Chapter 10  Real Estate 
Brokerage

The Real Estate Sales 
Process

- Listing agreements 
- Marketing the property and qualifying buyers 
- Presentation and negotiations 
- Contracts and closing 

Real Estate Brokers and Salespersons

- Licensing of salespeople and brokers 
  - Transactions on one's own behalf 
  - Conducting transactions on behalf of others 
  - State license requirements 
- Real estate brokerage regulation 
  - Consumer protection 
- Texas Real Estate Commission 
  www.trec.state.tx.us
Legal Aspects of the Broker-Client Relationship

- Agency law
  - Principal - employer
  - Agent - employee
  - Agent has a fiduciary responsibility to principal
    - agent is in position of confidence
    - agent must act in best interest of principal
    - agent - good faith, diligence, and loyalty
    - principal owes agent compensation for service

The Role of Real Estate Brokers

- Broker representation
- Listing broker
  - Obtains listing of property for sale
- Selling broker
  - Actually sells the property (locates a buyer)
- Dual agent
  - Single broker employed by both seller and buyer

Broker-Seller Relationship (Seller's Agent)

- Open listing
- Exclusive-agency listing
- Exclusive-right-to-sell listing
- Multiple listing
  - Multiple listing services (MLS)
- Net listing
Broker’s Right to a Commission

- Paid when broker either
  - Sells the property, or
  - Procures a ready, willing and able buyer

Broker-Buyer Relationship (Buyer’s Agent)

- Buyer’s representation

- Types of buyer representation agreements

- Compensating the buyer’s broker

Duties and Rights Under Agency Relationships

- Broker’s duties
  - No fraud and negligence
    - False statement with intention to mislead
  - No misrepresentation
    - False statement but with no intention to mislead
Fair Housing Laws

- Prohibit discrimination based on sex, race, color, religion, national origin, disabilities, or familial status
  - Steering
  - Blockbusting

Methods of Agency Termination

- Sale of the listed property
- Time limit expires
- Mutual agreement
- Breach of duties
- Loss of contractual capacity
- Improvements are destroyed
- Property is taken by government under power of eminent domain

Chapter 11 Real Estate Appraisal
Understanding the Appraisal Profession

Why do we have Real Estate Appraisers?
Who uses appraisal?
FIRREA
State requirements
- Licensed appraisers
- Certified residential appraisers
- Certified general appraisers

What is Value?
Market value
- Motivated parties
- Informed parties
- Market exposure
- Payment in cash
- No special circumstances

Investment value
Price versus market value
Market value versus cost
Other types of value
- Assessed value
- Insurable value
Key Appraisal Principles

- Anticipation
- Change
- Substitution
- Contribution

The Traditional Appraisal Process

- Definition of the problem
  - Type of value-purpose
    - Market value, investment value, others...
  - Description of property
  - Specific property rights
    - Fee simple, leased fee, others...
  - Effective date
    - Current, prospective, or retrospective

- Data selection and collection
  - General market analysis
    - Region, city, neighborhood
  - Specific property analysis
    - Site and improvements
The Traditional Appraisal

Process

- Highest and best use analysis
  - As though vacant
  - Land with improvements
- Three test of Highest and Best Use
  - legally permissible
  - physically possible
  - financially feasible
  - maximally productive

Application of the three approaches to value
- Sales comparison approach
  - Value = price of comparable properties +/- adjustments for differences
- Cost approach
  - Value = Cost New - accrued depreciation + land value
- Income approach
  - Value = Present value of anticipated benefits
- Why three approaches?

Reconciliation of value indications
Report of defined value
Sales Comparison Approach

- Comparable sales data
  - Data sources
  - Verification of data
  - Selection
  - How many comparables?
  - Units of comparison

Sales Comparison Approach

- Adjustment of sales data
  - Elements of comparison
    - Property rights conveyed
    - Conditions of sale
    - Financing terms
    - Market conditions
    - Locational characteristics
    - Physical characteristics

- Applying the sales comparison approach

Cost Approach

- Estimating site value
- Estimating production cost
  - Reproduction cost
  - Replacement cost
- Estimating accrued depreciation
  - Physical deterioration
  - Functional obsolescence
  - Economic obsolescence

- Applying the cost approach
Operating Statement
- Potential Gross Income (PGI)
- less Vacancy and Credit Loss (Vac)
- equals Effective Gross Income (EGI)
- less Operating Expenses (OE)
- equals Net Operating Income (NOI)

Operating Expense
- fixed
- variable
- replacement reserves (reserve for replacement)

Gross income multiplier
- GIM = Sale Price / Gross Income
- Value = GIM x Gross Income

Net income capitalization
- Cap Rate = NOI / Sale Price
- Value = NOI / Cap Rate

Discounted cash flow
- see example
End of Chapter 11 Problems:

- Try problems 11, 15, 17, 19, 20

Chapter 12 Property Management and Leasing

Objective of a Property Manager

- To secure for the owner the highest net return over the useful life of the property
Functions of a Property Manager

- Administrative management
- Marketing
  - Marketing strategy
  - Tenant selection
  - Rent schedule
- Physical management

Role and Function of Asset Managers - Corporate RE

- Management
- Acquisition & Site Selection
- Financing
- Disposition