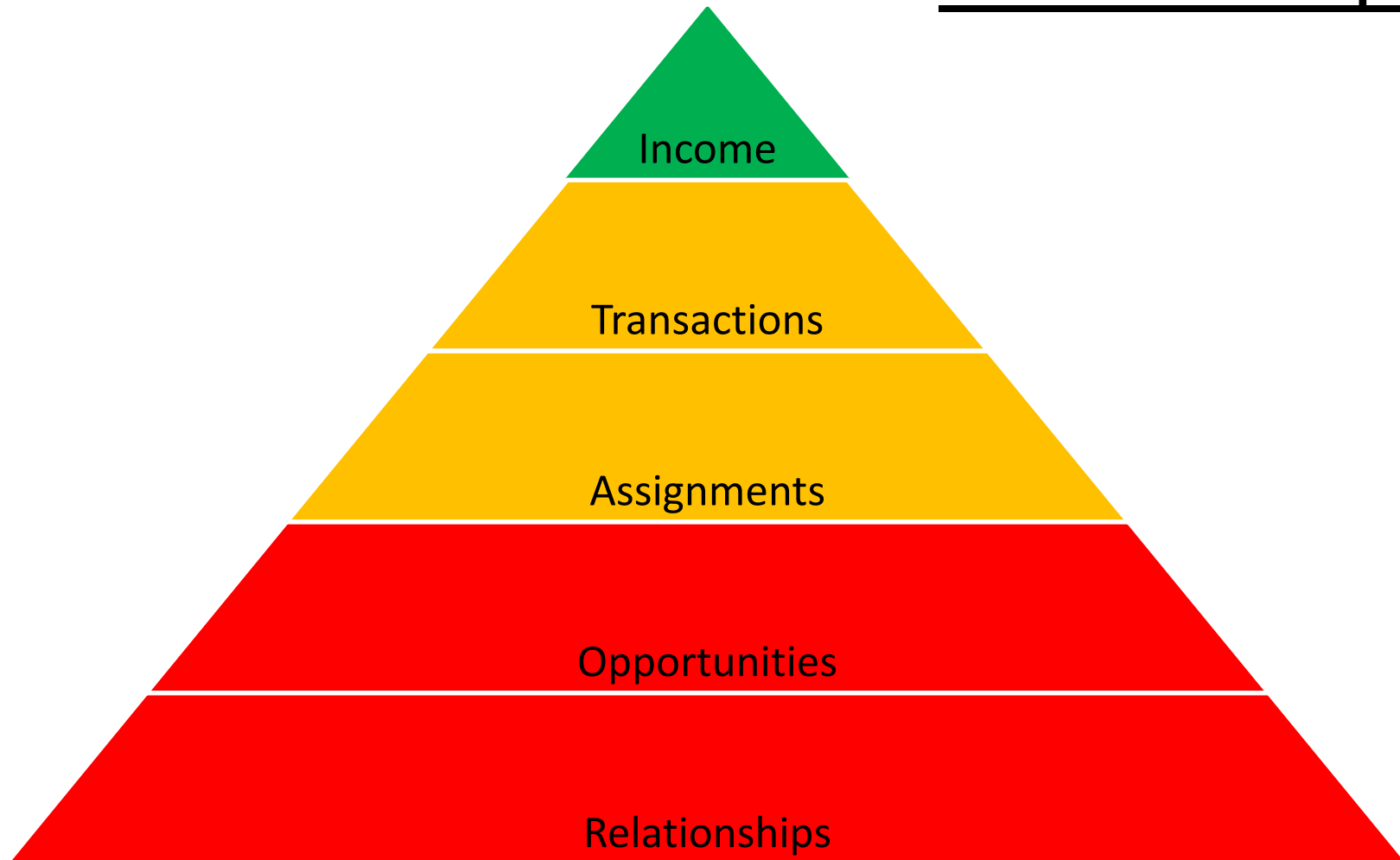


# Ed Riggins' Study Guide

# A Few Basics - #1

Our Business is Based On Relationships



Know the order of these

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# Qualifying Decision Makers

## Some Questions to Ask:

- What is your title?
  - Owner/Partner
  - President/Chairman/CEO
  - Vice President
- To whom do you report?
- Who reports to you?
- Who will sign the lease?
- Who has budget responsibility for this division/region/group?
- Who else will be involved in the decision?

## Some signs you've got the right person:

- he/she is hard to contact,
- doesn't return phone calls cancels appointment(s),
- is in a hurry,
- gets interrupted a lot by questions from others...

# Where Brokers Fit In

## Investor/Owners

- Need return on invested capital
- Know value is created by tenants
- Can't have salaried sales staff of 2,500
- Expect to pay fees to get tenants

## Tenant/Users

- Need space for their business
  - Rent is significant expense
- Participate in real estate infrequently
- Will be loyal to someone they trust

## Landlord Reps

- Provide bridge to brokers/tenants
- Often salaried employees
- Lower risk/lower reward

## Tenant Reps

- Represent tenants - fees **disbursed** by landlords
- Offer time & specialized expertise
- have income risk

Know who disburses the fee

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# A Quick Refresher About Present & Future Value

Compounding – 1 year

$$\$10.00 \times 1.03 = \$10.30$$

Compounding – 2 years

$$\$10.00 \times 1.03 \times 1.03 = \$10.61$$

Discounting – 1 year

$$\$10.30 / 1.03 = \$10.00$$

Discounting – 2 years

$$\$10.61 / 1.03 / 1.03 = \$10.00$$

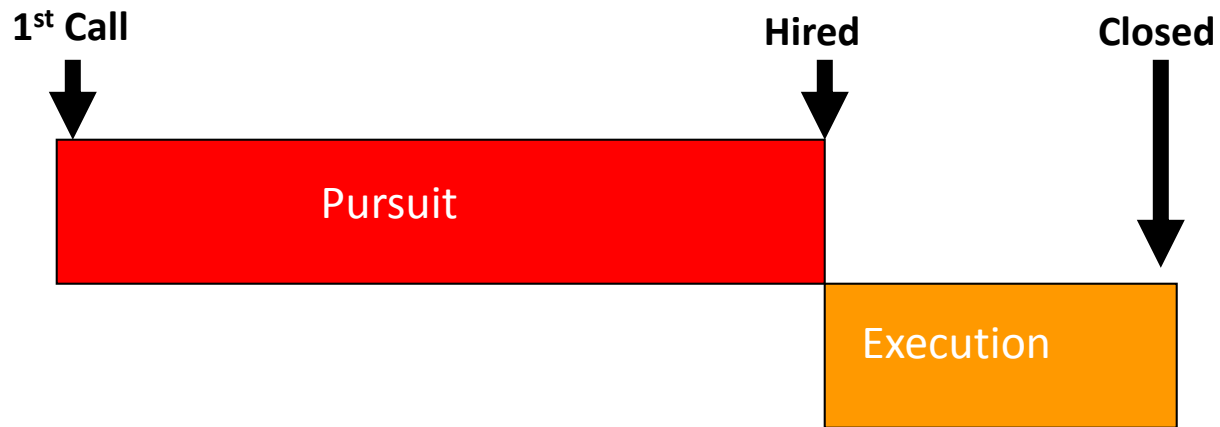
Know how to go both ways

# Lease Types – Working Definitions (What's Included in Base Rent)

Included:	Absolute Net	Triple Net	Modified Gross	Full Service
Rent	X	X	X	X
Structure		X	X	X
Property Taxes			X	X
Property Insurance			X	X
Comm. Area Maint.				X
Systems Maint.				X
Utilities				X
Janitorial				X

Know this slide  
Which type of rate is higher?  
What if AC breaks?

# A Few Basics - #2



Which takes more time?  
Which ends in fee payment?

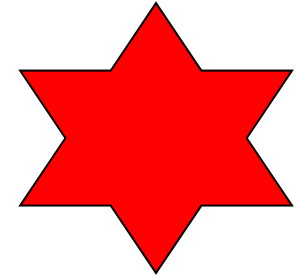
# Major Business Points - Leases

- Lease Rate & Escalations
  - Higher is better for both for landlords
- Concessions – rental abatements/reductions, TI overages, etc.
  - Less is better for both for landlords
- Expenses & Escalations
  - More net is better for landlords
- Occupancy Date
- Term Length
  - Longer is better if there are escalations for landlords
- Build-out Scope & Cost
  - Minimize, particularly if it's specialized
- Credit
  - Get enhancements, if possible
- Expansion rights
- Contraction/cancellation rights
  - Not if you can avoid it
  - Limit to specific window

Know this slide



# Key Stages in the Build-out Pricing Exercise

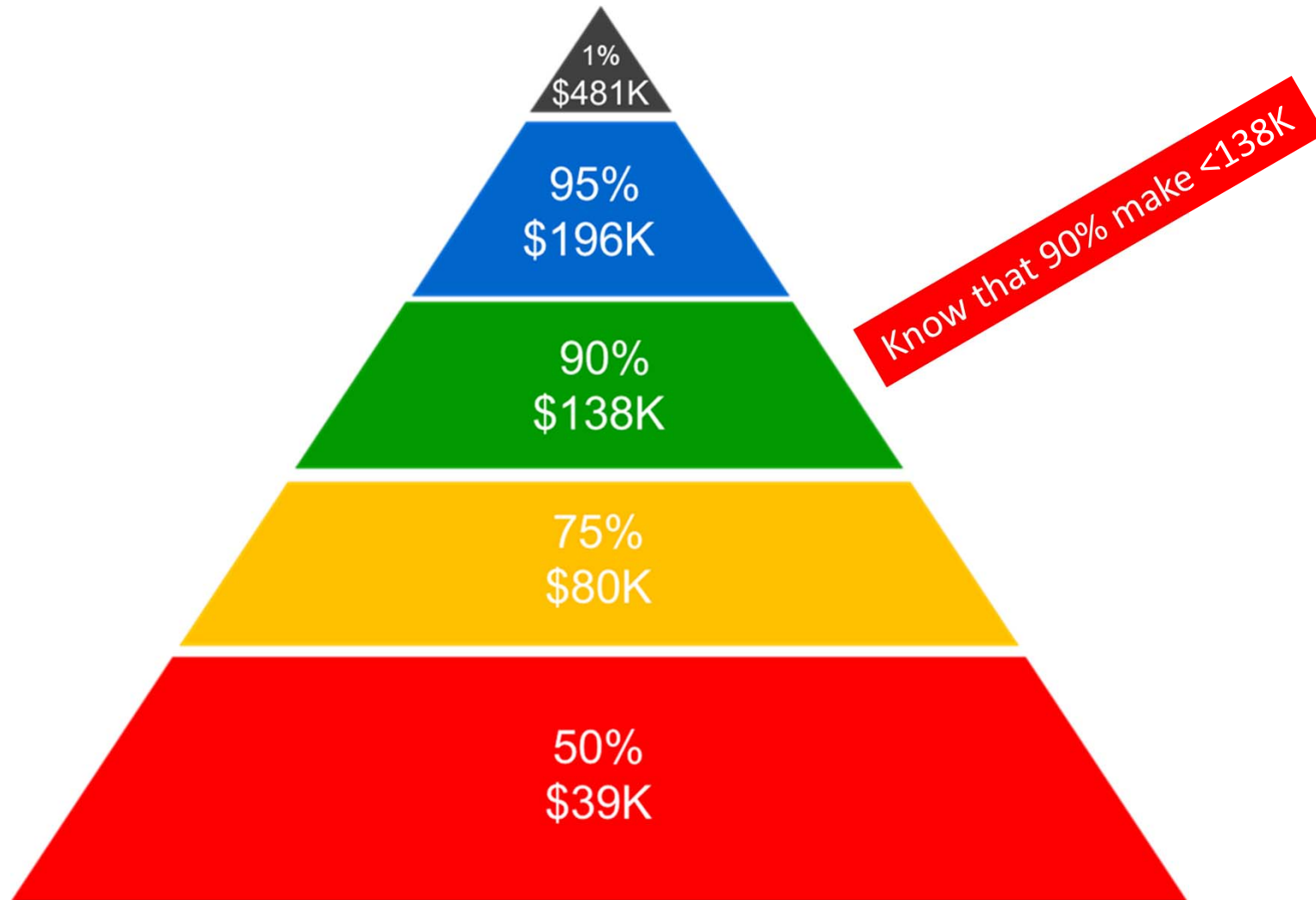


- Programming
- Space plan
- Pricing plan
- Construction drawings
  - Discussion of indemnity
- (See samples of each being passed around)

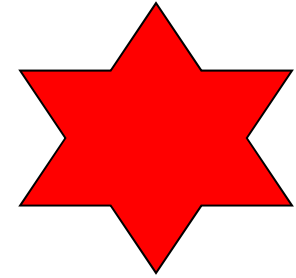
Need architectural drawings to determine build-out cost  
Turn key build out

# Random Quotes & Facts

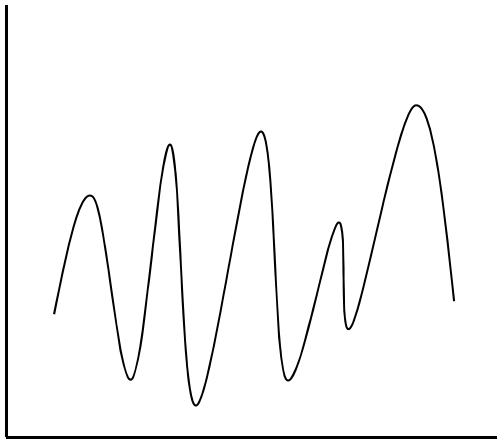
## A Little Context



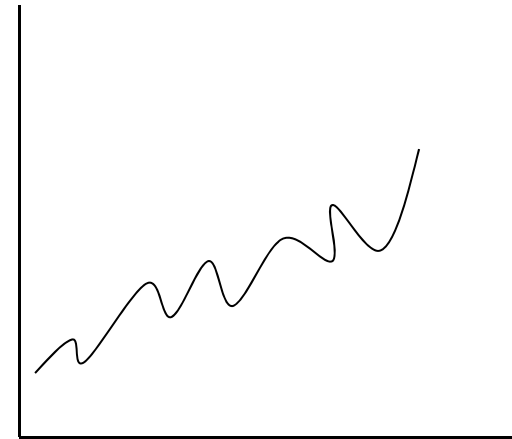
# Your BIGGEST ongoing challenge Lumpy cash flow



Income

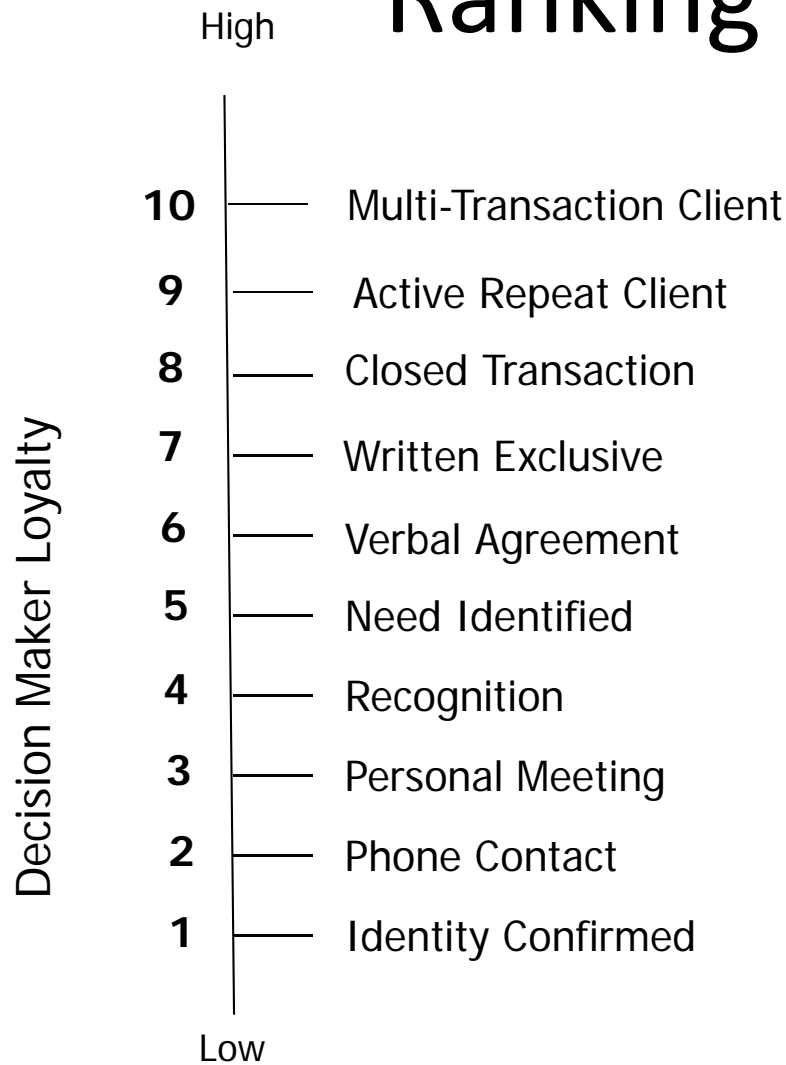
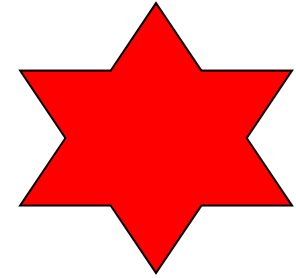


Expenses



You Are Here

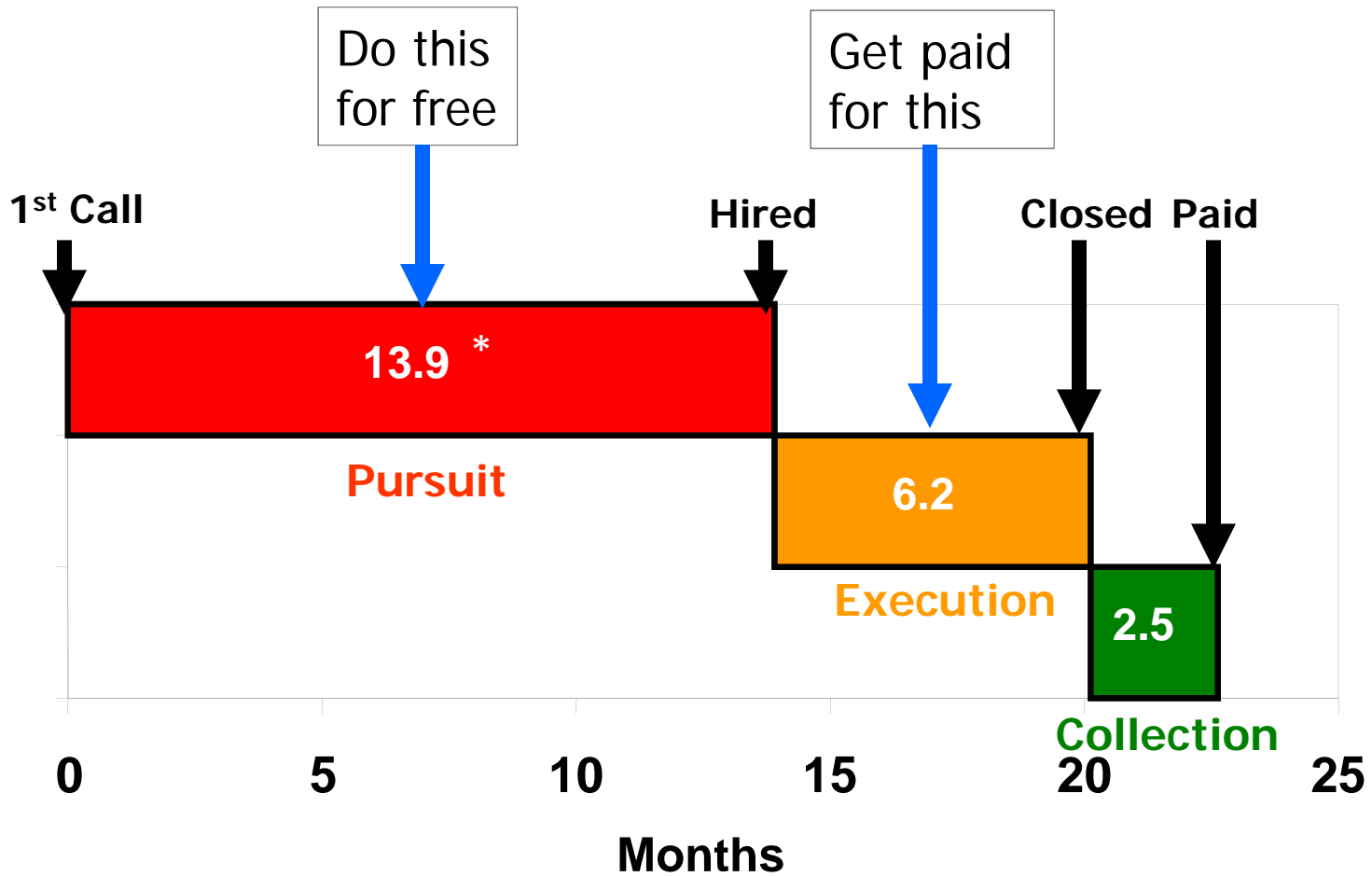
# Ranking Contacts



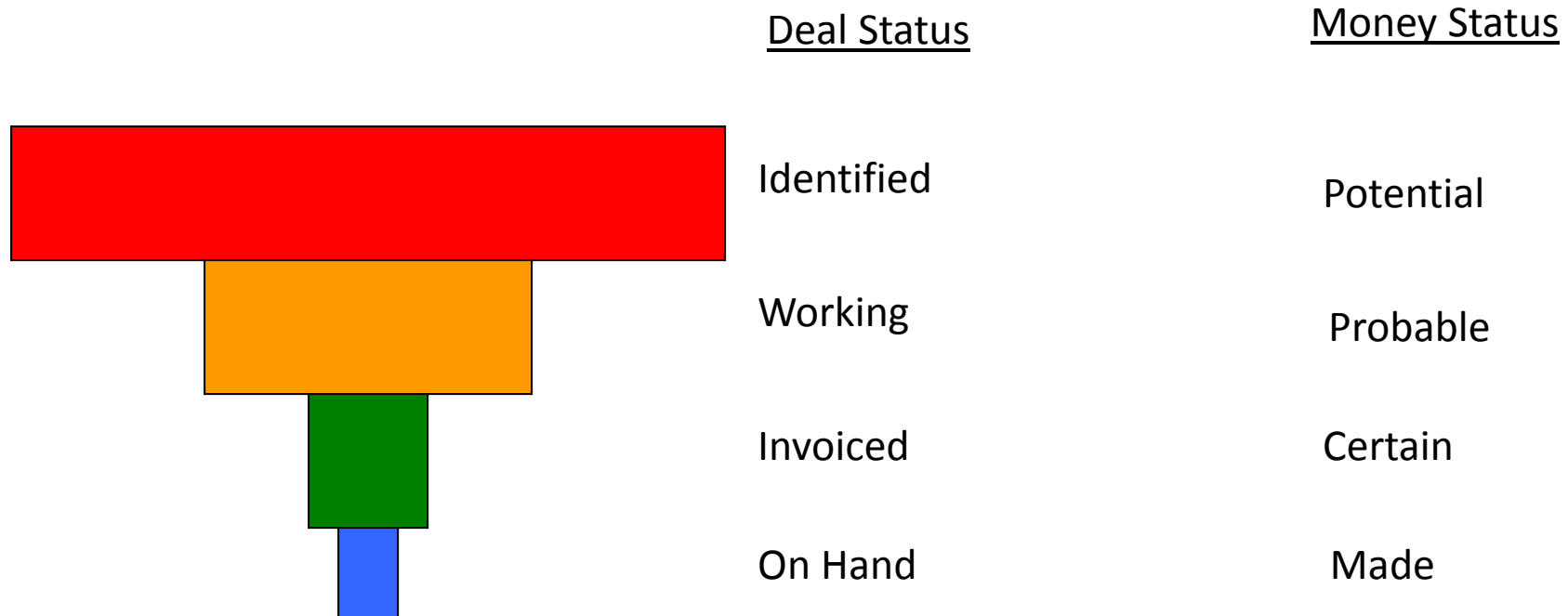
Put in order

# Why We Should Do the Right Thing

We Get To Work Less For Free





# Deal Status = Money Status



Which category is more predictable?

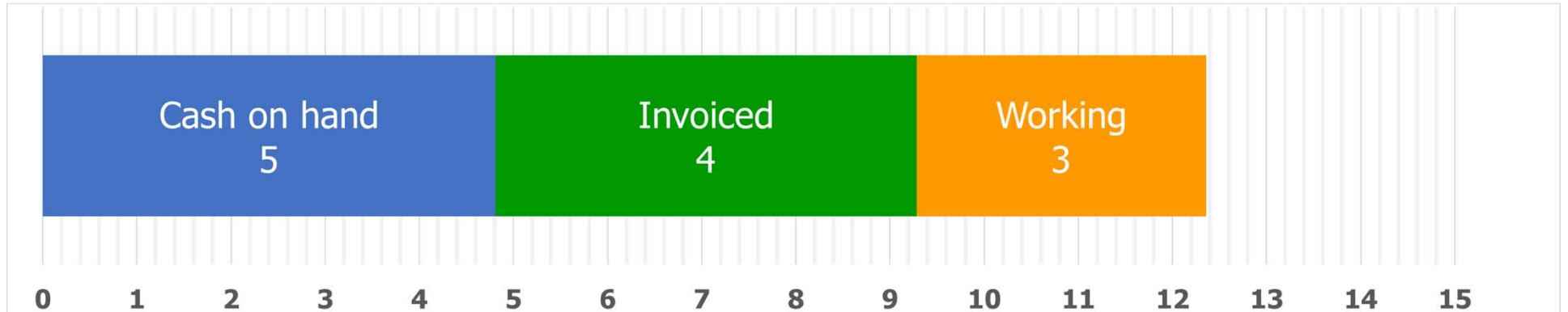
# A BRIEF Tour of Your Tax Return - 1040

<u>Self employment tax</u>					
Self employment tax		12.4%	on 2018 max of	128,400	14,704
Medicare on 92.35%		2.90%	no max		6,984
Medicare surtax		0.9%	in excess of	250,000	97
<b>Self-employment tax total</b>					<b>21,784</b>
<b>Employed spouse - W-2</b>					
Salary and bonus				75,000	
IRA contrib. (max \$5.5K or \$6.5K at 50+)			5,500	(5,400)	
Taxable income					69,600
<u>FICA</u>					
Social Security		6.2%	on 2018 max of	128,400	4,650
Medicare		1.45%	no max		1,088
Medicare surtax		0.9%	in excess of	250,000	0
<b>FICA total</b>					<b>5,738</b>

# Burn Rate and Go-Broke Date

Monthly burn 22,000

<u>Breakout</u>		<u>#Mo.</u>
Cash on hand	105,840	5
Invoiced	98,400	4
Working	67,680	3



Know BURN RATE is the most important number to have memorized.



# Selected Retirement Issues

- Size of pile
- Cost/Standard of Living
- Longevity – [www.nmfn.com](http://www.nmfn.com)
- Inflation rate
- Investment growth rate
- Portfolio mix/Risk tolerance – less risk with age
- Take-out rate – 3% (conservative) -6% (optimistic)
- Healthcare costs
- Nursing home costs – (it's about the caregivers, too)
- Inheritance
- Reverse mortgage – only 50% of value

Know conservative and optimistic take-out rates

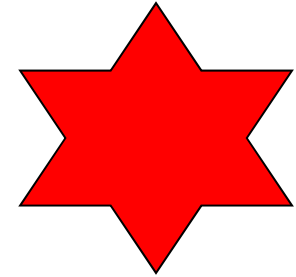
# Qualifying Matrix

Decision Maker Loyalty	High	Buddy	Ideal Client
	Low	Waste of Time	Long Shot
		Low	High

Fee Potential

Know this slide

# Personal Tax Structures



- Sole Proprietor
- Incorporated by yourself
- 1099 Employee of a firm – pay your own FICA
- 1099 Corporation associated with a firm
- W-2 Employee of a firm – pay ½ FICA

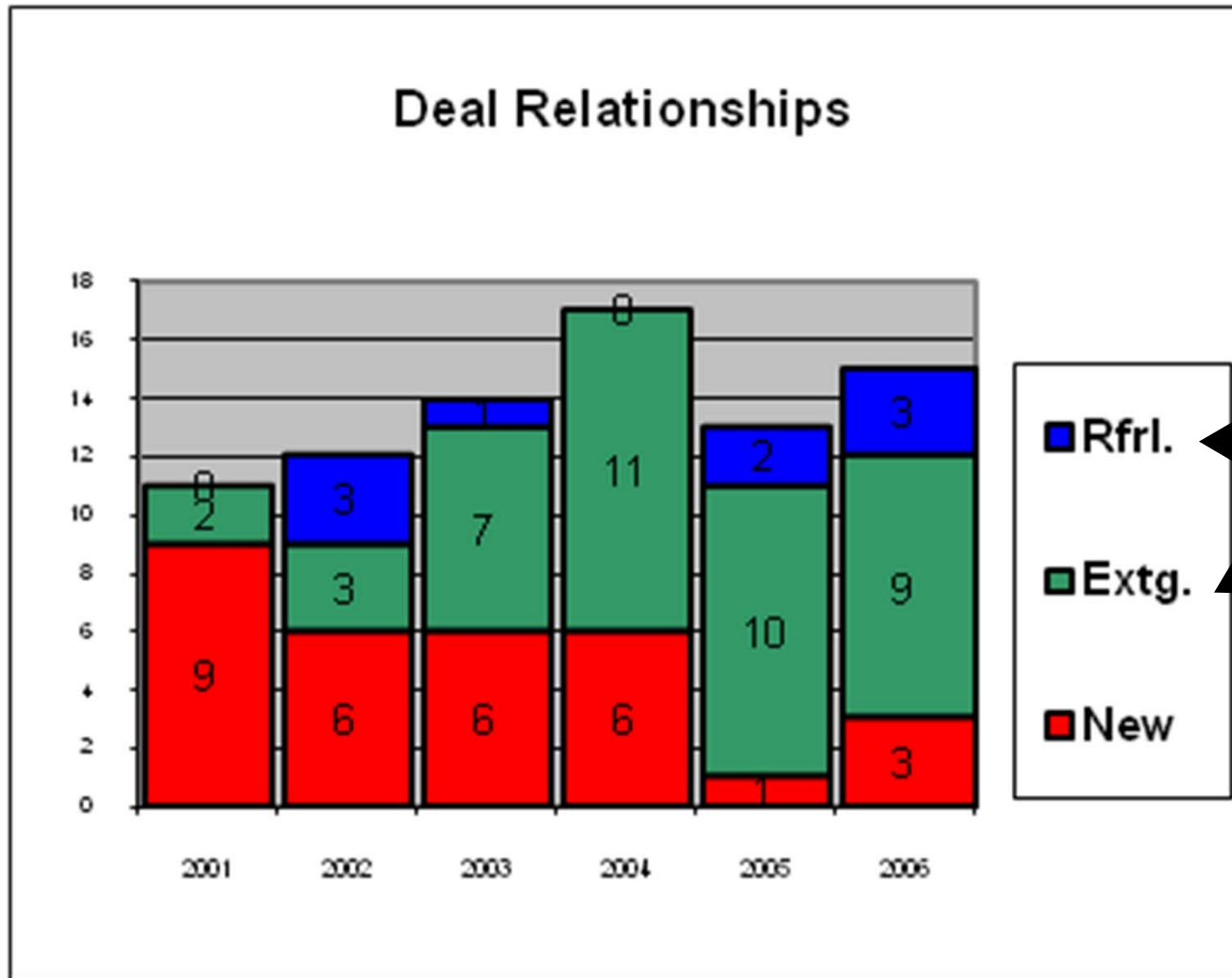
Know who pays FICA

# Team Organizational Structures

- Permanent
  - non-overlapping skills – each brings value
  - functional specialization – mktg./sls. and svc. delivery
- Ad hoc
  - one brings lead
  - other(s) bring expertise you don't have
- Solo (most common)
  - Do it all yourself

Know most common

# What I've Learned

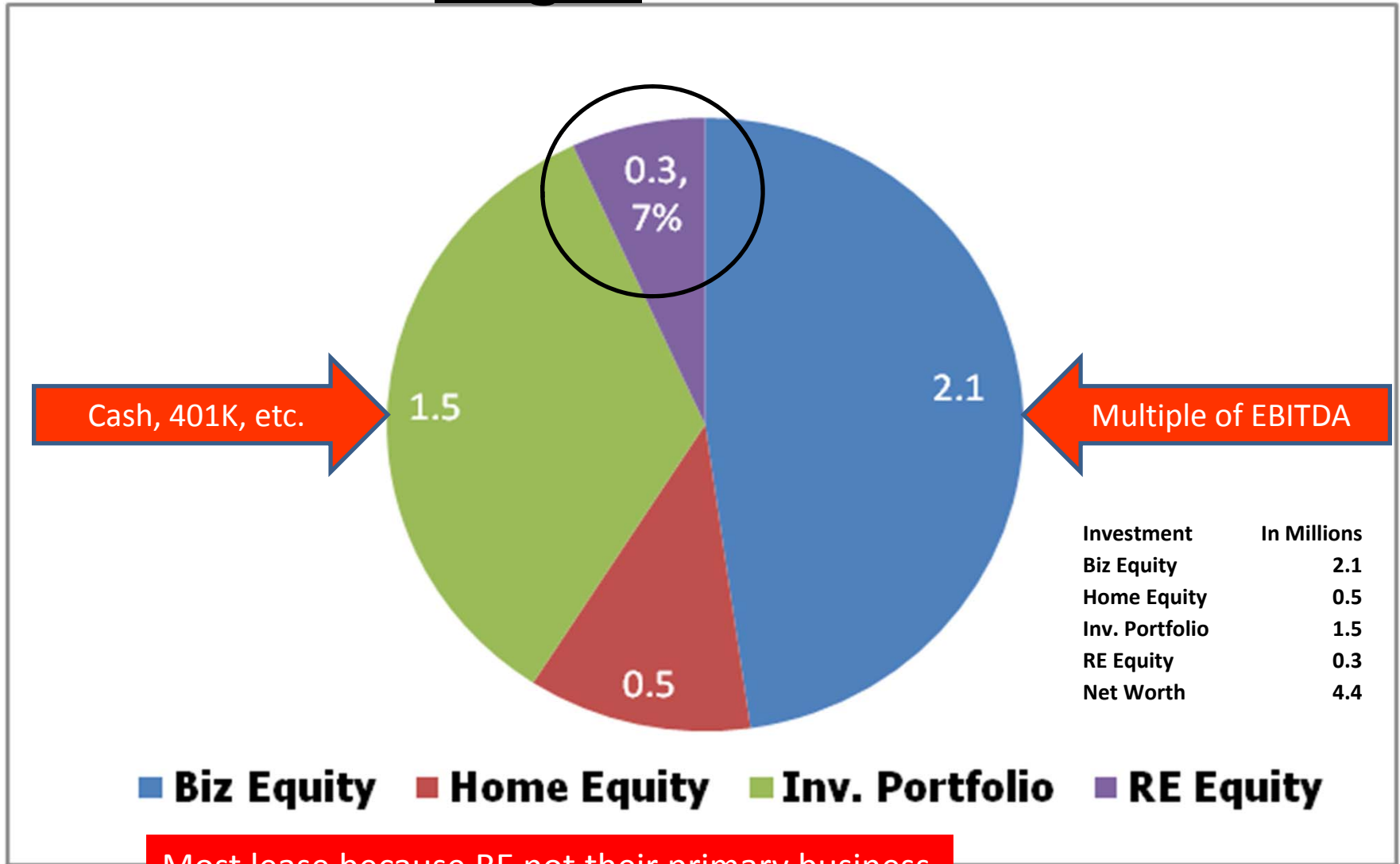


Zero  
Business  
Acquisition  
Cost is  
Good!

Know \$0 biz acq .cost  
(no lost time)

3

# The "Logic" - Fit Portfolio? How It Might Look in Context



Most lease because RE not their primary business

# Issues Associated With Various Specialties

- Retail
  - Traffic counts
  - Frontage
  - Percentage rents
- Office
  - Image
  - Housing proximity
  - Schools
  - Views
  - RSF vs. USF
- Industrial
  - Ceiling height
  - Interstate access
  - Truck doors
- Land
  - Topo & boundary surveys
  - Zoning
  - Density
  - Environmental studies
- Investments
  - Cap rates
  - Internal Rates of Return
  - Tenant credit
  - Length of leases

RSF larger than USF

# Types of Specialization

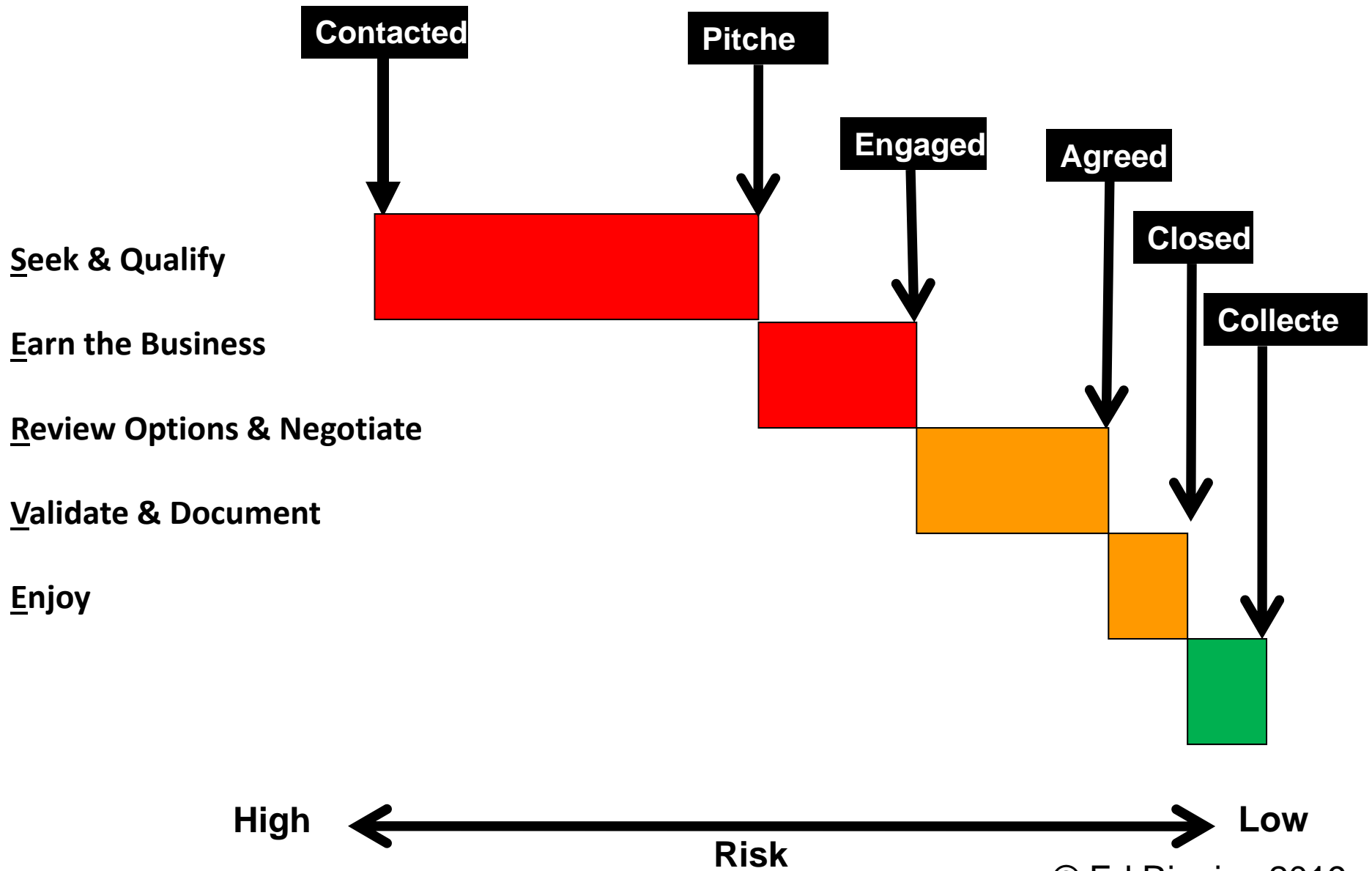
- **Product type (most common)**
  - Residential
  - Office
  - Industrial
  - Land
  - Retail
  - Investment
- **Geography**
  - Submarket
  - Local metro
  - Regional
  - National
  - International
- **Function**
  - Landlord
  - Tenant
  - Blend
- **Industry**
  - Technology
  - Law
  - Trucking
  - Medical
  - Etc.

Know most common



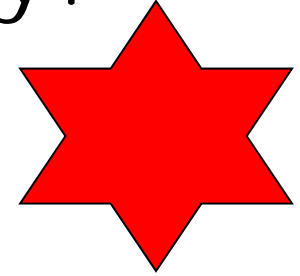
- **What's most likely to get you hired?**
  - Personal connection to client
  - Bring them a client
- **For whom should you advocate?**
- **When should you team?**
- **Most common specialization**
  - Product type
- **Most common source of start up capital**
  - Savings and credit lines
- **Turn-key vs. allowance – who pays overage?**
- **AC problem in net lease?**
  - Tenant or LL
- **Demands of start-ups by landlords?**
- **RSF vs USF**
- **Most common approach**
  - Solo practitioner
  - team

# Which Part Is More Valuable?



1

## The “Logic” - Have Equity?



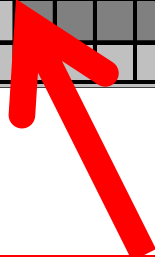
No charts or graphs needed here.  
You either have it, or you don't.  
(If you don't, call me when you do.)

Main reason people don't buy a building.

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# “Typical” Purchase Timeline

	Introduction		Identification			Negotiation															
	# of Months		# Mos.			# of Months															
	1		1 to 6			1	2	3	4	5											
Form Team	█																				
Establish Parameters	█																				
Tour Buildings																					
Monitor Market																					
Offer																					
Counter-offer																					
Finalize Business Points																					
Finalize Legal Points																					
Inspection																					
Closing																					
Renovation																					



Odds of closing go up when earnest money goes live  
Price re-trade if problems are found.