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The Real Estate Business

**Real Estate Professions
Real Estate Brokerage
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REAL ESTATE PROFESSIONS

**Real estate activities
Professional specialties
Property type specialization**

In its broadest sense, the real estate industry is the largest single industry in the American economy. Within it one might include the construction industry, itself often considered our country's largest business. In addition, the real estate industry may be said to include the creation, management, and demolition of every residence and business facility in the nation: offices, warehouses, factories, stores, and special purpose buildings such as hospitals and government facilities. The *real estate* business would include as well the managing of all the undeveloped land in the country: national parks, forests, and the vast quantity of unused federal property.

Real estate professionals are individuals and business organizations whose *sole enterprise is performing a real estate-related service or function*. A wide range of professions is available to persons wishing to enter the real estate business.

Real estate activities

Real estate professionals perform the following property-related functions:

- ▶ creation and improvement
- ▶ management and maintenance
- ▶ demolition
- ▶ investment ownership
- ▶ regulation
- ▶ transfer

Creation and improvement. Creating real properties from raw land involves capital formation, financing, construction contracting, and regulatory approvals. The key parties involved in this aspect of the business are generally the developer, the landowner, and the mortgage lender. Also involved are market analysts, architects, engineers, space planners, interior designers, and construction subcontractors.

Experts who manage the legal aspects of the development project include real estate attorneys, title companies, surveyors, property insurance companies, and government regulatory officials. The brokerage community, with the assistance of professional appraisers, usually handles the ownership and leasing transactions that occur over the many phases of development.

Management and maintenance. All real estate, whether raw land or improved property, must be managed and maintained. The two principal types of managers are property managers and asset managers. Property managers and their staff oversee specific properties on behalf of the owners, making sure the condition of the property and its financial performance meet specific standards.

Asset managers oversee groups of properties, or portfolios. Their role is to achieve the investment objectives of the owners as opposed to managing day-to-day operations.

Maintenance personnel include engineers, systems technicians, janitorial staff, and other employees needed to maintain the property's condition.

Demolition. Demolition experts in conjunction with excavation and debris removal experts serve to remove properties that are no longer economically viable from the market.

Investment ownership. A specialized niche in the real estate business is the real estate investor who risks capital in order to buy, hold, and sell real properties. In contrast to property owners whose primary interest is in some other business, the real estate investor focuses on identifying and exploiting real estate investment opportunities for profit. The real estate investor provides capital and liquidity to the real estate market.

Regulation. All real estate is to some degree regulated by government. The principal areas of regulation are usage, taxation, and housing administration. Professional regulatory functions include public planners, zoning administrators, building inspectors, assessors, and administrators of specific federal statutes such as Federal Fair Housing Laws.

Transfer. Rights and interests in real estate can be bought, sold, assigned, leased, exchanged, inherited, or otherwise transferred from one owner to another. Real estate brokers and the brokers' salespeople are generally centrally involved in such transfers. Other professional participants are mortgage brokers, mortgage bankers, appraisers, insurers, and title companies.

Professional specialties

In summary, the six primary functional areas are populated by professionals with the following specialties.

Exhibit 1.1 Professions in Real Estate

Creating	<ul style="list-style-type: none"> developers public and private planners architects building contractors space planners mortgage lenders and bankers title and escrow companies insurers real estate brokers and agents 	<ul style="list-style-type: none"> market analysts surveyors engineers public and private inspectors mortgage brokers securities companies attorneys appraisers
Managing & Maintaining	<ul style="list-style-type: none"> property managers maintenance engineers technicians corporate managers 	<ul style="list-style-type: none"> asset managers maintenance
Destroying	<ul style="list-style-type: none"> demolition contractors 	<ul style="list-style-type: none"> excavators
Holding	<ul style="list-style-type: none"> investors 	<ul style="list-style-type: none"> corporate managers
Regulating	<ul style="list-style-type: none"> assessors zoning administrators 	<ul style="list-style-type: none"> public planners building inspectors
Transferring	<ul style="list-style-type: none"> brokers and agents lenders and bankers title and escrow companies insurers 	<ul style="list-style-type: none"> appraisers mortgage brokers attorneys surveyors

Property type specialization

In addition to specializing by function, many professionals also specialize in the type of property they work with. According to the purpose of ownership, properties are classified as residential, commercial, or investment properties.

Residential property refers to property that is owned and used for habitation. Such properties may be further classified in terms of how many families they are designed to house, whether they are attached to other units or detached, and so forth.

Commercial property generally refers to retail and office properties, but may also include industrial real estate. The term "commercial" relates to the fact that the property can potentially generate income from a business's usage.

Investment property refers to any property that is held by its owners for investment purposes. All classifications of property may be investment properties. Generally, however, the term does not refer to owner-occupied residences, even though such properties constitute an investment. Apartments, condominiums, cooperatives, and single-family homes may be considered as investment property if non-occupants own the property for investment purposes. These properties are also referred to as residential income properties.

According to use, the following classifications of real properties are commonly accepted.

Exhibit 1.2 Classifications of Real Estate by Use

residential	industrial
residential income	farm and ranch
office	special purpose
retail	land

These categories are not absolute, since properties often have overlapping uses. A bank, for example, may have retail as well as office operations. An industrial distribution facility may include extensive office space. A retail center may contain offices.

Special purpose properties include publicly or privately owned recreational facilities, government buildings, churches and schools, and so on.

REAL ESTATE BROKERAGE

Forms of specialization Skills and knowledge

Most newly licensed practitioners choose to begin their real estate careers in residential brokerage.

Primary real estate brokerage activities involve performance of one or more of the following tasks:

- ▶ locating a buyer for a seller
- ▶ locating a seller for a buyer
- ▶ locating a tenant for a landlord
- ▶ locating a landlord for a tenant

A seller, buyer, landlord or tenant hires a broker to procure the opposite party to the sale or lease transaction. To help get the job done, the broker hires licensed agents as assistants. The brokerage company, in its simplest form, consists of a broker and the broker's agents, who together work to locate buyers, sellers, tenants and landlords for the broker's clients.

Forms of specialization

In the modern brokerage environment, brokers and agents specialize along the following lines:

- ▶ property type
- ▶ geographical area
- ▶ type of transaction
- ▶ type of client
- ▶ type of relationship

One's choice of specialization is influenced by competitive factors in the market and by perceived opportunities.

Property type. Since different properties have different features and potential buyers, brokers commonly choose to specialize in a property type. Thus there are:

- ▶ residential agents
- ▶ commercial agents (office, retail)
- ▶ industrial agents
- ▶ land agents

Geographical area. Brokers and agents must maintain current, accurate data on properties. It is not possible to keep track of every property in larger markets. Therefore, one must create an area of geographical specialization. One's area may be defined by natural barriers; by streets and highways; or by a certain set of subdivisions.

Type of transaction. The principal types of transaction are sales, leases and subleases, exchanges, and options.

Each form of transaction involves particular legal documents and considerations. As a result, many agents, particularly commercial agents, specialize in a type of transaction. For example, in an urban commercial property market, agents generally specialize in either leases or sales.

Type of client. Brokers increasingly represent buyers and tenants as well as sellers and landlords. Since conflicts of interest may be involved, many brokers restrict their business to representing either buyers and tenants or sellers and landlords exclusively.

Some brokers and agents also specialize according to the type of business their clients are in or their motivations for the transaction. Thus one finds brokers who focus exclusively on hospitals, or fast food chains, or executive relocations.

Type of relationship. In recent years, many brokers have specialized in providing advisory services to clients instead of the traditional transaction-based, commission-compensated services. In the advisory relationship, the broker works on identified real estate tasks or projects in exchange for a fee, salary, or retainer. The fee advisor may or may not focus on completing a transaction.

Some of the individual brokerage services that one might perform for a pre-set fee are:

- ▶ comparative price analysis
- ▶ database search
- ▶ prospect screening
- ▶ site analysis

Skills and knowledge

Professionals in the brokerage business must have a broad range of real estate knowledge and skills. Agents must develop a thorough awareness of their local market and the properties within it. In addition, agents must develop a proficiency with the economics of real estate: prices, financing, closing costs, and so forth. Equally important are "people" skills: communicating with clients and responding to their needs.

Exhibit 1.3 Skills and Knowledge in Real Estate Brokerage

Knowledge	Skills
local market conditions	financial qualification
local properties	market analysis
real estate principles	marketing practices
real estate law	ethical practices
value estimation	liability management
real estate financing	data management
investment principles	selling
license laws	time management
related math calculations	communication
closing procedures	writing
	basic computer operation

PROFESSIONAL ORGANIZATIONS

There are trade organizations within the real estate industry that support and promote virtually every form of business specialization. Benefits of membership include training programs, professional designations, and communication channels for keeping abreast of events and laws. Trade organization membership also generally enhances one's business image in the eyes of clients and the public at large.

Some of the major trade organizations, institutes and related professional designations are listed below.

Exhibit 1.4 Real Estate Trade Organizations and Designations

American Society of Appraisers www.appraisers.org	National Association of Exclusive Buyer's Agents www.nacba.org
American Society of Home Inspectors www.ashi.com	National Association of Home Builders www.nahb.org
Association of Real Estate License Law Officials (ARELLO) https://www.arello.org/	NAIOP Commercial Real Estate Development Association www.naiop.org
Building Owners and Managers Association www.boma.org	National Association of Real Estate Brokers www.nareb.com
CCIM Institute www.ccim.com	National Association of Realtors www.nar.realtor
Certified Commercial-Investment Member (CCIM)	Graduate, Realtors Institute (GRI) Certified International Property Specialist (CIPS)
Corenet Global www.corenetglobal.org	Real Estate Educators Association www.reea.org
Master of Corporate Real Estate (MCR)	Realtors Land Institute www.rliland.com
Counselors of Real Estate www.cre.org	Accredited Land Consultant (ALC)
Counselor of Real Estate (CRE)	Society of Industrial and Office Realtors www.sior.com
Institute of Real Estate Management www.irem.org	The Appraisal Institute www.appraisalinstitute.org
Certified Property Manager (CPM)	Member, Appraisal Institute (MAI) Senior Residential Appraiser (SRA)
International Association of Assessing Officers www.iaao.org	Women's Council of Realtors www.wcr.org
International Council of Shopping Centers www.icsc.org	Performance Management Network (PMN)
Mortgage Bankers Association of America www.mba.org	
Certified Mortgage Banker (CMB)	

REGULATION AND LICENSING

Regulation of business practices Real estate license laws

Regulation of business practices

The real estate industry is regulated by every level of government. Federal and state statutes, as well as a large body of court decisions, generally referred to as common law, circumscribe how real estate can be developed, managed, and transferred.

Among the laws most relevant to agents and brokers are those relating to:

- ▶ agency
- ▶ contracts
- ▶ disclosure
- ▶ environmental impact
- ▶ fair housing

In addition to federal, state, and local laws and regulations, the real estate industry is, to a degree, self-regulated by the codes of ethical conduct propounded by the industry's many trade organizations. For example, the National Association of Realtors® Code of Ethics not only reflects the law but sets an even higher standard of performance for member brokers and agents.

It is imperative for new practitioners to understand and abide by the many laws which regulate the industry.

Real estate license laws

State real estate license laws comprise the primary body of laws and regulations governing real estate brokerage practice. License laws in each state specify who must obtain a license to practice real estate and set the requirements for obtaining and maintaining the license. License laws also define critical aspects of real estate brokerage, including

- ▶ procedures for handling escrow deposits and fees
- ▶ procedures for advertising
- ▶ guidelines for dealing with clients and customers

State license laws are administered in each state by a **real estate commission**. The commission is charged with administering and enforcing license laws. In addition, the commission may pass regulations that further refine or clarify state statutes.

1 The Real Estate Business Snapshot Review

REAL ESTATE PROFESSIONS

Real estate activities ● create, improve, manage, maintain, demolish, own, regulate, and transfer real properties

Property type specializations ● residential; residential income; office; retail; industrial; farm and ranch; special purpose; land

REAL ESTATE BROKERAGE

● procure a buyer or tenant for an owner or landlord, or vice versa

Forms of specialization ● by property type; geographical area; type of transaction; type of client; by form of business organization; or by form of client relationship

Skills and knowledge ● market conditions; law; financing; marketing; ethics; selling; communications; computer basics; and other skills

PROFESSIONAL ORGANIZATIONS

● promote interests of practitioners and enhance their professional standing

REGULATION AND LICENSING

Regulation of business practices ● all facets of the industry are regulated by federal, state, and local laws; agents must understand relevant laws and adapt business practices accordingly

Real estate license laws ● the primary body of laws and regulations governing the licensure and conduct of real estate brokers and agents

● license laws are administered and enforced under the jurisdiction of the state real estate commission