



Build Wealth with **Commercial Property**

Learn how to purchase
commercial real estate



BUILDING WEALTH SERIES



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Introduction

Investing in real estate has been the path to obtaining wealth for many individuals. Some of the wealthiest people in the country and around the world have made their initial fortune investing in property. With interest rates reaching an all time low in the last few years, more investors are moving money from the stagnant stock market into real estate. When investing in real estate, the two main choices are residential and commercial property.

There are many advantages of owning commercial property as opposed to residential property. While state law favors the rights of a residential tenant, in commercial property the law usually supports whatever was agreed upon within the lease. Secondly, residential tenants rarely make repairs or improvements to the property, however, commercial tenants usually make repairs and improvements on their own, because a commercial tenant usually wants the building to be functional and attractive to its customers. Lastly, most commercial property is not occupied after hours, so the likelihood of receiving midnight phone calls from the tenant is low.

This book is geared towards investors who have begun looking at commercial property to invest in and understand the basics, but need some guidance to help them in the commercial property buying process.



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Why is investing in real estate such a lucrative business? First of all, real estate opportunities have the potential of an ROI (return on investment) of 15% or higher. Secondly, real estate can be a great investment which can add diversity to portfolios that are heavy in stocks and mutual funds. Lastly, there are tremendous tax savings when investing in real estate.

As with any good investment, there is a tremendous amount of information that needs to be reviewed before an investor can make an educated decision if he or she should invest. With mortgage brokers and realtors trying to reach their company quota, they sometimes are not the best people to ask for advice because they want to sell more of their services. One reason why we wrote this book is to inform potential investors in real estate the do's of investing in commercial property and helping them to start their search, that is, from the time the investor finds a property to the time the closing is finalized numerous tasks must be completed. We want to make it easier for future investors to be able to close on a property. Investment Hunters have been researching multiple commercial property sites and have learned what works first hand. We do not want new investors to make the same mistakes we did, and we want them to learn from our positive experiences. This book should only be used as a guide to investing in commercial real estate. It does not cover investing in residential property; however, some of the core principles can be applied to both investing in commercial and residential. Once the investor finds a potential commercial property to invest in, we urge the investor to review the opportunity with a financial advisor to make sure it fits into their overall financial strategy.



When Is it the Right Time to invest In Commercial Property?

When deciding to invest in commercial property, the first task at hand is to research the current market trends. Currently, interest rates for loans have reached an all time low which makes it more lucrative to borrow money. For example, five years ago the going interest rate for a commercial loan was approximately 8%. Keep in mind that a loan can be structured in many ways and will be discussed in greater detail later chapters, but as an example we will use a 20 year note, with 20% down with no PMI (Private mortgage insurance is paid by a borrower to protect the lender in case of default). With rates hitting an all time low, it is now possible to get a commercial loan for as low as 6%. The following example shows how a 2% reduction of interest rates can change the monthly payment. For example, if the property costs one million dollars and the loan agreement requires 20% down, the remaining \$800,000 will need to be financed. At an 8% annual interest rate, the monthly payment would be \$6,691. Now take the same example and instead use 6% as the finance rate. The monthly payment is reduced to \$5,731. The difference over a year's time is around \$12,000 which is a substantial amount if the investor is deciding whether or not to invest. Remember the idea in any investment is to keep costs as low as possible and to achieve the highest return.

Another trend surfacing in different parts of the United States is the effect of the IT (information technology) bubble on commercial property. In the mid to late 90's, a new IT company was launched almost everyday, and new



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office buildings were constructed to meet these demands. By early 2000 the IT industry started to collapse and office space supply increased more than demand. With this trend continuing the past few years, it is amazing how many office buildings are available for lease (depending on the region). This poses an interesting dilemma because if the investor is a risk taker, they can purchase the office building at a low price, but on the other hand, if no one wants to rent the office space, then he/she may be stuck with a vacant property. Our opinion is that a future investor of commercial property should first find a renter for the space and then find the property to rent to the renter, thereby minimizing the risk of a vacant space. One thing to remember is that commercial property is regional, and it is crucial for the investor to research (which will be discussed later in the book) their area before investing in a property.



Author's Experiences

Investment Hunters have been investing in non-traditional investments for years. One of the investments we have looked at for quite some time now is commercial property, and as a result of our aggressive research we have gained a tremendous amount of knowledge. We were shocked at how little information was available regarding investing in commercial property. Even though individuals can use the internet to find information on the most random topics, commercial property was not one of them. Alternatively, there was an overwhelming amount of information on residential property investment. Generally, wealthy people have the means to buy commercial property and we quickly realized that most of these people do not like to share that information. We had to search long and hard for answers to our questions and we did this by reading everything we could on the subject, talking with professionals in the field, and through our own personal experiences. Based on our findings, the average ROI (return on investment) on commercial property has been over 15% annually which is a far greater return as compared to other traditional investments.

Investing in commercial property presents many risks and it can be a lot of hard work and time spent; however, with proper planning and research, commercial property can be a lucrative investment. Purchasing property can be a long and arduous process and on many occasions we have been in contract and then decided for one reason or the other not to purchase the property. The goal is to streamline the commercial property investment process. As with any type of investment, the more information an investor



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has at hand to analyze, the more informed he or she will become thereby minimizing risks and increasing his or her chances for success.