



What is Commercial Real Estate?

Part II

The Core Asset Classes of Commercial Real Estate

Commercial real estate is a fairly broad term. As with most things, understanding the lingo in the real estate world is half the battle. And it's an absolute must if you want to go deep into the space. So our assignment in this article is to teach you some of the foundational language of real estate.

What are the main categories, or “asset classes”, of commercial real estate?

Many commercial real estate professionals refer to the core asset classes in commercial real estate as the “four basic food groups”: industrial, multifamily, office and retail. Each of these asset classes can be further subdivided. As you'll see, multifamily is further divided into “garden”, “midrise” and “highrise” apartments. Additionally, there are property types that we would consider to be primary asset classes outside of “four basic food groups”; specifically hotels, land and special purpose.

Finally, every property type can be placed on a quality spectrum – typically from A to C, although we sometimes see people in the industry use D. And the meaning is straight forward. A properties are best in class and the further out on the spectrum you go, the greater the drop off in quality. We define and explain some of the main real estate property types in this primer.

Office

Classification. Offices are typically placed into one of the following: Class A, B, or C. However, these categories are not rigid and very dependent on the location. A Class A property would have pristine location in addition to physical construction. B could include a Class A level construction, but may be located somewhere less ideal. C would then include everything that does not fall into one of the above.

Central Business District (CBD). These are found in the traditional “downtown” area of large metropolitan cities. Typically highrise, these are the types of properties one normally thinks about when picturing office spaces, such as in those found in places like New York and Los Angeles.

Suburban office buildings. This includes offices, usually mid rise buildings, of approximately 80,000 - 400,000 sq ft. These buildings are found outside of larger metropolitan centers. In addition to this, some suburbs will have several different buildings pieced together on one larger overarching property.

Industrial

Heavy manufacturing. Something that would typically fall under this category is an automotive factory. These types of facilities need extensive resources to operate and are very bespoke to individual tenants. As a result, they can not change hands with relative ease.

Light Assembly. Unlike heavy manufacturing, these spaces are not as reliant on heavy machinery. An example of this would be something such as a facility for books or educational supplies. These spaces are significantly more flexible than the above mentioned.

Flex warehouse. The primary characteristic of these spaces is their flexibility, and often times these warehouses will contain both office and industrial space on-site.

Bulk Warehouse. Typically quite large, these spaces are spaces usually reserved for large scale distribution of products. An example of this would be a regional distribution center for a blue chip Fortune 500 company.

Retail

Strip Center. These spaces can often be found on the non-CBD region of a large metropolitan area, or in suburban towns. They do not necessarily require an anchor tenant, and are small with parking space typically limited in scale. Examples of tenants in strip centers are family restaurants, mailing centers (like a UPS), or ice cream shops.

Community Retail Center. Typically anywhere from 100,000-400,000 sq ft, these centers have one or more anchor tenants, along with several smaller supporting tenants to fill out the property. Examples of anchor tenants would be grocery stores such as a Kroger or Whole Foods. Parking space is usually larger at community retail centers as well.

Power Center. Power centers are distinguished by the presence of several large scale anchor tenants, typically supercenters such as a Target or Walmart, with each taking anywhere from 50,000-150,000+ sq ft. Included typically in these centers are “out parcels” in the parking lot area where a bank or other retail tenant may have a location.

Regional Mall. These are large scale shopping centers with multiple retail tenants on site. Shopping malls and outlet malls are included in this category.

Multifamily

Garden Apartments. Usually found on the outskirts of urban areas or in suburbs, these apartments are low rise (under 5 stories) with parking typically on site on the ground level.

Midrise Apartments. Typically between 5-10 stories, with 20 - 120 or so units. In addition, elevator service would be found on site.

Highrise Apartments. Typically found in large metro areas, with hundreds of units, these are the condos standard to cities such as Chicago or Manhattan and other global cities.

Hotels

Full service hotels. This includes major name hotels, such as a JW Marriott in downtown Los Angeles. Hotels in this category would include all services, gym, maid services, etc. These hotels are the standard for business travel in large metropolitan areas.

Extended stay hotels. These are for longer stays, and are more home-like in nature. Some additional features would be larger rooms, kitchens, and more expansive living areas.

Land

Greenfield Land. This would include land that has not been developed on, such as a dairy farm.

Infill Land. Land, within a metropolitan area, that has been developed but has been rendered vacant would be considered infill land.

Brownfield Land. This would be land that has previously been used for agricultural purposes, but is now available for re use. Typical of brownfield land is some form of defecation in the land.

Special-Purpose

While we have touched on all the standard, typical forms of commercial real estate, there are other forms that do not fall into the aforementioned categories. These can be considered "Special Purpose". Examples of these would include something like a mini-golf course, or maybe a water park.