# CRE Terms: Easy Investing

As commercial real estate (CRE) professionals, perhaps some of the most important terminologies we need to be aware of is the jargon around different investment types. What return does an investor want from their property? How comfortable are they with risk? And how much work are they prepared to put in from their end to get a property up to scratch?

With that in mind, for this edition of CRE Terms, we delve into terminology commonly tied to the purchase and financing of CRE assets. As usual, our starting point is the excellent NAIOP Terms and Definitions Booklet.

## Core and Core+

A core investment, according to NAIOP, is: “An investment in a high-quality real estate asset that is located in a highly accessible and highly desirable submarket.”

They add that the asset typically requires very little in the way of near-term capital expenditure, often has long-term lease tenants, and is among the top sought-after assets in its market.

In terms of risk, a core property is the perfect investment for a low-risk strategy, and investors can expect around 7-10% annual returns, with little variation in the amount they receive.

Core+ properties are similar to core but come with a slightly higher level of risk (e.g., the location or number of tenants might not be on par with core investments) but offer commensurately higher returns (around 9-13%). Typically, investors could increase cash flow with some minor capital expenditure. For example, a well-situated and relatively full apartment block that could generate a little more in rent after some minor upgrades.

1800 Pembrook Drive, Suite 350 | Orlando, Florida 32810
+1 407 875 9989

www.nairealvest.com

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## Value Add Investment

A riskier category for investors is “value add” properties, which may have lower occupancy and cash flow, and to which investors can add value if they: “improve or replace building systems, provide new finishes, introduce new amenities, improve access or circulation to the building, add square footage, etc.”

These properties suit investors comfortable with moderate to high risk, and who are aiming for annual returns in the 13-15% bracket, typically with higher variability than Core or Core+.

## Opportunistic Investment

Finally, in cases where investors are willing to take large risks for a chance of booking top-notch profits, they may seek out an opportunistic investment, aka “ground up development.” As the description suggests, this is an investment in a site that requires either an entirely new construction start, or significant structural changes to an existing building, both of which may also require rezoning permissions.

Cash-flow is often deferred for multiple years in these cases, but patient (and risk tolerant) investors can benefit from returns of ~20% or more later down the line.

In recent years, we’ve seen many of these kinds of speculative builds as developers take advantage of soaring demand for specialist property types like warehousing and biosciences real estate.

Though these terms are ‘bread and butter’ for us as CRE professionals, refreshing our working knowledge of them, and reminding ourselves of investor expectations, is just another way to add value for our clients.

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