate and have completed a minimum number of classroom hours. Some states waive the classroom requirements for active attorneys and offer correspondence course credit options in lieu of the classroom hour requirement. The license fee depends on the state, but expect to pay around $100 for the exam and $400 for the classes.

There are different organizations through which you can receive your classroom instruction, however the state government issues and oversees licenses. If you visit the National Association of Realtor s web site at www.realtor.org, you can find information about residential real estate as well as licensing requirements and where you can take classes in your state.

This industry attracts all types of personalities. There s a potpourri of career switchers, from lawyers to housewives, who end up in residential real estate. If you like being your own boss and interacting with people, being a realtor can be very rewarding.

On the Job

Real estate agents generally focus on buying and selling (or renting) homes and land for building residential developments. The job involves matching what clients are looking for in a house with homes available in the marketplace, or to sell the client s house in a timely manner at his or her asking price. Agents make most of their paycheck from commissions.

To be a good agent you need a thick skin, strong interpersonal/networking skills and a good sense of finance. The need to find clients and properties to sell or rent through cold calls, constant schmoozing and mass mailings tend to discourage some from residential realty.

Hours are flexible to a point. You must realize that many people like to house hunt after work or on weekends, so if you cherish this time, this job isn t for you. Also, since you re not on a set schedule, you need to be disciplined about getting your work done.

You should have at least a basic knack for figures and calculation you ll be working with a variety of budgets, mortgage rates and other figures. But if you re not a math whiz, don t worry. While it helps to be analytical, it s not crucial to the job as dedication, organizational skills and a talent for schmoozing.

The Workday

If you re sick of being held to a schedule, then residential real estate may be the field for you. You set your own hours, and have no need to stop into the office, except to file paperwork, or perhaps for the occasional staff meeting. At the same time, your time may not be as flexible as you might imagine. Open houses when you show a property to the general public, are almost invariably held on evenings or weekends. Your clients may be unable to see properties during the traditional workweek as well.

Residential real estate agents are responsible for a variety of tasks. Some days are reserved for marketing homes for sale. Others are spent making networking calls and advertising for new clients. Even after a sale is concluded, the work of the agent is not done. Agents must organize a final home inspection prior to closing, to make sure that the home is in good working order and that all the work the buyer asked to be done prior to the closing has, in fact, been done. agents must communicate between the buyer and the seller to make sure all this work occurs in a timely and orderly fashion.

Training

If you re looking to residential realty for thorough training, you re going to be disappointed. Only the largest residential real estate brokers offer a formal training program. For everyone else, training is on the job. To pick up the tools of the trade, Be aggressive about asking questions and shadowing senior agents, suggests Nellie MacDiarmid McCarthy, a licensed sales agent with Century 21 Sussex and Reilly in Chicago. Developing a relationship with a mentor is one of the better ways to learn. Shadow him or her at open houses and showings.

As you become more senior the only changes in your day-to-day role may be management responsibility and/or mentoring a new agent. Essentially, the job will stay the same. The top dogs in the business get a lot of notoriety and perks from their brokers. At this point, you ll have business come to you because your name is so well known. Many top agents invest in real estate and some agents have left their brokers to start their own agency.

On the one hand, realty is an exquisitely flexible field. Realtors can set their own hours, for the most part. The problem arises when clients aren t free to meet during those hours! To meet client needs (showing properties on evenings and weekends, for example) many realtors find themselves working between 50 and 60 hours a week, especially when they are first learning the business and establishing themselves in the real estate community.

Good agents need to be organized, knowing enough about each phase of the buying and selling process to keep things moving smoothly (and legally.) Handling clients is also of vital importance. People get very emotional when buying or selling a house, and are often very nervous about the large sums of money spent or acquired. Because of these emotional factors, managing clients and their expectations is of crucial importance to the successful realtor.

Compensation

Since agents work on commission rather than on salary, it s difficult to predict compensation. . The gross commission on the home sale is divided between the broker representing the seller and the broker representing the buyer. As mentioned before, the gross commission is roughly five or six percent of the sale price in most markets. The brokers then divide their shares with the agent(s) involved in the transaction.

Agents have different commission agreements with their sponsoring brokers (effectively, their employers.) . As a new agent, expect to have at least a

50/50 commission split arrangement with your broker. Therefore, as the agent you would expect to make half of the commission paid to your side of the deal, while your sponsoring broker will collect the other half. As you gain seniority you can negotiate for a higher commission split and other privileges. Many brokers have a tiered commission split in place based on volume. For example, a broker may pay better splits once an agent gets past $100,000 in gross commissions. Of course, this all depends on pre-negotiated agreements and firm policy so ask before you take that job!

One thing to consider is that it takes a while to start making money. You can look at it in phases, McCarthy adds. First you have to build your client base and then you have to wait for the closing. Hit the ground running hard and use your network of friends.

Often there s a system in place so agents can pay their bills while they wait for commissions. Brokers will pay agents a draw, which is an interest free loan that the broker expects to be repaid from the agent s commission. Draws are negotiable but are reconciled every quarter. If the agent falls too far behind in paying back the draw, the he or she will be expected to repay the draw or may even be released from the brokerage.

If you re good at this job and work full-time, you can expect to make $80,000 in your first year upwards $100,000 as you gain more experience. Remember that you re making a commission based on the sale price of the house. Average home prices will influence your commission. Therefore, if you re working a market where homes are expensive you will make more money than if you sell the same amount of property in a less expensive housing market. Also, keep in mind that agents are independent contractors and not employees, so they aren t entitled to benefits.

Getting Paid

Assume you are the agent that represents the seller in a transaction where the house is sold for $1,000,000. Further assume that the gross sales commission was 5 percent, or $50,000, and that the gross commission will be split equally between your sponsoring broker and the broker representing the buyer. Therefore each broker receives $25,000. From this point on we aren t concerned about the broker and the agent who represented the buyer in the transaction.

Assume your pre-negotiated split arrangement with your sponsoring broker is 70 percent to you and 30 percent to your sponsoring broker.

Consequently, the net commission of $25,000 will be split such that you receive $17,500 and the sponsoring broker gets $7,500. Not a bad payday! Note that at this pace the agent must average a closing every two months, six a year, to reach a six-figure income.

Getting Hired

There aren t many barriers t to becoming a real estate agent. This is largely due to the minimal investment made on the part of the sponsoring broker. Essentially, you re given a desk and phone, and left to your own devices to find potential buyers and sellers and to learn other aspects of the business. It helps if you already have your license, but most brokers will let you on board with the understanding that you ll have one in the near future. . Sometimes you can negotiate the cost of the class and exam into your hiring package. Be sure to ask in an interview if the sponsoring broker subsidizes the real estate exam fee.

Brokers look for energetic, self-confident and independent individuals. It will help your cause if you have a working idea of what s involved in buying or selling a home. Become familiar with how interest rates impact home buying, the health of the local real estate market and what it takes to get a mortgage. Also, heading into an interview with a business plan for acquiring clients should impress your potential sponsor. People who possess strong marketing skills and are honest do well in this industry. Some brokers don t require that you have a college education, while others do. It depends on the firm.

There s a lot of turnover in this business, so beware of potentially apathetic employers. Make sure that they ll work with you to learn the business. Reach out and talk to other brokers at the company you are considering. Ask them candid questions about how the broker treats their agents; ask specifically about employee turnover. Another good question to ask is how the broker handles leads or referrals. Some brokers don t have a equitable system in place to distribute leads or referrals to the sales agents. Instead, only favored agents get this business while everyone else is left to fend for himself. Finally, you should be sure to ask about reimbursable expenses. In the course of marketing properties or entertaining, you will be spending money ,so you should ask the broker about their reimbursement policy.

Questions to ask

What kind of training do you offer?

What is the commission split for high performers?

How long does the average agent work for this company?

Questions to expect

Do you have your license?

How long are you prepared to work making no or very little money?

What are your favorite hobbies?

A Day in the Life of a Residential Real Estate Agent

9:00 a.m.: Get in the office, check voice mail and e-mail. After, create to-do list for the day.

9:30 a.m.: Place calls on behalf of a client looking to buy a house to set up a tour for this weekend. Ask the sellers agent to fax over the property listing sheets that contain all of the information. Confirm the asking price and try to figure out if the property is in demand or determine the flexibility of the sellers.

10:15 a.m.: Check in with some of co-workers to find out what deals they are working on and if they have some market scoop (i.e. trade sale comparables).

11:00 a.m.: Lob a call into a client buyer s attorney to see if everything is going smoothly with a pending property purchase. Find out that items discovered on the property inspection are being addressed. Call client to relay the information that the attorney passed on and reassure her that the closing will happen later that week as planned. Have a brief discussion about mortgage rates.

12:00 p.m.: Break for a snazzy lunch with a mortgage broker. Talk about what is happening with mortgage rates and receive thanks for all the referrals passed on to him.

1:30 p.m.: Check and return voice mail and e-mails. Organize marketing materials for delivery that day. Hand the deliverables to an administrative assistant to mail.

3:30 p.m.: Head to the title company for the closing of a deal. The client is the buyer. Huddle up with the attorney and the client to make sure everyone is happy. Everything runs smoothly. Get a cashier s check made out to the broker. Thank client and tactfully remind them to refer services to their friends.

5:00 p.m.: Back to the office. Give the check to manager and give self a pat on the back. Ask about timetable for payment of the commission and return to desk. A co-worker gives a high five.

5:30 p.m.: Check e-mail and voice mail one more time. Put out fires and check commissions for the past year.

6:00 p.m.: Make sure everything is set for upcoming home tours. Open up prospect list, record the closed deal and see what deals are going to close in the near future.

7:00 p.m.: End of the day. Co-worker who gave the high five reminds of a promise to buy drinks when the deal closed.

Commercial Real Estate Brokerage
Tenant Representation

CHAPTER 6

The Scoop

Commercial property brokerage offices use sales associates who market office buildings, hotels and many other types of commercial real estate for third party interests. Although there are generalists, commercial real estate sales people usually specialize in a particular property type such as apartments, retail, office buildings, hotels, shopping centers and industrial buildings. Most of the large commercial brokerage companies in the U.S. provide a great deal of local market data and research in order to assist in servicing a host of sophisticated clients who sometimes make multimillion-dollar investment decisions. Like residential agents, sales associates must be licensed and have a sponsoring broker to conduct transactions. The salesperson license that a commercial broker holds is the same as the one residential agents use.

There are two different commercial real estate sales associates: those that represent landlords and those that represent tenants. While, there is some overlap between the roles, there are also differences that you should consider before pursuing these careers.

On the Job

A tenant representation agent represents companies and other corporate clients who are looking to lease or buy either a portion or an entire real estate asset. A large part of this job involves business development. Since tenant reps are often responsible for building their own book of business, prospecting also plays a large role. Like residential agents, tenant reps are left to their own devices to find prospects. Although there s some direction by the broker and senior tenant reps in the office, for the most part you re calling on tenants or companies cold. First, you need to give the person on the other end of the phone a compelling reason to meet with you, and then you must pitch the business. It s a tough sell.

The field of tenant representation (or tenant rep, as it s fondly known) is very competitive, even cutthroat. You re not only competing against outside reps but those inside your office. In fact some tenant rep brokers think the competition inside is worse than outside the shops. Often there are disputes about who is entitled to chase what business and, ultimately, the senior brokers tend to win. Deal protocol is important to consider when you re selecting brokers because disputes are common among tenant reps.

When the time comes for one of his or her clients to buy, sell or lease, the tenant rep finds a list of market alternatives then handle the accompanying negotiations. Tenant reps usually work in teams to spread the work. Often the team is composed of one senior and one junior broker. The junior broker will make the calls and set up the meetings. At the meetings the senior broker will take the lead and try to win the business. Once the process begins, the junior broker will do the legwork for market alternatives and examine options with the senior broker. All possible alternatives are presented to the client for review. The senior broker generally handles the lease negotiations. This system is mutually beneficial as it gives the senior broker a cold caller and provides a training platform for the junior broker. Junior brokers should expect to work between 50-60 hours per week; senior brokers work less, if they wish to.

Once junior brokers have surpassed certain earning requirements, they re promoted to senior brokers. They still make cold calls to get leads, though not nearly as often as junior brokers. The company relies on the senior brokers to win business and handle transactions from start to finish. Sometimes senior brokers work with management policy and even have equity at smaller firms.

Compensation

Like residential agents, many commercial sales associates operate on commission and split commissions with the managing broker. The commission structure differs based on property type and a formula more complex than for residential brokers. This formula typically depends on seniority, base pay and the size of the transaction. For instance, the commission could be stated as a $.80 per square foot per year. On a 10-year lease transaction for 10,000 square feet the gross commission calculation would be $.80 times 10,000 (square feet) times 10 (years) or $80,000. Not a bad pay. But wait a minute! This pie has yet to be split up. The tenant rep still has to give the managing broker his or her share and then split the rest among the team. At the end of the day, the split may look something like the following: you give 50 percent to the managing broker and split the remaining net amount with your teammate(s) evenly. In our example, that yields $20,000 to each broker. The sales cycle is long so it can take a while to get paid, sometimes as long as a year. The norm is that building owners pay half of the commission upon lease signing and the remaining when the tenant moves in.

Commissions vary by geography and product type, so the above example may not be applicable in all areas. For example, the commission in New York may be higher than it would be in Washington, DC.

Tenant rep can be very rewarding, but does have its risks. Remember, no individual can control the economy and some deals don t materialize. Keep in mind that when the economy is in bad shape, companies are less active in the market and you may have few to no commissions! Also, your client may pull the plug on the deal at any time, and you will get nothing for your time and hard work. Make no mistake about it, tenant reps are usually risk-takers who like big payoffs.

There are more large commercial brokers than residential brokers. Some well-known tenant rep companies are Insignia/ESG (www.iesg.com), Cushman & Wakefield (www.cushwake.com), CB Richard Ellis (www.cbre.com) and Jones Lang LaSalle (www.joneslanglasalle.com).

Getting Hired

One major difference between residential agents and commercial brokers is the sophistication of the client. In commercial real estate you are calling on senior management the CEO, CFO or COO of a company. These people are used to making major decisions and prefer to have a lot of information beforehand. The like to get answers to their questions ver quickly.

Strong presentation skills and dependability are a must. If you are switching careers, it helps if you have a sales background. Expect to be asked why you re interested in real estate and why you d be successful in sales. This field is similar in some ways to residential real estate sales, but is harder to break into.

Commercial real estate is normally a less emotional transaction than residential; it is more of a business decision. If clients are dissatisfied with tenant reps, they find it easy to fire them. Unfortunately, this happens more than you would care to believe. The corporate community is small so doing a good job for one senior manager will invariably lead to more business. Some good questions to ask in an interview:

1) Is there a training program?

2) Will I be expected to team up with a senior broker?

3) How do you handle commission disputes among brokers?

4) Do you restrict the areas or the companies that your brokers are allowed to call on?

Day in the life of commercial sales agent

7:30 a.m.: Things start early. Get into the office, check voice mail and go through contact database to line up cold calls for the day. Scan the Wall Street Journal or the local paper s business section to see if clients, prospects or other relevant industry news are mentioned in the paper. Remind self about working on commission and motivate.

8:15 a.m.: Huddle up with partner to discuss to-dos. Perhaps discuss current lease or purchase negotiations and strategy. Divide tasks to be done and make an appointment for the end of the day.

9:00 a.m.: Check in with some co-workers to find out what deals they re working on and if they have some market scoop (i.e. trade lease or sale comparables and find out which tenants are in the market).

9:30 a.m.: Start morning cold calls. Try to set up meetings with decision makers and find out as much as possible over the phone about real estate needs. Determine who makes real estate decisions and touch base. Make note to follow up with marketing material later that day.

12:00 p.m.: Break for a pre-scheduled lunch with a client, prospect, leasing agent or peer. Discuss market conditions and try to extract information that will help get more business or help current lease negotiations.

1:30 p.m.: Check and return voice mail and e-mails.

2:30 p.m.: Check in with clients and clients attorneys to discuss ongoing lease or purchase negotiations. Make calls to architects or contractors to see how space build out is progressing. Report any time sensitive information to client. Set up building tours for later in the week and try to get a sense what each building is looking for financially and how desperate they are for a deal.

4:00 p.m.: Write follow-up letters and prepare marketing material for prospects. Call internal accounting department to see check where commission checks are. After explaining the time value of money to them, threaten them. Call back and apologize and beg so checks come in a timely fashion.

5:00 p.m.: Check in with sales manager. She wants to know which deals will close this quarter and if everything is on track to hit forecasted numbers. Complain about the accounting department and pump her for information about where sales numbers are in relation to co-workers .

5:30 p.m.: One last meeting with partner to recap the day. Discuss any problems and come up with solutions. Make follow-up phone calls together to leasing agents or clients. Gossip about the day s market activity. Set a meeting time for the next day.

6:15 p.m.: Finally get to mail (in this business you get a lot). Receive a written response to a request for proposal from a building. Make a copy for partner and review the details. Hand another copy to the analyst to run the numbers associated with the deal.

6:45 p.m.: End of the day. Contemplate whether or not to head to an industry function.

Commercial Real Estate Brokerage

Leasing Agent

CHAPTER 7

The Scoop

Essentially, this position involves leasing space at a property for a third party company, an owner or a REIT. A leasing agent is employed by the owner as an intermediary to show and lease vacant space and negotiate leases for existing tenants wanting to renew. Many owners expect monthly reports on tenants in the market for space, companies that have toured the building, competitive rents and why tenants chose another building instead of yours.

On the Job

A big part of this job entails collecting as much information on the local market as possible and concisely conveying that data to the owner of the building. He or she relies on the agent to obtain a market lease as well as to represent ownership when showing the building. Consequently, the leasing agent has to know everything that is happening at the building and in the surrounding market. Leasing agents should also be familiar with the history of both. They should also be able to recite the tenants residing in the building and when their leases expire. Good leasing agents are very organized and give thorough building tours.

As a leasing agent you have to be very social. Good agents are in regular contact with their tenants and carefully monitor lease expirations in their buildings. In order to get the market information you need, you have constantly network with your peers. Tenant reps are said to control 90-95 percent of the marketplace, so good leasing agents form relationships with the top reps. Leasing agents are generally given a budget for entertaining the brokerage community in order to assist in getting market information and marketing the building. This translates into a lot of breakfasts, lunches, golf, sporting events, etc. Leasing agents can develop reputations as great party throwers and for marketing creativity. While this is fun, some brokers tire of the entertaining, especially when it doesn t convert into deals.

Leasing agents can and do lease more than one building and like tenant reps, sometimes work in teams. Additionally, there are some that moonlight as tenant rep brokers and act as consultants on building purchases. Some owners discourage this practice because it s seen as a conflict of interest, meaning leasing the building should be the top priority. All of these issues are important when considering employment.

The natural progression is to move from junior to senior leasing agent. The difference between these two roles is more leasing responsibility. Instead of representing just leasing one property, senior agents lease multiple buildings. They re also responsible for helping to win more business. At third party leasing firms, they ll be involved with the presentation to and will layout the strategy for meeting the goals of ownership. Very successful leasing agents are generally opportunistic and, after being in the business for a while, develop a network of owners. They become familiar with assets that different owners look for and try to identify buildings that meet these criteria. If they identify an opportunity and the owner buys the building, they re entitled to a commission on the sale. The best agents sometimes receive equity in the company for which they work.

Compensation

Unlike tenant reps, leasing agents generally get a salary in addition to a performance-based commission. While this may not be as lucrative as tenant representation, there isn t as much emphasis on prospecting for clients which many people don t like to do. Although less risky than tenant representation, there are gambles associated with this role. A good agent may potentially lease himself out of a job. Once the building is occupied, your responsibilities tail off. Additionally, leasing contracts with owners are short-term and void if the property is sold. Owners can be demanding and are constantly communicating with competing leasing companies. If, for whatever reason, you re removed from a project, you have to hope that your company has another building for you to lease.

Getting Hired

You must be extremely presentable, a multitasker and aggressive in a tactful way, advises Mitch Loveman, senior vice president at Transwestern Commercial Services. You represent the building so you must carry yourself very well. The good leasing agents know their building and their competition and have a strong working relationship with the real estate community.

Leasing agents must have a salesperson license. Most firms require that you have a college education and an understanding of basic finance. While there s no preferred background, again there is an emphasis on personality fit. Expect to be asked about your organizational and interpersonal skills. Furthermore, don t be surprised if you re asked market-specific questions relating to competitors, vacancy, lease rates and the owner s property portfolio. Be sure to ask about the property s marketing plan, how the leasing team interacts on a daily basis and career progression. If you have existing sales experience (i.e. presentation skills), this is considered valuable. If you can demonstrate that you re comfortable presenting and are an effective communicator you ll do well in this position

Investment Sales Broker

CHAPTER 8

The Scoop

This type of broker represents a real estate investor who is looking to buy, sell or finance a real estate asset. It applies to all real estate asset classes apartments, office buildings, industrial, hotel and others. Investors hire these brokers to provide strategic advice, market knowledge and access to capital. Note that many owners, such as REITs, have their own acquisition and disposition groups and often handle this function in house rather than hire a third party.

Investment sales brokers deal with more complicated issues than residential or commercial brokers. The clients are very sophisticated and the finance involved can be complex. Over the past twenty years, there s been an influx of foreign capital into the real estate market so brokers now have a healthy roster of international clients. Most of the people in this business have a balance of analytical and people skills, therefore, good investment brokers are personable and understand how financing issues will impact investors.

On the Job

Marketing makes up a large part of this business. Brokers are always pitching real estate investors for assignment. They identify opportunities by networking with investors and anyone else that may provide leads. They aren t making as many cold calls as tenant reps, but definitely have to be aggressive. Once a broker identifies the opportunities he must still convince the investor that he s worthy of the assignment. This job involves doing (a lot of) presentations, entertaining, correspondence and endless number crunching. Typically, an owner interviews multiple brokers for an assignment. Like other brokers, these separate themselves with their market knowledge and are generally chosen for it, as well as their track record.

Once a broker gets an assignment, he needs to execute the sale, purchase or financing. The sale of an asset involves putting together detailed property information that will help an investor make an educated decision. The marketing material includes pictures, financial analyses and information about the local market. In a property purchase, the broker helps the investor digest the marketing information and provides a frame of reference for similar transactions. The broker may have to determine which financial structure meets the investor s goals when the deal involves financing an asset.

Investment sales brokers tend to work in teams. Those new to the field come in as associates. This person is the junior on the team and is responsible for marketing material, creating the financial analyses, and any other paperwork linked to the deal. Above the associate is a vice president, who is expected to bring in business, supervises the transactions and has the majority of client contact. He s versant in all aspects of financing and market dynamics. The managing director heads the office and is the ultimate decision maker, responsible for managing all of the transactions as well as the office.

Compensation

Investment sales brokers are very high profile operators in the real estate industry and usually make attractive salaries. Although some do get paid salary, most earn the bulk of their salary from commissions. In today s market, the total commission is roughly two percent of the total sales price (e.g. a $100,000,000 sale has a gross commission of $2,000,000). Unlike residential real estate, the commission is not paid entirely by the seller. For example in the sale of a large industrial park the seller and the buyer may each pay their respective brokers one percent. Commissions are split among the team and the company.

Getting Hired

Getting a job in this field without prior real estate experience will be difficult. You need to have a strong balance of quantitative and qualitative skills to help you win business, and are often the reasons that candidates are hired. Most of these groups tend to be small and multitask, which makes it particularly difficult to break into this business. And team members are expected to hit the ground running. Expect to be asked how your background will benefit the team.

These brokers have a strong understanding of valuation. If a candidate has experience valuing assets, it would be beneficial. In an interview be prepared to answer questions about what investors look for in a property, be familiar with the different asset classes in your local market and know recent sales information. Again, this is probably one of the more sophisticated parts of the business so make sure you re extremely presentable in an interview.

If you know that you want to be in the business, but don t have the requisite skill set, you can always start in another facet of the industry. For example, commercial brokers have been known to break into this field after establishing themselves as top performers. In an interview, be sure to ask about the background of the team and what type of experience the firm looks for in a candidate. You may also want to ask about how the team interacts and disseminates the workload.

If you feel that you have the requisite skills to be an investment sales broker, contact some of the firms that are provided in the book and be prepared to answer how you will add value to the team. Eastdil (www.eastdil.com) and Marcus & Millichap (www.marcusmillichap.com) are two respected investment brokers with offices across the country. Full-service real estate firms have investment sales groups in major markets

A Day in the Life of an Investment Sales Broker

8:00 a.m.: Start the day by checking your e-mail and voice mails. Next start reading some of the industry standard periodicals. These include the Real Estate Alert, the local paper s business section and of course, The Wall Street Journal.

8:45 a.m.: Check in with the associate to make sure that the marketing literature and the financial analysis for a property sale will be ready after lunch. Go over some additional scenarios and ask him to include them in the financial analysis.

9:15 a.m.: Place a call to a local owner to discuss the possibility of selling his building. He asks for an opinion on what his property will fetch and about properties for sale that meet his investment criteria should he decide to buy another building. He also asks about his options if he decides to refinance his property.

9:30 a.m.: Receive a call from a competitor requesting information about a property for sale. Realize he s reaching for information that seller isn t prepared to disclose. Switch gears and ask him about his listings and the business he is chasing.

10:00 p.m.: The managing director swings by and asks for a memo updating a foreign client on the state of the domestic real estate market.

10:45 p.m.: Give the managing director the finished memo and get ready for a meeting in which the team will discuss strategy for a property purchase. In the meeting the team discusses recent comparable sales, the condition of the property and a client s investment objectives.

12:30 p.m.: Break for lunch. Grab a nice lunch with a colleague or a competitor and discuss the market. There is a lot of discussion about the cost of capital for real estate assets and about the local estate market conditions.

2:00 p.m.: Check in with the associate and make sure marketing literature and financial analysis will get done today.

2:15 p.m.: Have a conference call with a client to discuss the status of a property purchase. The client is concerned about overpaying for the property. Assure him that his offer is in line with market comparables and that the property is worth the price.

3:00 p.m.: Review the materials that the associate prepared. After checking the documents, return e-mails and see how the financial markets did that day.

4:00 p.m.: A colleague from another city calls to discuss the condition of local market. He has a client who may be interested in buying a property in the area and wants to discuss the possibility of partnering on the deal. Tell him that you will speak with your managing director about it and will get back to him.

Mortgage Backed Securities rating agencies

CHAPTER 9

The Scoop

Lenders or debt-holders, such as banks, sometimes accumulate a considerable amount of real estate specific debt. When the cumulative debt bears too much risk the lender will look to pool and sell some of its mortgages to, or for the right to collect principal and mortgage payments from, other banks or investors. These mortgage backed securities (MBS) are held by different types of real estate such as residential or commercial properties. Note that the terms of the mortgages do not change so the property owner of record continues paying the same principal and interest.

The originators of MBS are generally the larger banks such as Morgan Stanley Dean Witter, Lehman Brothers and JP Morgan Chase. Before they pool their mortgages and issue the MBS, the originators have to rate the debt much like is done in the bond market. The rating gives the potential buyer an idea of the risk associated with debt and ultimately impacts the cost of MBS.

Let s focus on the commercial mortgage backed securities (CMBS) market and the third party agencies that are hired to rate the debt. CMBS are secured by loans with commercial properties. Investors that buy CMBS purchase an undivided interest in a group of commercial mortgages. The agencies are hired by the issuer to provide an objective rating of the debt for a fee. The rating is based on a report that is part financial analysis and part market analysis. Typically, the CMBS issuer hires more than one rating agency and the buyer can evaluate multiple ratings. Over the past ten years, the CMBS market has grown from $10 billion to $400 billion.

On the Job

The work atmosphere at a rating agency is team oriented and focuses on delivering an impartial analysis of the CMBS offering. Essentially the agency does what the CMBS issuer originally did. It looks at the creditworthiness of the properties and debtors behind the mortgages. The team works on deals together from start to finish.

Newcomers enter the field as analysts. Their responsibilities include data entry and financial modeling. Supervising the analyst is the director whose main role is to collect and streamline all documents. The director is also a fact checker, often writes the final rating report and oversees the underwriting by the analyst. At this level the client interaction begins. Next in the hierarchy is the senior director who supervises all the work being done by the director and executes any requests from the client. Right above the senior director is the managing director who usually has the banking relationships. This person s principal role is to get business and smooth out any problems. The group managing director is at the top of the heap in the office. He s responsible for the business.

Although some rating agencies are international, the workload is often based on geography. Therefore, if you re on the east coast the deals that you will work on will most likely involve east coast properties. Likewise the international deals are done by foreign offices.

Compensation

The agencies are paid a fee by the CMBS issuers in return for their objective rating analysis. Each team member has the opportunity to make a bonus based on individual and group performance. As you ascend the hierarchy the bonuses increase. An analyst makes roughly $40,000 per year plus a bonus. A director makes roughly $80,000-$120,000 per year plus a bonus. A senior director makes roughly $100,000-$150,000 per year plus a bonus. A managing director makes roughly $200,000 per year plus a bonus. The group managing director pulls in approximately $200,000-$250,000 per year plus a sizable bonus.

Getting Hired

You don t need to have a real estate license to work in this field. The main players in the rating business are Standard & Poors, Moody and Fitch Ratings. The starting point is the analyst position since beyond this role you need firm specific information. You don t have to have a real estate background to get in at the ground floor but it does separate you from other candidates, Says Erin Stafford, a director at Fitch Ratings. We look for someone who is familiar with finance and perhaps most importantly we value interpersonal skills when filling an analyst position. This job has a reputation as a stepping-stone to break into the investment side of the business.

In an interview, be ready to answer questions about the difference between equity and debt, the level of your Excel skills and what you like about real estate. Some good questions for you to ask are: 1)How does the team interact? 2) What is the volume of transactions in the office? 3) What is the level of turnover in the analyst position?

If you want to learn more about this are of the business you can visit the Commercial Mortgage Securities Association web site at www.cmbs.org. There are also a few periodicals that people in this field read such as Commercial Mortgage Alert (www.cmalert.com) and Commercial Real Estate Direct (www.commercialrealestatedirect.com).

Real Estate Appraisal

CHAPTER 10

The Scoop

Real estate appraisal firms provide unbiased third party estimates of a property s most probable sales price (appraisal). Appraisals are typically performed for property sale, purchase or when an owner refinances. They re also used for tax appeals, bankruptcy, dispute resolution and monitoring the value of a real estate portfolio. Appraisers usually work for full-service real estate companies, banks or for appraisal firms. Full-service real estate firms like CB Richard Ellis (www.cbre.com) and Cushman and Wakefield (www.cushwake.com) have valuation departments. Bank One and Wells Fargo have appraisers on staff and there are specialty groups with larger appraisal firms like American Appraisal Associates. There are also a number of boutique appraisal firms in local markets, which care listed on the Appraisal Foundation s web site at www.appraisalfoundation.org.

Once the buyer and seller of the property agree on the price, the lender requires an appraisal prior to closing to justify the price that the buyer, its debtor, agreed to pay. Appraisals provide an objective third party opinion on the value of the asset(s) underlying the proposed transaction to the creditors, which finance the asset. The creditor usually agrees to lend the buyer the lesser of a certain percentage of either the appraised amount or the negotiated purchase price. If the appraisal of the property is well below the negotiated price, the creditor can back out of the deal or change the financing structure.

Appraising the property prior to closing is mutually beneficial for the creditor and the debtor because it is a validation to the creditor that the asset has value and it prevents the buyer from overpaying. Moreover, it prevents the proliferation of owners who owe more on the property than the asset is actually worth, which could lead to a collapse in market values, thus protecting the market.

To perform a real estate appraisal in the U.S., you must be a licensed professional. Each state has its own real property appraiser regulatory program, which you must complete to become a licensed professional. Becoming a licensed professional in this field is a lot like becoming a real estate salesperson, you must complete several hours of education, pass a state exam and provide proof of relevant work experience.

One thing to point out is that you don t need a college education to become licensed. In Illinois there are three license levels: associate real estate appraiser, certified residential appraiser and certified general appraiser, and the fee for each exam is $62. To obtain an associate license you need to complete 75 classroom hours, for a certified residential you need 120 hours and 2,500 hours of practical work experience, and for a certified general you need 180 hours and 3,000 hours of practical experience.

You can find information on getting a license, taking the exam or where you can go for the required classroom instruction on your state s homepage. At the end of classroom instruction you have to pass an test before you re eligible to take the state license exam. An associate can t sign appraisal reports. Certified residential and general appraisers can sign off on appraisal reports but only a general appraiser can work on residential and commercial assignments. Bear in mind that obtaining the more advanced licenses and designations can be expensive. In Illinois, an associate can expect to pay $1,000 and up for other licenses and designations beyond. For more information about state specific licensing requirements, you can contact the Appraisal Institute at (312) 335-4100 or visit their web site at www.appraisalinstitute.org. Remember that they don t issue licenses, just certifications and general information.

Many banks and real estate owners insist that the appraisers they work with not only be licensed but must also designated professionals. Becoming a designated professional is harder than becoming a licensed professional, as it s time consuming, can be difficult and does require a college education. There are different designated organizations with varying criteria. The Appraisal Institute is one of the more respected licensing and designation organizations and issues the MAI and SRA designations. An MAI designation is for appraisers of residential, industrial and commercial properties, whereas SRA is for appraising residential real estate only.

To receive your MAI designation you must:

Hold a college degree.

Complete 380 classroom hours.

Pass 11 instructional exams.

Tally 6,000 hours of work experience.

Participate in peer counseling.

Write a demonstration report.

Pass a comprehensive two-day exam.

The criteria for the SRA are:

- Hold a college degree.
- Complete 181 classroom hours.
- Pass 7 instructional exams.
- Tally 4,500 hours of work experience.
- Write a demonstration report.

You ll be in higher demand and therefore command higher fees with MAI and SRA designations. You ll also be held in high regard among your peers.

On the Job

This real estate career path is less cyclical than other real estate careers because appraisals are needed in both up and down markets. For example, even when the real estate industry is slow many owners tend to refinance assuming interest rates are low or audit their portfolio, which requires an appraisal of the existing asset. But this is also a very paper-intensive business. Clients expect detailed reports and the reports may appear to be monotonous.

Appraisal is a trade specific field so there is a plethora of information and on-the-job training at the outset. The typical entry-level position involves a market research role. New hires are responsible for gathering market information for senior appraisers and help write reports that explain conclusions to the client. In this role you spend a good deal of time writing reports and doing research via the Internet and proprietary databases that house market information relevant to the valuation of the property in question. A normal week is between 40-50 hours, but can go up to 60 hours when it s busy.

Once you become more experienced you ll be expected to get an appraisal certification and will eventually be responsible for procuring new business. An appraiser interacts directly with the client, works with the market research associate to gather market comparables and local and general economic market conditions, does site inspections (which may translate into extensive travel), performs the valuation analysis and is responsible for the written report that presents the conclusions to the client.

As an appraiser you ll learn a great deal of how the market values property as well as the concerns of the capital markets when investing in real estate. If you like real estate and finance, this is a great career to marry your two interests.

Typically, a lending institution would direct you to value a property or portfolio of properties for which they have or will issue debt. Once the research and the analysis necessary for the appraisal are complete this information will be put into a written report and submitted to the client. The report often has a summary of the local or regional economy and may include demographic information. The following is an example of the DCF method in practice.

Case study: You re hired to appraise a building using DCF that generates cash flow of $1,000,000 next year with five percent increase in cash flows in each of the next four years. The DCF will be for five years and the corresponding discount rate is 10 percent. Furthermore you expect the reversionary value to be 5,000,000 and the cap rate to be nine. What is the value of the property? Plugging all the relevant information into the DCF formula and you get:

$$\text{DCF} = \frac{\$1{,}000{,}000}{(1.10)^1} + \frac{\$1{,}050{,}000}{(1.10)^2} + \frac{\$1{,}102{,}500}{(1.10)^3} + \frac{\$1{,}157{,}625}{(1.10)^4} + \frac{\$1{,}215{,}506}{(1.10)^5} + \frac{\{\$5{,}000{,}000 * 1/(1.10)6\}}{.09}$$

Value = $38,875,103

Compensation

Appraisal is a fee-based service offered to lending institutions, who pay the firm a predetermined fee. In a property purchase, the buyer will reimburse the financing institution for the fee upon submitting its loan application. Don t expect to make a lot of money at the outset; one firm disclosed that they pay new hires roughly $40,000 a year. Another firm said they pay their experienced appraisers anywhere from $75,000 per year and up depending whether they re MAIs and their experience level. As you learn the trade, you ll become more valuable to your firm and will be paid more, so it s in your best interest to get certified as an appraiser and master the art of writing a good report.

Getting Hired

In addition to performing the requisite valuation analysis, an appraisal involves writing a succinct report for the client so it s important for a candidate to demonstrate strong writing skills. Expect to be asked about your written skills. A working knowledge of finance is important because valuation formulas like the DCF are based on financial concepts. I look for two things in new hires, writing skills and an understanding of finance, says Jules H. Marling IV, MAI and Principal of Walden-Marling, Inc. an appraisal firm in Chicago. In an interview, I expect the candidate to demonstrate that he or she has this skill set. Make sure to review the different methods of valuing real estate. If you re a good writer and have an understanding of finance you should do well.

(This information is contained in the section.)

Expect questions about real estate valuation and what s happening with real estate values in your market (i.e. have an idea of local cap rates). Also be ready to explain basic finance principles like present value and discount rates. At some appraisal firms, there is a lack of advancement issue, Marling recommends. Candidates should make sure to ask about the career path. If you want more information on finance concepts, visit www.investopedia.com the site is free and a great resource.

You should ask about the specific duties of an analyst at that company. Also ask if the company sponsors employees when they seek designations. Be sure to inquire about clients and the types of appraisal projects the firm handles.

Property Management

CHAPTER 11

The Scoop

Real estate owners commonly employ professional property managers either directly or through third party management firms. Property managers are charged with the day-to-day management of the real estate asset. They ensure that: tenants are satisfied, the building is in good condition, rent is paid and that rents reflect market conditions. Property management provides a general introduction to real estate. You ll learn how to efficiently operate a real estate asset in this capacity. Property managers deal with issues relating to leasing, construction, tenant relations and market analysis.

The property manager plays a crucial role in expense control as the owner relies on him to manage any and all operating expenses at the building. For instance, if there is construction work at the building, the property manager supervises the project, keeps close tabs on the progress and makes sure that it doesn t go over budget.

Property management also requires good interpersonal and analytical skills because tenants sometimes can be difficult and expect things to be resolved immediately. Also, while leasing agents do much of the lease negotiations, property managers are involved in the process, therefore, a salesperson s license is required.

Property management is on the operational side of real estate. A good manager can save an owner a great deal of money by operating the asset efficiently and keeping the tenants happy.

On the Job

The common entry-level point for this field is assistant property manager (APM). While, it helps to have some real estate experience or a college education these aren t always prerequisites. APMs spend a good deal of the day interacting with people, fielding calls from tenants and owners. They re also charged with orchestrating any necessary repairs and dealing with vendors. APMs also have the unpleasant task of making delinquency calls to tenants when they don t pay their rents. There is also a lot of administrative work such as assembling reports that the property manager writes for owners as well as annual bid packages for any property work.

APMs report to a property manager (PM). PMs deal directly with the owner on all issues And are ultimately responsible for the day-to-day performance of the asset. The owner relies on them to maximize the real estate asset s net operating income. PMs report to a regional property manager (RPM). RPMs are in charge of an entire region interact with multiple owners. In a scenario where an owner has multiple properties, the RPM would be the point of contact. They re expected to bring in business and negotiate service contracts.

A typical day in property management may involve visiting one of your properties, and talking almost every hour with the owner, tenants or vendors. You ll probably also be making sure that your accounts receivable are in order. Given that many owners expect timely reporting, you ll also be gathering valuable market information that make up reports.

These may include rental rates in competitive buildings and lease rollover reports which detail which leases are coming due at your property. Other reports include delinquency, rent patterns and operations, which detail the physical condition of the property and the state of the budget.

Compensation

Careers in property management are generally salaried positions that include benefits. An assistant property manager should expect to make $30,000-$35,000 per year with a bonus based on individual performance and that of the asset(s). Property managers typically make a base salary of $70,000 per year and can expect an annual bonus. At the assets where property managers handle the lease renewals, owners sometimes pay commissions for these. This is not the norm but can be negotiated in the hiring package.

Getting Hired

There are a few qualities that employers look for in property managers, says Heather Battaglia Higgins, assistant vice president at InterState Commercial in Chicago. You must have strong people skills to handle both the tenants and the owners, be able to multitask, be willing to do administrative work and [you] must be comfortable with accounting.

If you have an interview, be ready to answer questions about your written and oral communication skills, as well as your organizational skills. You may be presented with a hypothetical situation involving an angry tenant and asked how you would deal resolve the issue. Don t forget to ask some questions in the interview. Be sure to find out how many properties are under management. Ask about the types of properties the company manages and how many you would be expected to work on. Also, ask a third party manager about the owners with whom they work. Are they very demanding and micro manage or are they hands off?

Many employers require that you have a real estate license and a college education. Some firms and owners request that in addition to holding the salesperson license you also seek a property management designation. One of the more common designations is the certified property manager (CPM). To become a CPM you must have at least five years of real estate experience, have a high school diploma, be at least 18 years old, have a real estate license and complete classroom instruction. The CPM is specific to retail management. The cost of the application is $350 and the cost of classroom instruction is roughly $3,000. If you re more interested in office and industrial properties there is a real property administrator (RPA) designation. To get an RPA you have to take seven classes plus a brief ethics course and demonstrate three years of property management experience. You can earn an RPA via self -study, it should take about two years to complete the classes and costs roughly $3,000. You can learn more about becoming a CPM, RPA and get information on property management on the Institute of Real Estate Management s web site at www.irem.org and the Building Owners and Managers Institute web site, www.bomi-edu.org/index.html and Building Owners and Managers Association www.boma.org.

The larger full service real estate firms like Insignia/ESG (www.iesg.com), CB Richard Ellis (www.cbre.com), Cushman & Wakefield (www.cushwake.com), Trammell Crow (www.trammelcrow) and Jones Lang LaSalle (www.joneslanglasalle.com) all have property management departments.

Real Estate Advisory

CHAPTER 12

The Scoop

Institutional investors such as pension funds and insurance companies, are active in the real estate market. High net worth individuals, like the Rockefellers and Kennedys, also allocate a portion of their investment portfolio to property assets. As with investments they make in stocks, bonds and other securities, institutional and individual investors often hire advisors for their real estate investments. Real estate advisors, or advisory firms as they are commonly known, act as a fiduciary agent. You ll sometimes hear people refer to this as the Agency side of investing. Advisory firms help investors identify real estate assets that match their risk tolerance and targeted.

Advisory firms often raise equity for specific real estate investment objectives. For example, a firm may announce a fund that will focus on buying office properties in central business districts (CBDs). The advisory firms announce their intention to raise a fund and then look for backers to invest in the fund. Once the fund reaches its financial goal it begins to identify properties for purchase and builds a portfolio. Advisory firms select investments by focusing on markets and property types that are likely to experience price appreciation in the future.

On the Job

Every advisory group operates differently, so the following description is not universally applicable. New hires start as associates and are expected to handle valuation analysis as well as performance reporting to investors. Essentially, you re an analyst whose main task is to run numbers and prepare reports for investors. The reports include issues such as the state of the local market, taxes, valuation, local cap rates, buildings that have recently been sold and the status of those buildings cash flows. As an associate, you will be exposed to the inner workings of the group and are subject to on-the-job training. A candidate should come to grips with the difficulty to advance in this field. In fact, many advisory firms don t promote from the analyst position, rather they hire someone from outside the firm.

The next step up is portfolio associate (PA). In this role you interact with the property manager on a regular basis to make sure the investment is in good working order. PAs still perform a good deal of analysis but delegate work to the associate. PAs might also make the decision on some smaller capital expenditures such as repairs and upgrades to the building(s). In this position you ll sit in on meetings to discuss acquisition and disposition assignments that involve your portfolio. PAs are asked to visit the buildings in their portfolio for site inspections, but often it isn t mandatory. It s at this level that you begin to have client contact and are expected to understand the portfolio and anything related to the investments.

Above the PA is the portfolio manager (PM). The PM is responsible for the entire portfolio and everything related to asset. In short, the buck definitely stops here. The PM leads the charge on acquisitions and dispositions and is in constant communication with the client. All major decisions related to the portfolio are made by the him or her. Some advisory firms breakout the portfolio manager duties between multiple people. For example at some advisory firms, the vice presidents tend to focus on one specific responsibility. They will either perform acquisitions, portfolio management or disposition of the assets.

At each advisory firm there are individuals assigned the task of raising money for the fund or finding clients. Some firms call these people market directors and others call them client relationship managers. In this role you are the representative of the advisory firm to the investment community and your sole function typically is to raise money. This is a sales intensive role and very high in the pecking order.

Compensation

Associates can expect a base salary competitive with the financial services industry with a bonus based on the department and individual performance. MBA graduates who had been hired by advisory firms said MBA graduates should expect to make between $85,000-$95,000 per year with a performance bonus. As with other MBA positions, a signing bonus is not uncommon. The non-MBA new hire should expect to be paid $40,000-$60,000 which includes your performance bonus. The PA should expect to make between $60,000-$90,000 including bonus. The PM should expect to make over $100,000 a year plus bonus. Client relations managers and vice presidents should also expect to make over $100,000 but pay may be more volatile and commission oriented.

Getting Hired

People who feel comfortable with finance specifically valuation analysis do well in this field. Strong interpersonal skills are also very important. Most firms look for people with who already have worked in a finance and people who have some real estate experience, which is why they pull from MBA programs and investment banking. This job is fun, sophisticated and one that you can transition into after getting experience in investing or property management. This is a very high profile and lucrative job so it is arguably the most competitive job to land in real estate.

You must be comfortable with Microsoft s Excel as it s necessary for spreadsheet calculations and reporting. While some firms use Excel others use a popular financial software package called ARGUS, which is specific to real estate and helps isolate project cash flows. Interviewers will likely ask if you re familiar with Excel and ARGUS and your level of expertise. You can download an ARGUS tutorial and trial version from its web site at www.argussoftware.com. If you re feeling super ambitious, you can take an ARGUS class. The site lists schools that offer training.

We bring in people with at least two years experience and a financial background, says Albert Pura, Portfolio Associate at RREEF. In the interview we focus on the individual to determine whether he or she will fit in our culture.

I was not asked one quantitative question during the interview process, adds Rich Monopoli an MBA graduate from the Kellogg School of Management who took a job with Jones Lang LaSalle s Investment Management group. I met with many people at the firm and got the sense that each one was determining if they would like working with me. That said I was still ready to answer questions about valuation.

Here are some good questions to ask in an interview: What are the day-to-day responsibilities? What is the career path and how common are internal promotions? Who are the clients? How much interaction will I have with the client?

Some of the larger advisory firms are Jones Lang LaSalle (www.lasalle.com), RREEF (www.rreef.com) and Lend Lease (www.lendleaserei.com). These firms are larger and their names carry a lot of cache in the business, and they post jobs on their sites. You can also find out more about this field from the Pension Real Estate Association (www.prea.org).

Real Estate Investment Banking

CHAPTER 13

The Scoop

Many investment banks on Wall Street and elsewhere have groups dedicated to real estate, which are good places for someone who has an interest in both real estate and investment banking. It shouldn t surprise you that these are very finance-oriented groups and look at this field as one more asset class to make money for themselves and their partners. Products involve the repackaging of mortgages into residential mortgage-backed securities (MBS), collateralized mortgage obligations (CMOs) and commercial mortgage-backed securities (CMBS). Other popular areas include the REIT stock, bond and preferred stock origination business, lodging investment banking, principal investing in real estate and synthetic lease origination.

Some of the big players include Deutsche Bank (www.db.com), Goldman Sachs (www.gs.com), Morgan Stanley (www.morganstanley.com) and Lehman Brothers (www.lehman.com). These groups look to place money with operators (real estate developers and owners) all over the world that need it for real estate related projects. Operators, in turn, seek these groups out for funding. It s important to note that these groups look for high return deals. Higher returns mean riskier deals. They base their decision on the expected return, or what is commonly referred to as the internal rate of return (IRR). You should know this term and be comfortable explaining it in an interview. Many people are intimidated by IRRs, but they re easy to understand. For example, if you re discussing a potential investment you will want to know the associated returns, which are expected but not guaranteed. This is what an IRR is, an expected return on the investment if everything goes according to plan.

On the Job

Note: The following section is based on the structure of Goldman Sachs real estate group so it may differ somewhat other companies.

Entry-level employees are usually referred to as analysts and spend the bulk of their time doing acquisition/valuation work. They ll also do financial modeling for proposed deals. As part of the modeling, analysts account for the IRRs to the contributed debt and equity. Additionally, they help write deal memos that are presented to the investment committee, which ultimately makes the decision on whether or not the group will invest in the deal. The memo contains the pros and cons associated with the deal as well as market risk and fundamentals. In the course of preparing the memo the analyst will have most likely visited with the parties involved with the deal and inspected the physical asset. Since these groups invest money all over the world, there is a good deal of travel. At some companies analysts have a lot of contact with the deal partners and will interact with the operators, attorneys and investors that are involved in the deal. They will seek any information that affects the risk and return of the project.

The next level is the associate, whose main duty is to oversee the work of the analyst. He or she generally handles more of the contact with the deal partners and communicates any concerns or issues to the VP. There is a degree of work redundancy between associate and an analyst.

Associates report to vice presidents (VPs) who have a supervisory role. Their main purpose is to bring in deals and make sure that those run smoothly.

Managing directors (MDs) are the tops dogs in this hierarchy. They are more so the dealmakers than the VPs and have the final call on things. MDs are charged with business development and securing relationships with operators.

Compensation

The pay is very good in this field. Associates make anywhere from $60,000-$80,000 per year with a supplemental bonus. The associate level is where the money really starts to get good, as they can expect to make a base of $100,000 plus bonus. A VPs base salary is somewhere between $150,000 and $200,000 plus bonus. Managing directors make into the millions and have a major stake in the deals. All bonuses are contingent on group, project and individual performance. And at some firms anyone above the associate level has an equity position in the group.

Getting Hired

These jobs are very difficult to get because the real estate groups at I-banking firms tend to be small and you need a certain background. Candidates in this field have usually gone to a top undergraduate or business school and can demonstrate both an interest in finance and real estate.

If you get an interview for this role be conversant in the condition of the world economy and the general health of the real estate market. Be ready to answer questions about IRRs, discount rates, PVs and why you have an interest in the industry

Ask questions like: How many deals have you done over the past few years? Where are the deals being done? What is the natural progression from this role? (Specifically, will you be expected to have your MBA to take the leap from associate to VP?) You don t need a real estate license for this job but many people belong to industry organizations like the Urban Land Institute (www.uli.org).

Development

CHAPTER 14

The Scoop

If you enjoy taking risks, look no further than development. You can get in by working for another developer or you can strike out on your own, starting with some smaller transactions. It involves managing labor, establishing time estimates, managing money and monitoring construction crews. Good developers are results-oriented, creative and know how to get work done on time.

You take a concept and physically construct or alter a property that will last for years. In this field, you work with the local and sometimes federal government to bring your project to life. You also aggressively pursue the funding necessary from both the debt and equity markets to make the project a reality. Because of changes in population, technology and consumer taste, there s always a need for development.

Even the largest have lean organizations and are tight with cash so getting a job is tough. Some developers are only design-build firms, while others are full service first building and then managing and leasing the property. Most people in real estate agree that development is the riskiest and most rewarding part of the industry. Many developers are extremely charismatic and appear regularly in the society pages and every major city has its own Donald Trump; someone behind the big projects and deals.

One of the best things about real estate is the lifestyle and development is no exception. This is definitely a work hard, play hard career, said one real estate developer. Since some much of the industry is focused on personal relationships, you have some gregarious folk who love to have a good time. I worked in banking before I made the jump to development, another real estate professional confided. I saw how much fun and money my real estate clients were having and decided to switch careers. Granted there is a learning curve and you initially suffer pay wise, but I don t know any industry that allows you to make the kind of money you can make in real estate, while not putting in a ridiculous amount of hours.

On the Job

The developer is the person or the company that is responsible for the concept of a property and bringing it to reality. One thing that must be stressed is that every firm is different, more so than any other part of real estate. The titles and pay scales vary from firm to firm.

New hires start as analysts who create and rework spreadsheets that examine returns for the developer. Part of the spreadsheet analysis is keeping track of debt payments and the returns to equity partners. In this role you ll be expected to become a Microsoft Excel expert and your principal duty will be to run the financial spreadsheets. Any time there is a change to the project, the analyst reruns the spreadsheets to determine how it impacts the developer s and the investors returns. Since most developments firms are lean, analysts can expect to perform other duties such as market research: comparable project research, leasing activity in your market and demographic studies.

Associates, sometimes called project managers, work above analysts and are assigned to a specific project. The developer may have 10 buildings that are under construction but the associate is responsible for only one of them. Associates still perform a good deal of financial analysis but have additional duties such as contact with the real estate community and the development partners architect, contractor, investors and attorneys. Your main task is to see that the building is constructed on time and the management team will rely on you for updates and recommendations. You write a number of memos and begin to get invited to presentations to management.

Associates report to vice presidents (VPs), which at some companies are called managing directors (MDs). They re responsible for multiple assignments and make the final decisions with respect to the development project or portfolio. VPs delegate a lot of work to associates but are ultimately responsible for a development s success. They re directly involved with leasing or sale negotiations and report to management or the developer. In this role, there s a lot of responsibility and a ton of pressure.

At many development firms you will have the opportunity to eventually become a principal. As such you ll be expected to contribute equity to a development. Principals are asked to help raise money and are also expected to provide concepts for future developments. This is as good as it gets in the industry: you can make in the millions and will be held in high regard.

Developers start marketing their projects before they break ground and will often have their own team of leasing agents to market the property to the real estate community and show the development to prospects. Leasing agents that work for developers essentially have the same responsibilities of regular agents, but are under a lot more pressure when leasing a new development. Junior agents are assigned to a project and work with the leasing team to market the property and conduct property tours. However it is worth pointing out that some leasing agents at development firms eventually become principals.

Compensation

Analysts can make between $40,000-$50,000 per year. There is a potential bonus, but at this level don t expect much. Associates should shoot for MBA money, so make sure you do your research on market salaries. Associates at the larger firms make roughly $80,000-$90,000 per year. At this level you then have the potential to make a bonus of around ten to twenty percent of your salary. A vice president is where the money becomes very good, making a base salary of anywhere from $150,000 and up. On top of this you can earn a bonus as high as your salary. Principals can make in the millions; it all depends on how the project(s) perform.

Getting Hired

If you know you want to pursue a role in development, be extra aggressive since even the largest developers are lean and don t add staff often. For those at business schools, be ready to perform an independent job search as chances are your career placement office doesn t bring a lot of firms to campus or is not familiar with this field. There are companies out there that hire MBAs but you have dig to find them. Two well-known companies are Hines (www.hines.com) and Trammell Crow (www.trammellcrow.com). Both have good web sites and list available jobs.

If you want to learn more about development read Urban Land (www.uli.org), Realtor (www.nar.org), Journal of Real Estate Portfolio Management (www.aresnet.org) and National Real Estate Investor (www.nerionline.com). You can t buy these at your local newsstand but you can visit their web sites and learn more about developments across the country. most people choose to join the Urban Land Institute (www.uli.org).

Developers will expect you to tell them why you re interested in this particular field. Also, be prepared to answer how to value a property and what makes it valuable. Know specifics about the local real estate markets such as vacancy rates, rental rates and current development projects. Be able to address questions about time management, organizational and interpersonal skills. One insider said that many developers like people with marketing skills, which makes sense because effectively marketing yourself and the project you re working on will ensure your success.

There are some questions that you should be sure to cover when interviewing with a development firm. First, ask the developer what the staff does when they are between projects, because this field is very cyclical. When the economy is bad there s little development. Also, have the interviewer walk you through recent projects from start to finish to find out what types of developments the company works on. Are they rehabilitation projects or new developments? Do they focus on residential, office and or industrial? Get an organizational overview to determine the individuals that are identifying opportunities and those who raise money. Find out where the developer gets the funds for the project. Is the company using a bank, insurance company, high net worth individuals or another money source for funding projects? Ask about the expected returns on projects. Is there an absolute minimum return expected on all projects? Or does the return differ based on the type of real estate development? What kind of time frame do they expect for returns, short term or long?

APPENDIX

Industry Buzzwords

Abatement: A reduction or concession that the landlord offers the tenant. Generally referred to in terms of rent or other would-be escalations.

Above Building Standard: Items above and beyond the building's construction work letter items that the landlord will include in a standard office build out for tenants.

Absorbed Space: The net change, either positive or negative, of the amount of real estate available during a period in a given area (usually stated in square feet).

Absorption Rate: The percentage of space in a market that is either leased or given back to the real estate market in a stated period. Used as a measurement of supply and demand.

Positive absorption: Available space that has been leased or taken off the market.

Negative absorption: Space that is added to the market (i.e. new construction or space that was previously leased and has since become vacant).

Addendum: A document that includes any additions or changes to items in the original lease. Items in an addendum take precedence to items being replaced in the lease.

Add-On Factor: Also known as a loss factor, common area factor or core factor. Comprised of building areas that are common or used by all tenants. The common areas include: lobbies, restrooms, corridors, storage rooms, electrical rooms, janitorial closets, etc.

Adjustable-Rate Mortgage (ARM): A mortgage where the interest can fluctuate during the loan. The interest will change at different intervals pursuant to loan terms. These are typically short term and payments are less than most fixed loans. They're sometimes preferred when homebuyers do not anticipate staying in the home for a long time or if the homebuyer believes that interest rates will drop.

Ad Valorem: Property taxes based on the government's valuation of the property.

Amenities: Features that enhance the value of the property. Includes health clubs, sundry stores, restaurants, daycare and parking.

Amendment: An alteration or change to the original lease. These will have been accepted by all parties and recorded in a separate document.

Americans with Disabilities Act (ADA): Specific federal property requirements that need to be made available for the handicap.

Amortization: Spreading loan payments of principal and interest over a certain time period.

Annual Operating Expense Increase/Overages: Applicable to Full Service of Gross Lease. The expenses that reflect the tenant's proportionate share of building operating expense costs greater than the original estimate provided by the landlord (referred to as Base Year expenses or Expense Stop). Costs are stated in square feet.

Base Year: When the landlord quotes on a specific base year, the tenant is responsible for the difference between the operating expenses in the base year stated in the lease and the current operating expenses. For example, assume the base year is 2000 and the operating expenses in that year are $12.00. Then assume that in 2002 operating expenses are $15.00. The tenant would pay $3.00 per square foot.

Expense Stop: For instance, the Landlord may state the building's expense stop as $10.00. This means that the Landlord pays the first $10.00 of building operating expenses. If the building operates at a cost greater than the estimated $10.00, the tenant pays the difference.

APR (Annual Percentage Rate): Stated as a percentage of the loan. Includes all fees related to the loan.

Annual Rental Rate: The cost, usually calculated per square foot, to lease space in a building. If the rent is stated in square feet, you multiply it by the amount of leased square feet to arrive at your annual rent obligation. For example, if a tenant is leasing 10,000 square feet at $30 per square foot that equals an annual rent of $300,000 (note, that certain markets quote rent per square foot on an annual basis whereas others do so on a monthly basis. Watch your conversions!)

Appraisal: An opinion of value given on a property. Should be based on information that is certified by a licensed appraiser.

Appreciation: The increased value of a property.

Assessment: An estimation of a property's value. Generally used to calculate the tax obligation per property.

Assignment of Lease: The transfer of all responsibilities and liabilities of the lease from one party to another.

Base Rent: The initial rental rate which may be subject to annual increases. Any escalations are calculated from the Base Rent.

Base Year: A stated year from which operating costs or other escalations are then projected.

B.O.M.A.: The Building Owners and Managers Association (www.boma.org). An international organization that provides recommended guidelines for negotiations between landlords and tenants. B.O.M.A.'s measurement calculations are widely accepted for leased space.

Broker: An intermediary that acts on behalf of a landlord (called a Building or Landlord Representative), tenant (referred to as a Tenant Representative), owner or purchaser. Common to all facets of real estate.

Build-out: The construction of the tenant's proposed space to make it ready for occupancy, or to comply with tenant's construction needs according to the terms and conditions of the lease. Also referred to as T.I. (Tenant Improvements).

Build to Suit: Constructing a premises or facility per a tenant's specifications.

Capitalization Rate: Also referred to as a cap rate. Derived from taking the property's expected net income and dividing it by the sales price. The ratio is a market measuring stick that is commonly referenced. When cap rates are low, properties are selling at a premium; when cap rates are high, property prices drop.

Cash Flow: The cash receipts generated from a building, net of operating expenses, taxes, insurance and other transactions costs such as: tenant improvements and commissions.

Certificate of Occupancy: A document issued by the local governmental authorities, stating that the building or office space is in the proper condition to be occupied.

Close of Escrow: The point where seller gets paid and the buyer takes possession of the property.

Closing costs: Fees that the buyer and seller incur as a result of the property transaction. The down payment is not included but all other costs such as legal fees, insurance and property taxes are part of this calculation.

Commission: A market fee generally paid to the broker for representing a party in either a property sale or lease negotiation.

Common Area Maintenance Fees: Commonly referred to as CAM. In retail it's a fee charged to tenants to maintain the outward and overall appearance of the property. In the office building industry it's generally interchangeable with overage of operating expenses.

Comparables: Similar properties used as a comparison to determine a fair market value.

C.P.I. (Consumer Price Index): An index that is used to track inflation. Many escalations in leases are tied to this index. In most leases, this is used as the basis for adjusting annual rent increases.

Covenant: A promise or assurance given by one party to another. Another definition is a legal restriction of property.

Debt: Money that is borrowed. The debtor is contractually bound to repay the lender.

Debt Service: Payments made toward a loan.

Deed: A written instrument by which title to property is conveyed.

Depreciation: A decrease in a property's value.

Down Payment: The amount of money that the purchaser is contributing toward the property purchase. Many times a lender will require a minimum down payment for a loan. For example, if a house costs $500,000 and the bank to which you are applying for a loan requires a minimum 20 percent down payment, you are expected to contribute $100,000.

Easement: A right to access another property owner's land for a specific purpose.

Eminent Domain: A right reserved by the government to seize property by condemnation while proving consideration for the owner.

Encumbrance: A claim or lien filed against a property.

Equity: An individual or institution's ownership position in a property.

Expense Stop: An established dollar amount towards operating expenses of the building that the landlord is willing to pay. The tenant will be required to pay his proportionate share of any costs above (or over) this predetermined amount.

Fair Market Value: The price that a property would likely yield in the current market.

Fixed-Rate Mortgage: The interest rate is the same for the life of the loan. Typically involves a long-term loan such as a 30-year fixed rate mortgage. People prefer this loan when they expect to stay in the home for a long time. The payments remain the same for the life of the loan.

Full Service Lease: A commercial lease that is also known as a Gross Lease. The tenant makes one rent payment to landlord to cover both tenant's rent and operating expenses obligation.

General Contractor: An individual or company that coordinates and supervises all construction.

Gross Lease: see Full Service Lease.

Gross Square Footage: The property's total square footage without making any allowances.

HVAC: The heating, air-conditioning and other ventilation systems within property.

Landlord: The owner or operator of the property.

Lease: Legal document that outlines the terms and condition under which a landlord agrees to lease space to a tenant and vice versa.

Leasee: Individual or company that leases space at a property.

Leasing Agent: Individual that leases space at the property.

Lessor: Property owner that leases space to a leasee.

Lien: Claim against property.

Load Factor or Loss Factor: Also known as common area factor. Represents the percentage difference between the rentable and usable square footage in the building.

Loan-to-Value (LTV) Ratio: Percentage of the home's value that is borrowed. This LTV ratio is commonly referred to in banking because many lenders have LTV limit policies.

Mixed Use Building: A structure that has more than one particular use.

Modified Gross Lease: similar to a Gross Lease in that all costs, rent for premises as well as tenant's proportionate share of building's operating expenses are included, except that in the event the operating expenses exceed the landlord's estimate, the tenant pays the overage.

Mortgage: Legal instrument where real property is security for the payment of a loan. In the event that the borrower defaults its loan obligations, the lender can foreclose on the property.

Net Lease: Opposite of the Full Service or Gross Lease. In this lease structure, tenant is responsible for the direct payment of its share of operating expenses.

Net Operating Income: Gross income produced at the building minus operating expenses.

Net Present Value (NPV): Value of the lease once all costs of executing a transaction are deducted from the gross income of a lease.

Operating Expenses: The landlord's cost to operate the property. Typical expenses include real estate taxes, utilities, insurance, maintenance and repairs, janitorial, property management, security and labor associated with the building.

Operating Expense pass-throughs: Specific operating expenses that are passed on to the tenant in order to operate the building. Typically, the tenant pays its proportionate share of operating expenses, which is based on the percentage of the building that the tenant occupies.

Origination Fee: Also referred to as Points. The fee that the lender will charge for the mortgage. The expression Point refers to a percentage point of the loan. Therefore if you were charged two Points by the bank to process your loan of $100,000 you would owe $2,000 in fees.

Percentage Lease: When rent is based on a percentage of a tenant's sales. (Common to retail leases.)

Principal: The amount of the loan that does not include any interest.

Property: Two classifications: real and personal. Real property is land and any improvements on that land. Everything else is considered personal property. (This book is concerned only with real property.)

Pro-Rata Share: Percentage of the building's total rentable square feet that is occupied by the tenant.

Punch list: List of items that the tenant or buyer expects the landlord or seller to repair, before they take possession of the property.

Rent: What the tenant pays the landlord in return for the right to occupy the premises.

Rentable Square Footage: The amount of square feet, including the common area factor of the building. This typically is the square footage the tenant will pay rent on.

Rental Rate: Rate at which the tenant leases the premises from the landlord.

Security Deposit: Amount of money required by the landlord from the tenant, that the landlord can access in the event that the tenant defaults or damages the premises.

Space Plan: Architectural drawing of the tenant's desired construction of its leased premises.

Sublease: During the lease term when the tenant leases the premises to a third party that is from then on referred to as the subtenant. Unless it has been pre-negotiated, tenant must seek the approval from landlord.

Tenant: Individual or institution that leases space from the Landlord.

Tenant Improvements: Enhancements that are done by the tenant to its leased premises.

Tenant Improvement Allowance: The amount, or allowance, that the landlord will provide to the tenant for the construction or build out of its leased premises. The amount is usually stated in terms of square feet.

Title: Legal documentation of ownership

Triple Net Rent: Rent structure where the tenant pays all expenses in addition to its rent.

Usable Square Footage: The actual square footage in a tenant's premises. Calculated by taking the rentable square feet and subtracting the load factor.

Vacancy Factor: The amount of space not occupied in a particular building or, if referring to the entire market, the amount of total vacant space in the real estate market.

Warranty: Assurances given from the seller to the buyer or building owner to the tenant.

Zoning: Governmental ordinances that specify the use or uses that are permitted in an area or on a property.

Concept Overview: Net Operating Income

If you plan on entering the investment side of real estate, you should become familiar with net operating income (NOI). Simply stated, NOI is the income generated by a property minus the expenses at the building. It's used in calculating the value of the property.

The example below demonstrates how you arrive at NOI. There's a brief explanation of each line item.

Income

Potential Gross Rent

+ Parking Income (if applicable)

= Potential Gross Income

- Vacancy Loss

= Effective Gross Income

Expenses

Operating Expenses

+ Real estate taxes

+ Cash reserve

= Total Expenses

Effective Gross Income   Total Expenses = Net Operating Income

The potential gross income is the total available rentable square feet in the building multiplied by the annual rent per square foot. Included in this are the operating expenses and real estate taxes for the building   since tenants are expected to cover their pro rata share of the building. If the building has parking, parking revenue should be added to arrive at potential gross income. Thus far the assumption was that the entire building was leased. In reality, that's not always the case. We must account for the vacant portion of the building for which we are not collecting rent, so we subtract this vacancy loss from the potential gross income to arrive at the effective gross income.

Next we have to consider our expenses to run the building. There are the operating expenses such as utilities and cleaning costs to consider As well as real estate taxes that we need to pay. Finally, we allot a budget or cash reserve to account for other expenses that may come up. Collectively, these are our total expenses. The last step is to subtract the total expenses from the effective gross income, which equals NOI.

Business Schools with Real Estate Programs

CHAPTER 8

MIT Sloan School of Management www.mitsloan.mit.edu

Wharton www.wharton.upenn.edu/mba

Haas School of Business www.haas.berkeley.edu/mba

University of Wisconsin www.bus.wisc.edu/graduateprograms/fulltime

The Kellogg School of Management www.kellogg.northwestern.edu

Fisher College of Business The Ohio State University www.cob.ohio-state.edu

McCombs School of Business The University of Texas at Austin www.mccombs.utexas.edu/

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University of Wisconsin www.bus.wisc.edu/graduateprograms/fulltime

The K»llogg School of Management www.kellogg.northwestern.edu

The Ohio State University www.cob.ohio-state.edu

McCombs School of Business The University of Texas at Austin www.mccombs.utexas.edu/

Web Resources

Real estate organizations

NAOIP www.naiop.org

ULI www.uli.org

NAREIT www.nareit.com

NACREIF www.nacreif.com

Torto Wheaton www.tortowheaton.com

NAR www.realtor.com

ICSC www.icsc.org

Urban Land Institute www.uli.org

Appraisal Foundation www.appraisalfoundation.org

Appraisal Institute www.appraisalinstitute.org

Society of Industrial and Office Realtors www.sior.com

National Multi Housing Council www.nmhc.org

The Institute of Real Estate Management www.irem.org

Certified Commercial Investment Member www.ccim.com

BOMA www.boma.org

BOMI www.bomi-edu.org

Periodicals

Globe Street www.globest.com

Commercial Property News www.cpnonline.com

Real Estate Alert www.realert.com

Realty Stock Review www.reri.org

Midwest Real Estate News www.mwreonline.com

National Real Estate Investor www.nreionline.com

Multifamily Executive www.multifamilyexecutive.com

General site for periodicals

Global Software Solutions
www.globalsoftwaresolutions.net/realestate/publications.htm

General information

Real Estate ABCs www.realestateabc.com

Real Estate Employers

CHAPTER 2

Residential Real Estate Companies

RE/MAX

Headquarters:

8390 E. Crescent Parkway, Suite 500/600

Greenwood Village, CO 80111-2800

P.O. Box 3907

Englewood, CO 80155-3907

Phone: (303) 770-5571www.remax.com

One of the largest residential real estate brokers with 78,000 employees. In exchange for paying a management fee and a share of the monthly office overhead, RE/MAX agents receive commissions and receive the many benefits of RE/MAX programs and services. These offices operate as franchises. If you are interested in becoming a sales associate or want more information about becoming a franchise there is a direct link on the web site.

Coldwell Banker real Estate Corporation

Headquarters:

1 Campus Drive

Parsippany, NJ 07054

Phone: (973) 428-9700

www.coldwellbanker.com

Parent company is Cendant Corporation, which also owns Century 21. Has more than 3,000 independently owned and operated residential and commercial real estate offices with over 75,000 sales associates internationally. Known primarily for representing buyers and sellers in the residential real estate market. You can search the company's web site to find the office nearest you or send an e-mail through a link on the site to the corporate office with any career questions.

Century 21 Real Estate Corporation

Headquarters:

1 Campus Drive

Parsippany, New Jersey 07054

Phone: (877) 221-2765

www.century21.com

Also owned by Cendant Corporation, Century 21 Real Estate Corporation is the franchisor of the world's largest residential real estate sales organization, with more than 6,600 independently owned and operated franchised broker offices in over 30 countries and territories worldwide. Their agents represent both buyers and sellers of residential real estate. One thing emphasized at this company is the training that you will receive. Again, you can send an e-mail with any questions directly from the web site.

Full service commercial (property management, leasing, investment, brokerage)

Insignia/ESG

Headquarters:

200 Park Avenue

New York, NY 10166

Phone: (212) 984-8000

HR contact: Gregory Myers, Senior Vice President

E-mail: Gregory.myers@iesg.com

www.insigniaesg.com

Insignia/ESG, Inc. is one of the nation's leading commercial real estate service providers with comprehensive brokerage, property management, facilities management, consulting, investment sales and debt placement operations in 48 premier U.S. markets. Insignia/ESG also delivers commercial real estate services in the United Kingdom, Europe, Asia and Latin America. In the U.S., Insignia/ESG provides services for a property portfolio spanning more than 230 million square feet. It's a subsidiary of Insignia Financial Group, Inc. (www.iesg.com/companies/frame_ifg.html), a publicly traded company listed on the New York Stock Exchange.

CB Richard Ellis

Headquarters:
355 South Grand Avenue
Suite 200
Los Angeles, CA 90071
Phone: (213) 613-3333
www.cbre.com

CB Richard Ellis is a global provider of commercial real estate services. It has 10,000 employees in more than 250 offices across 47 countries. CB, as it is commonly known, offers brokerage assistance, corporate services, research, consulting, project management, valuation and advisory. Candidates can send their resumes to opps@cbre.com.

Cushman and Wakefield

Headquarters:
51 West 52nd Street
New York, NY 10019-6178
Phone: (212) 841-7500
www.cushwake.com

A leading provider of commercial real estate services. Clients include landlords, tenants and investors. Offers advisory services, valuation advice, strategic planning, research, portfolio analysis and site selection. Candidates can view job openings by city on the corporate web site. The appropriate contacts are also listed on the site.

Jones Lang LaSalle

Headquarters:
200 East Randolph Drive
Chicago, IL 60601
Phone: (312) 782-5800
www.joneslanglasalle.com

Jones Lang LaSalle is a leading international provider of comprehensive real estate and investment management services. The company stresses a team environment and serves clients locally, regionally and internationally from offices in over 100 markets on five continents. The 7,200 Jones Lang LaSalle professionals offer integrated investment, transaction, and management services. In recent years, the firm has been known to recruit MBAs and career switchers. Also, while most of their competitors pay commissions, they pay their employees salaries. Candidates can view jobs and submit resumes online at the corporate web site.

Development

Hines

Headquarters:
Williams Tower
2800 Post Oak Boulevard
Houston, TX 77056
Phone: (713) 621-8000
HR contact: Tracy Smith
E-mail: tracy_smith@hines.com
www.hines.com

An international developer that has planned and executed more than 650 projects including stunning skyscrapers, premier corporate headquarters, mixed-use centers, industrial parks, and master-planned resort and residential communities. Currently, Hines has over 78 million square feet under management and controls assets valued in excess of $13 billion. The firm has offices throughout the U.S. and in 11 other countries including: the United Kingdom, France, Spain, Mexico, Poland, Russia, Germany, Brazil, Italy, Argentina and China. It has been known to recruit people with engineering backgrounds, as well as to court MBAs. Candidates can view jobs and submit resumes online at the corporate site.

Catellus

Headquarters:
201 Mission Street, 2nd Floor
San Francisco, CA 94105
Phone: (415) 974-4500
www.catellus.com

Catellus Development Corporation is one of the nation's premier diversified real estate development companies. The company specializes in developing, managing and investing in a broad range of product types including industrial, office, residential, retail and major urban development projects. It owns a portfolio of rental properties totaling 37 million square feet and one of the largest supplies of developable land in the western United States. The site doesn't list job openings but you can submit your resume online.

Trammell Crow

Headquarters:
2001 Ross Avenue
Suite 3400
Dallas, Texas 75201
Phone: (214) 863-3000
www.trammellcrow.com

Trammell Crow emphasizes three core services of building management, brokerage, and development and project management. Focus on two customers, users of commercial real estate and facilities, and investors in commercial real estate. Have expertise in office, industrial, and retail properties. On the corporate Web site candidates can view openings and submit their resumes.

Tishman Speyer Properties

Headquarters:
520 Madison Avenue
New York, New York 10022
Phone: (212) 715-0300
www.tishmanspeyer.com

Tishman Speyer Properties is a leading international owner/operator and developer of office buildings with nine domestic offices as well as some in Europe and Latin America. All job openings are listed on the company web site and entries can be submitted online.

KB Homes

Headquarters:
10990 Wilshire Boulevard
7th Floor
Los Angeles, California 90024
Phone: (310) 231-4000
www.kbhome.com

KB Home is one of America's largest homebuilders with domestic operating divisions in Arizona, California, Colorado, Florida, Nevada, New Mexico and

Texas. Kaufman & Broad S.A., the Company's majority-owned subsidiary, is one of the largest homebuilders in France. In fiscal 2002, the Company delivered 25,565 homes in the United States and France. It also operates KB Home Mortgage Company, a full-service mortgage company for the convenience of its buyers. All openings can be viewed on the company Web site and entries can be submitted on-line.

REITs

Office Focused

Equity Office

Headquarters:
Two North Riverside Plaza
Chicago, IL 60606
Phone: (312)-466-3300
www.equityoffice.com

The nation's largest office building owner and property manager, as well as the largest REIT in the United States. Widely considered the premier REIT and an innovator in the industry. Run by Sam Zell, one of the most highly regarded real estate minds in the world. Owns buildings in virtually every major city and has related real estate companies who focus on other facets of real estate. All openings can be viewed on the company web site and applications can be submitted online.

Boston Properties, Inc.

Headquarters:
111 Huntington Avenue
Boston, MA 02199-7602
Phone: (617) 236-330
www.bostonproperties.com

Boston Properties, Inc. is a self-administered and self-managed REIT that develops, redevelops, acquires, manages, operates and owns a diverse portfolio of Class A office, industrial and hotel properties. The company is one of the largest owners, acquirers and developers of Class-A office properties in the U.S., concentrated in four core markets Boston; Washington, DC; Midtown Manhattan; and San Francisco. Founded in 1970, its primary focus is office space, however its property portfolio also includes hotels and industrial buildings. Boston Properties has five full-service regional offices located in the aforementioned areas and Princeton, New Jersey. No job or contact information is listed on the web site.

Retail focused

General Growth Properties

Headquarters:
110 North Wacker Drive
Chicago, IL 60606
Phone: (312) 960-5000
www.generalgrowth.com

General Growth Properties, Inc. is a real estate investment trust engaged in the ownership, operation, management, leasing, acquisition, development, expansion and financing of regional mall shopping centers in the United States. As of December 31, 2001, General Growth either directly or through the Operating Partnership and subsidiaries owned 100% of 54 regional mall shopping centers and 50% of each of two regional mall shopping centers. All openings can be viewed on the company web site and applications can be submitted online.

Simon Property Group, Inc.

Headquarters:
115 West Washington Street
Indianapolis, Indiana 46204
Phone: (317) 636-1600
www.shopsimon.com

Simon Property Group, Inc., is a real estate investment trust engaged in the ownership and management of income-producing properties, primarily regional malls and community shopping centers. Through its subsidiary partnerships, it currently owns or has an interest in 246 properties containing an aggregate of 184 million square feet of gross leasable area in 36 states, as well as eight assets in Europe and Canada. It is the largest publicly traded retail real estate company in North America with a total market capitalization of approximately $21.3 billion as of December 31, 2002. All openings can be viewed on the company web site and applications can be submitted online.

Industrial

AMB Property Corp.

Headquarters:
Pier 1 Bay 1
San Francisco, CA 94111
Phone: (415) 394-9000
www.amb.com

AMB Property Corporation is a REIT engaged in the acquisition, ownership, operation, management, renovation, expansion and development of primarily industrial properties nationwide. As of December 31, 2001, AMB owned and operated 905 industrial buildings and seven retail centers, totaling approximately 81.6 million rentable square feet, and located in 26 markets nationwide. Through its subsidiary, AMB Capital Partners, LLC, AMB also manages industrial buildings and retail centers, totaling approximately 2.7 million rentable square feet on behalf of various clients. In addition, the company has invested in 40 industrial buildings, totaling approximately 4.9 million rentable square feet through unconsolidated joint ventures. All openings can be viewed on the company web site and applications can be submitted online.

ProLogis Trust

Headquarters:
14100 East 35th Place
Aurora, CO 80011
Phone: (303)375-9292
www.prologis.com

ProLogis Trust operates a global network of industrial distribution facilities. ProLogis' business is organized into two primary operating segments: property operations, which includes the long-term ownership, management and leasing of industrial distribution facilities, and the corporate distribution facilities services business (CDFS business), which represents the development of industrial distribution facilities that are either sold to unaffiliated customers or contributed to real estate funds in which ProLogis maintains an ownership interest and acts as manager. The company's been known to hire MBAs with no real estate experience. All openings can be viewed on its web site and applications can be submitted online.

Apartment-focused

AvalonBay Communities, Inc.

Headquarters:
2900 Eisenhower Avenue
Suite 300
Alexandria, VA 22134
Phone: (703) 329-6300
www.avalonbay.com

AvalonBay Communities, Inc. is in the business of developing, redeveloping, acquiring and managing luxury apartment communities in the high barrier-to-entry markets of the United States. These markets are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the country. At September 30, 2002, AvalonBay owned or held interest in 148 apartment communities containing 43,496 apartment homes in eleven states and the District of Columbia, of which fourteen communities were under construction and one was under reconstruction. In addition, they held future development rights for 36 communities. All openings can be viewed on the company web site and applications can be submitted online.

Equity Residential

Headquarters:
Two North Riverside Plaza
Suite 450
Chicago, IL 60606
Phone: (312) 474-1300
www.eqr.com

With more than 1,000 properties across 36 states, it's the largest publicly traded owner and operator of multifamily properties in the United States. Equity Residential (EQR), formerly known as Equity Residential Properties Trust, is a self-administered and self-managed equity REIT. As of December 31, 2001, the company owned or had interests in a portfolio of 1,076 multifamily properties containing 224,801 apartment units. Its holdings are comprised of 697 garden properties, 28 mid/high-rise properties and 351 ranch properties. Resident leases are generally for a period of 12 months and typically require security deposits. EQR's properties are located in 36 states with its corporate headquarters in Chicago, Illinois. The company also rents, under operating leases, over 35 divisional, regional and area property management offices throughout the United States. All openings can be viewed on the company site and applications can be submitted online.

Investors and Advisory Firms

RReef

Headquarters:
101 California Street
26th Floor
San Francisco, CA 94111
Phone: (415) 781-3300
www.rreef.com

Lendlease Real Estate Investments, Inc.

Headquarters:
3424 Peachtree Road N.E.
Atlanta, GA 30326-1102
Phone: (404) 848-8600
www.lendleaserei.com

Lendlease offers real estate investors market presence, product range, investment research, and real estate capabilities with a commitment to providing superior performance and client service through customized programs. Candidates can submit their resumes online.

Walton Street Capital L.L.C.

Headquarters:
900 North Michigan Avenue
Suite 1900
Chicago, IL 60611
Phone: (312) 915-2800
www.waltonst.com

The principals of Walton Street direct the investment and management of the funds. To properly align the interests of the principals and fund investors, the principals personally make a significant investment in the funds and are compensated through a back-end weighted compensation structure: Fund investors must receive a return of their committed fund capital and a referred return before any performance fees are paid to the general partner. Of the $1.1 billion of aggregate equity commitments received by the funds, the principals have personally committed $111 million alongside the investors in the funds. The funds have an opportunistic and value-added investment focus, with the objective of producing returns to investors of at least 20 percent.

The Blackstone Group

Headquarters:
345 Park Avenue
New York, NY 10154
Phone: (212) 583-5000
www.blackstone.com

One of the most active and successful investors in the global real estate market, having completed over 100 separate transactions comprising more than 600 individual real estate assets valued at approximately $13 billion. Through its real estate funds, the firm has raised approximately $4 billion for real estate investments, primarily in North America and Europe. The size of Blackstone Real Estate Advisors' (BREA) investments varies depending on the opportunity and market conditions, but Blackstone generally seeks real estate investments requiring a minimum of $30 million in equity capital. The company is regarded as one of the top dealmakers in the business. It's been known to recruit undergraduates and MBAs from top schools.

Heitman Real Estate Investment Management

Headquarters:
180 North LaSalle Street
Chicago, IL 60601
Phone: (312) 855-5700
www.heitman.com

Heitman is a multinational real estate investment management firm that serves a global client base and makes investments in commercial real estate directly or in publicly traded REIT securities in the U.S. and Europe. All openings can be viewed on the company web site and applications can be submitted online.

Real estate lenders

Bank One Corporation www.bankone.com

Wells Fargo www.wellsfargo.com

Bank of America www.bankofamerica.com

Special mention: The following insurance companies are active in real estate investment, be it equity contributions or placing debt.

Prudential Real Estate Investors

Headquarters
751 Broad Street
Newark, NJ 07102
Phone: (973) 802-6000
HR contact: Sandra Ford
E-mail: sandra.ford@prudential.com
www3.prudential.com/pim/pim/pim_home.html

Prudential was one of the first firms to widely offer the benefits of real estate investing to pension plans. Prudential Real Estate Investors offers a broad range of investment vehicles that endow private and public market opportunities in the U.S., Europe, Asia and Latin America. The product offerings are designed to address specific client needs, including diversified core real estate equity and private debt strategies, value-added real estate equity strategies, and opportunistic or specialized private or public real estate equity strategies. All openings can be viewed on the company site and applications can be submitted online.

MetLife Real Estate Investments

Headquarters:
One Madison Avenue
New York, New York 10010
Phone: (212) 578-2211
www.metlife.com

MetLife Real Estate Investments, the real estate investment arm of Metropolitan Life Insurance Company, maintains a portfolio of over $20 billion invested in real estate products including equities, commercial mortgages, and securitized investments. MetLife Real Estate Investments has offices in key cities throughout the United States, as well as London and

Toronto. Commercial real estate services include mortgages, leasing, sales, acquisitions and capital transactions. No jobs are listed but candidates can send the company an e-mail directly from the web site.

Northwestern Mutual Life Insurance Company

Headquarters:
720 East Wisconsin Avenue
Milwaukee, WI 53202
Phone: (414) 271-1444
www.northwesternmutualinvestments.com

Investment focus includes acquisition and development of commercial property, commercial mortgages and securitized investments. Northwestern Mutual Life places both debt and equity in the real estate market. No job information is available on the web site.

About the Author

Raul Saavedra Jr.

Raul Saavedra Jr. began his real estate career soon after graduating from the University of Illinois in 1994.

Soon after graduating college, Raul bought an apartment building and began working in commercial real estate as an office tenant representation broker. After developing a strong sales and marketing background in real estate, Raul enrolled in The Kellogg School of Management.

Raul has a background in many facets of real estate: residential, commercial, industrial and technology. He has worked at two of the leading commercial real estate firms and was market director for a real estate technology firm.

At Kellogg, Raul became very involved with the real estate club and the curriculum. Raul was a co-chair of both the real estate club and the annual Real Estate Conference. He graduated in June of 2002 and is now a real estate consultant.