



## REAL ESTATE BROKERAGE SERVICES



**Robert Grunnah**  
President  
Investments Division

During the course of the last three decades, the role of the “real estate broker” has evolved through significant transition. The time of the “all things to all people” real estate salesman who can perform multiple functions has given way to highly specialized areas of pursuit and competition. Thirty years ago the real estate salesman could drift in and out of active markets pursuing fairly simple transactions. Trading current information for opportunity was less sophisticated but still required a great deal of hard work and time to obtain such information through basic unsophisticated word-of-mouth sources and the courthouse. Today, most all information needed to support the feasibility of a transaction can be acquired through electronic media or data published and updated frequently. The days of “back of the envelope” deals are in the past and have been replaced by well-structured, complex presentations which can be emailed across the world in seconds, as well as much more specialized brokers.

Today’s tenant representation broker can provide a prospective tenant sufficient market information almost instantaneously in a quantity and quality sufficient to make major decisions. Tenant representation was relatively unheard of 20 years ago. Today, in the Dallas/Ft. Worth marketplace, six out of the eight largest companies generate more than half of their fee income from tenant representation assignments. More active during high vacancy markets, tenant representation brokers,

broker the vast majority of both out-of-city relocations and intra-city moves and lease renewals. Their success is judged by the thoroughness of market knowledge they possess. The Dallas/Ft. Worth marketplace has led the nation by establishing one of the most effective and extensive pools of available information when compared to most other major metropolitan areas. Now, the tenant representation broker is expected to be able to analyze virtually every available vacancy in the client’s perceived market area, competitive rent schedules, tenant improvement allowances, add-on tenant lease expenses, and any other financial variables which may ultimately affect the tenant’s occupancy. Possessing one of the most successful corporate services groups, Henry S. Miller Commercial has been fortunate for many years to anticipate our client’s needs and provide them virtually all information necessary to make a prudent occupancy decision.

Three decades ago, Henry S. Miller Commercial housed what was then called the Investment Marketing Division, a group of approximately 40 brokers, the majority of which were benefiting from the explosive growth of North Central Texas. Oil and gas, banking and insurance were the primary industries promoting a less than diversified economy. The vast majority of our investment brokers dealt in land/investment. Only a few recognized the future potential of income-producing investments. Sophistication in market analysis, municipal bureaucracies, redevelopment of functionally obsolete land uses, and continued rapid growth in our markets have all contributed to that division’s makeover into what is now five different areas of investment concentration.

While land continues to be a major area of specialty, the working knowledge of new zoning ordinances, plan unit development applications, infrastructure (including utilities and thoroughfares), municipal staff influences, and development applications have created a more sophisticated broker capable of analyzing and presenting an investment in a format the client can comprehend and upon which he may make an investment decision. No longer is it sufficient to rely on the “greater fool theory” in selling a land tract to an investor. An investment must have multiple exit strategies resulting in relatively consistent and high prices which allow little room for error. Today’s land broker must consider numerous variables in his analysis of a potential investment prior to its presentation to his clients. He must know not only the value relative to other tracts, he must also know soils, utility functions, development costs, zoning processes, municipal and political structure, as well as understand the effects of inflation relative to development term, market absorption, construction costs, and a multitude of other items which will ultimately effect the disposition of the developed parcels or end product. While more information is available to him, much more assimilation and analysis is required.

An integral part of the Land Division at Henry S. Miller Commercial is the relatively new Farm and Ranch group. These specialists are not as concerned with the development process as they are with animal unit per acre capacity, native and improved grasses, types of wildlife and their census, types of fencing, mineral interests, water sources and quality, and the many other aspects of producing off the land. Truly a misnomer in today’s environment, this division should be known as the “recreational land” division. The vast majority of farm and ranch transactions involve their ability to produce game and animal habitat for recreational purposes as well as

*Continued on next page*



provide recreational enjoyment to its owner. Still anticipating a buyer's requirement for multiple exit strategies, today's farm and ranch broker must also be familiar with sources of financing and complex government subsidiary programs.

Income producing property investments also provide a lucrative arena for today's full-service real estate organizations. While participating in virtually all types of income producing properties, shopping centers and industrial buildings have offered longer-term income production stability, greater returns, and greater residual value. Successful and well-respected companies depend on long-term experience as much as any research criteria to provide their investors above average yields through many volatile markets. Income property specialists are able to utilize the multitude of investment analysis vehicles available today in conjunction with many years of experience in local markets to provide investors critical data in determining the feasibility of an investment. Again, the successful broker presents the client with a critical analysis of the many risks to which an active market is exposed as specific assets are evaluated.

Three decades ago, an income property broker was as much at ease presenting a shopping center to an investor as he was presenting a warehouse, an office building, or multi-family investment. Today, the senior housing/multi-family specialty provides a multitude of new challenges involving government regulation, geographic influences and attitudes, and a nomadic population. Influences not necessarily affecting other types of income producing property have created both a brokerage specialist and a client specialist. A thorough working knowledge of government regulations affecting the residential business, regulations which change frequently and without much notice, have further created an almost independent area of real estate investing. The large number of "baby boomers" marching towards senior housing, low-interest rates attracting apartment dwellers to home ownership, an extremely mobile work force, and municipal aversion to high density housing, have all contributed to a collection of brokers who must have knowledge and understanding of the effects on real estate investments which are new and uncommon. Senior housing/multi-family brokers must be exceptionally qualified in advising clients and yet sensitive to the many timing issues which effect value.

Dallas/Ft. Worth has always been extremely fortunate in collecting investment equity from all over the world. Fueled by job growth, housing starts, and a dynamic business climate, our metroplex enjoys a reputation which attracts many international investors who are seeking a relatively secure investment vehicle. Brokers who specialize in dealing on an international level must learn how to converse with Pacific Rim, European, and Latin American cultures in their own languages providing sound investment insight in accomplishing their objectives. Again, long-term experience within the market initially attracts these investors and investment specialists must be able to provide them the product they seek in an understandable format.

Henry S. Miller Commercial is a "full service" real estate organization which provides virtually every service necessary to assist in any real estate endeavor. This includes, but is not limited to, raising debt and equity, providing consulting and appraisal services, property and construction management, devel-

opment and brokerage of all types of properties, providing tenant representation services for office, industrial and retail properties, and relocation services, corporate outsourcing and improvement construction to corporate real estate managers and their senior officers. This work is performed by individuals who are regarded as the best in their respective fields.

*By Robert Grunnah  
President  
Investments Division*

**TRENDS** - The information contained herein is the result of a survey of participants in the commercial real estate markets of North Texas for the first half of 2003. The respondents include local and national developers, asset managers, loan officers in local and national lending institutions, brokers, as well as consultants, mortgage bankers and individual investors. Some of the data reported reflects a weighted average using the transactions and total dollar amounts as the basis. Thus, the respondents that were the most active within the period had more influence on the data reported.

The responding group as a whole participated in 484 transactions totaling approximately \$934 million during the first half of 2003. Of the respondents 7.1% were lenders, 16.7% were investors, 66.7% were brokers and 9.5% were other real estate professionals.

**"Who are the active buyers in today's market?"** The following chart reflects the actual buyers, based on the number of transactions, according to the respondents.

## ACTIVE BUYERS

End Users	1.5%
Out-of-State Investors	23.5
Local Investors	74.5
Other	0.5

The following table shows the sources of funds used in the transactions (based on the dollar amount of the transactions).

## SOURCES OF FUNDS

Local Lender	31.5%
Non-Texas Bank	41.7
Individual/Cash	13.6
Other (Owner-Financed, Gov't, etc.)	4.8
Insurance	2.1
Pension	6.3



Direct capitalization, expressed as a rate, converts a single year's net operating income into a value. The market recognizes three types of "Cap Rates." The "going-in" rate is based on the investor's analysis of the current income at time of purchase. The "stabilized rate" is based on the investment's typical operating year at a stabilized occupancy. The "reversion rate" is the capitalization rate anticipated by investors at the time of resale. 81% of the respondents indicated that they deduct a reserve within their stabilized proforma.

## CAPITALIZATION RATES

Property Type	Going-In		Stabilized		Reversion	
	Avg	Range	Avg	Range	Avg	Range
Apartments	7.5%	6.5-10.3%	8.3%	7.0-9.5%	8.9%	7.0-13.0%
Office	8.8	4.0-10.5	10.0	9.0-11.0	10.2	8.0-13.0
Retail	9.4	8.5-11.0	10.1	8.8-12.0	10.4	9.0-14.0
Industrial	9.1	8.0-10.0	9.7	8.0-12.0	10.0	8.0-12.0
Hotel	10.7	9.5-12.0	10.3	10.0-10.5	10.5	10.5-10.5

The capitalization rates reported are more reflective of Class A and B type properties and are broken out as follows: Class A – 42.9%, Class B – 40.3%, Class C – 13.3%, Class D – 0.2% and all types – 3.3%.

A discount rate is the rate that equates the property's present value to its future income over a period of years and eventual resale. The following table presents the range and the average discount rates, as compared to mid-year 2002. The discount rates presented in the table were allocated by property as follows: Class A – 45.9%, Class B – 40.2% and Class C – 13.9%. 77.3% of the respondents indicated that a reserve was deducted within the cash flow.

## DISCOUNT RATES

Property Type	Mid-Year 2002 Average	Mid-Year 2003 Average	Mid-Year 2003 Low	Mid-Year 2003 High
Apartments	9.9%	9.5%	5.3%	20.0%
Office	12.3	9.2	5.0	12.0
Retail	11.3	10.3	5.5	15.0
Industrial	10.4	10.7	5.8	16.0
Hotel	13.8	11.5	11.0	12.0
Ground Leases	9.9	8.3	7.0	9.5

We asked the respondents to estimate changes in revenue and expenses by property type, which is demonstrated in the following table.

## REVENUE AND EXPENSE EXPECTATIONS

Property Type	YEAR 1		YEAR 2		THEREAFTER	
	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.
Apartments	0.31%	3.00%	1.60%	2.84%	3.03%	2.79%
Office	0.15	2.46	1.17	2.67	0.75	2.79
Retail	2.64	3.14	3.67	2.96	4.23	2.96
Industrial	1.67	2.56	2.38	2.78	2.89	2.70
Hotel	0.17	2.71	1.67	2.86	2.50	3.07

When asked what would be a reasonable exposure time for a property to sell in the open market, the respondents answered as follows:

## REASONABLE EXPOSURE TIME (MONTHS)

Property Type	Months	Property Type	Months
Apartments:		Land:	
Class A	6.0	Leased Fee Sites	8.3
Class B	7.2		
Other	7.4		
Office:		Industrial:	
High Rise	10.4	Bulk Warehouse	7.2
Class A Suburban	9.3	Office/Warehouse	7.0
Class B	10.8	Tech Flex	7.9
Other	8.1		
Retail:		Hotels:	
Regional	6.3	Full Service	8.9
Community	5.7	Limited Service	11.0
Neighborhood	6.0	Economy	11.0
Unanchored	7.0		

The following table reflects the anticipated term of ownership (from acquisition to resale) for certain property types.

## HOLDING PERIOD (YEARS)

Property Type	Average	Range	Mode
Apartments	5.5	3.0-10.0	5.0
Office	8.1	1.5-20.0	5.0
Retail	5.6	1.0-10.0	5.0
Industrial	7.5	1.0-25.0	5.0
Hotels	8.8	3.0-25.0	5.0
Ground Lease	12.0	1.0-45.0	5.0



## Investment Opportunity in 2003

Retail properties were viewed as being the best investment opportunity, followed by land, industrial, apartment, office and hotel properties. The participants were asked to provide their forecast for the remainder of 2003: great - 3.0%, good - 18.2%, stable - 66.7% and 12.1% anticipate a decline.

The following table reflects market averages and ranges for finish-out in office, industrial and retail properties. These are shown on a per square foot basis. Please note that the ranges for industrial reflect both bulk and flex type space. The upper end reflects flex space, with the lower end being more representative of warehouse or bulk type space, which is usually only applied to the office portion.

### FINISH-OUT

	Office	Industrial	Retail
<u>Shell</u>			
Average	\$25.06	\$8.00	\$18.42
Range	\$15.00-\$40.00	\$4.00-\$15.00	\$10.00-\$30.00
<u>New</u>			
Average	\$19.88	\$5.90	\$16.31
Range	\$2.50-\$40.00	\$3.00-\$15.00	\$6.00-\$30.00
<u>Renewal</u>			
Average	\$9.45	\$2.94	\$7.80
Range	\$3.50-\$20.00	\$1.00-\$6.00	\$2.00-\$11.00

We asked the investment community about their acceptable returns when investing in land. **The following yield rates primarily reflect leveraged returns.**

### YIELDS FOR LAND

Property Type	Average	Low	High
Pad Site	19.3%	10.0%	30.0%
Industrial	19.9	12.0	30.0
Residential Lot Development	25.0	15.0	35.0
Speculative Land Purchase	29.2	20.0	50.0

We asked the respondents what they used for a stabilized vacancy and collection loss when analyzing different property types. The following table summarizes their responses, presenting both the average and the mode.

## VACANCY & COLLECTION LOSS

Multi-Tenant	Loss (%) (avg. & mode)	Single Tenant	Loss (%) (avg. & mode)
<u>Retail:</u>		<u>Retail:</u>	
Strip Center	8.3 / 10.0	Credit	2.7 / 2.0
Neighborhood	8.0 / 10.0	Non-Credit	6.7 / 5.0
Anchored	5.6 / 5.0		
Multi-anchor	5.7 / 5.0		
<u>Office:</u>		<u>Industrial:</u>	
Class A	10.1 / 10.0	Credit	2.8 / 2.0
Class B	11.8 / 10.0	Non-Credit	7.1 / 5.0
Garden (Class C)	12.1 / 10.0		
Small	11.3 / 10.0		
<u>Industrial:</u>		<u>Office:</u>	
Bulk	7.3 / 5.0	Credit	4.5 / 5.0
Flex	9.5 / 10.0	Non-Credit	9.6 / 5.0
<u>Apartments:</u>			
Class A	8.8 / 7.0		
Class B	10.2 / 10.0		
Class C	12.1 / 10.0		

**Henry S. Miller Commercial** is a full service Real Estate Company providing brokerage, leasing, asset and property management, corporate real estate, investment banking, development, construction management, consulting and appraisal services. Henry S. Miller Commercial is a member of The Commercial Network, one of the nation's largest networks of affiliated commercial real estate companies with over 1,200 professionals in 200 markets, worldwide.

#### Henry S. Miller Commercial - Dallas

5001 Spring Valley Road  
1100 Providence Towers West  
Dallas, Texas 75244  
Phone (972) 419-4000  
Fax (972) 419-4099  
email: [consult@henrysmiller.com](mailto:consult@henrysmiller.com)

#### Henry S. Miller Commercial - Houston

3050 Post Oak, Suite 150  
Houston, Texas 77056  
Phone (713) 626-2828  
Fax (713) 626-5277

#### Henry S. Miller Commercial - Austin

1250 South Capital of Texas Hwy.  
Building 1, Suite 340  
Austin, Texas 78746  
Phone (512) 794-9400  
Fax (512) 794-9515

#### Henry S. Miller Commercial - San Antonio

12770 Cimarron Path, Suite 122  
San Antonio, Texas 78249  
Phone (210) 821-5323  
Fax (210) 495-8682

Henry S. Miller Commercial disclaims any and all liability for the accuracy of the data submitted that was included in the survey, and therefore, for uses and application of the data reported