

LeadDeveloper

Getting Started Guide To Commercial Property

Basics Of Commercial Real Estate



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Definitive Guide To
Commercial Property
Investment

The Basics Of Commercial Real Estate

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Commercial Property Investment Definitive Guide



Commercial real estate is a significant investment. Whether buying your first commercial property or adding to an already impressive portfolio, it is essential to know the basics of commercial real estate. This blog post will cover everything you need to know about commercial property investment. We will discuss what commercial property is, the different types available, and choose the right one for your needs. Stay tuned – this is going to be a valuable resource for anyone looking into investing in commercial property!



What Is Commercial Real Estate?

Commercial real estate, or commercial property, refers to land and buildings that people use for business purposes. It includes office buildings, shopping centres, and warehouses. Commercial real estate is an excellent choice for an investment property because it offers stability and security. The demand for commercial space always remains high, making this type of property a safe bet for your investments.

Many local investors do not see commercial property as a different asset class from equities and residential property, and they do not fully grasp its many benefits. Not surprisingly, institutional investors have been increasingly flocking to commercial real estate in recent years since it offers higher yields and lower risk than other investment property options.

Recommended Reading - [Property Investment Strategies](#)

Commercial property can range from a local accountancy office to a CBD office building and a car repair shop to a massive steel plant.

You can buy an office or store as an income property if you have the funds, similar to many people who acquire a residential investment property. Indeed, if you have sufficient funds, you may purchase a complete block of stores or offices, as well as an office tower or a mall.



It's referred to as a 'direct investment' when you buy property in this manner. While purchasing units in a property trust is considered an "indirect investment."

In recent years, public property syndicates (another type of direct property investment) have experienced a surge in funding. Syndicates are pretty similar to property trusts, although they are not listed. They are, however, typically founded to purchase a single property (or, in some cases, numerous properties) for a set amount of time.

There are a variety of alternative investment options, including:

- Property investment trusts (unlisted trusts which buy units in a bundle of listed property trusts)
- Mezzanine financing is a type of debt financing that allows you to borrow
- Mortgage trusts
- Unlisted property trusts
- Direct investment in the stock of real estate companies.



Commercial Real Estate Vs Residential Real Estate

There are two main types of real estate, commercial and residential. This blog post will discuss the differences between these two types of real estate and why you should invest in commercial rather than residential property.

- Commercial properties are used for businesses, while residential properties are for people who need a place to live.
- Commercial spaces come in all shapes and sizes, while residential properties usually come in one size – a house or an apartment.
- Commercial real estate is usually more expensive than residential real estate.
- Commercial property investments often have a higher return on investment (ROI) than residential property investments.

Commercial property is the way to go when it comes to making a profit through real estate construction! Commercial constructions offer many advantages over their residential counterparts: they come in all shapes and sizes, they're typically more expensive, which means there's more room for appreciation, and they tend to offer higher returns on investment (ROI). Here are [13 Golden rules of investing in the commercial real estate](#) industry.

There are several different types of commercial real estate. Let's take a look at these so you can decide which one is right for your next investment!



What Are The Different Types Of Commercial Property?

Below, we will explore different commercial real estate types and their uses.

Office Space

If you have ever worked in an office or visited one for business purposes, then you know what office space looks like. Office buildings can be small, with less than 100 employees up to skyscrapers that house thousands! Most offices have large rooms with desks facing computer screens and cubicles where people work on phones or meet with clients via video conference calls to run efficiently. These properties also come equipped with other amenities such as coffee shops, gyms, and restaurants.

Retail Space

These properties are storefronts where you can buy goods and services. You will usually find this commercial property in high-traffic areas like malls, markets, or downtown districts. Retailers need lots of square footage to showcase their products, so these constructions are often large with multiple levels. In addition to selling items to consumers on-site, many retailers also have an online presence and ship orders directly to customers' homes from the warehouse located at their store.



Industrial Space

Manufacturing and distribution is the purpose of industrial spaces. Factories require a lot of equipment and workers to produce goods, so they need more space! These spaces can be huge – some occupy shops, gyms, restaurants and more. Industrial spaces can also be found in rural areas, away from the hustle and bustle of city life.

Factories And Warehouses

Factories and warehouses are perfect for companies that manufacture products at scale or need massive amounts of storage space. You will most likely find them away from population centres since their size usually requires some distance between other buildings on campus. There are many different types of factories, from manufacturing facilities to distribution centres. These properties provide an excellent opportunity for people who want long-term gains through appreciation in value and cash flow from renting out space on campus to other businesses.



Influences On Commercial Real Estate

The status of the economy has an apparent relationship with the performance of the commercial property. Demand for consumer goods in different markets rises as the economy grows, and merchants and their suppliers require more significant (and better) structures, factories, shopping malls, recreational facilities, and so on. Similarly, a downturn in the economy might harm this market sector. Because of the significant lead time associated with office development, it is less susceptible to short-term volatility. Thorough market research is always helpful.

Don't forget to check - How easily development economics can improve your development game.

Interest rate levels are crucial in commercial real estate, just as they are in residential real estate. As borrowing becomes more affordable, there will undoubtedly be increased demand for new and existing commercial property.

At work, there are also other tendencies. An expanding suburb will attract new and renovated commercial centres and offices, and new highways or rail lines will develop new business parks.

Technology has a significant role as well. The designs of modern office buildings provide access to the most up-to-date telecommunications and technology. Tenants are becoming more accustomed to this. Another trend is the rise of 'green' structures, reducing greenhouse gas emissions.



How Do I Choose The Right Commercial Property Investment?

Now that you know about the different commercial property types, it is time to select the best one for you. Choosing the right physical property is essential. You should consider a few things when making this decision: location, size and price point, among others!

Location

You need to find an ideal place for your business. If you are looking for an office building, for example, make sure the region has a lot of businesses and plenty of potential tenants.

Size Matters

Commercial real estate comes in all shapes and sizes, like residential properties. Make sure to pick one that fits your needs perfectly! You don't want too much space or too little – it's vital to have a good balance so you can maximise profits.



Price Point

Don't forget to consider your budget when choosing a commercial property. Like with residential investments, you want to make sure you get the most bang for your buck!

Remember these tips when buying commercial real estate investment, and good luck in your search!

Must Read: [Top 10 Effective Finance Options For Your Next Property Development Project](#)



What Are The Advantages Of Commercial Real Estate?

The advantages of commercial property are numerous, as you might expect. A fundamental attraction of property for many brokers and investors is that it is a tangible asset. It's there; it's real—you can see it and feel it. A plot of land or a structure cannot go bankrupt (even if the tenant may).

While the retail property's worth can directly relate to the economy, the property will continue to exist even if the economy falls apart. And, as long as the economy stays strong, commercial real estate should hold its worth and even appreciate while also delivering a steady stream of income.

There are numerous other advantages. These are some of them:

Exceptional Results

Commercial property generates substantial and consistent returns in capital gains and income. You will earn a constant return above inflation over time, at least on pace with residential property and even stock market returns.

Income Consistency

One of the essential aspects of commercial property is that the returns are higher and more secure. It provides stable, predictable income compared with many other asset classes.



On top of that, rents tend to grow along with inflation, providing an additional layer of security.

Even with residential property, it's tough to locate something that generates that kind of rental income unless you've had remarkable success (or practised incredible skill) in finding a bargain and renting it out quickly. However, commercial property not only offers higher net yields (where tenants pay expenses on top of rent) but is also far more secure.

Suppose you invest in a property trust or a property syndicate. In that case, you may expect many of the properties' tenants to be blue-chip clients with long-term leases that guarantee rental rises by inflation. Even if you buy an office or a store as an investment, your lease contract is likely to include fixed-rate increases or inflation-adjusted increases. All of the building's operational expenditures will almost certainly be recovered, such as rates, insurance, maintenance, and air conditioning running costs.

Unlike residential property, where a one-year lease is customary, commercial property tenures are usually for at least three years and, in rare cases, five to ten years. Indeed, the anchor tenant in a large shopping mall will often have a fifteen to twenty-five-year lease. If a tenant defaults, certain leases include bank guarantees.

Reduced Risk

Commercial real estate investing carries a lower risk than **residential real estate** or the stock market. For instance, when many stocks drop dramatically in a recession, commercial real estate is still an attractive investment opportunity. The default rate for borrowers on commercial property loans is only 3% compared to 24% for residential mortgages and 15% for



consumer debt. It makes investments in the commercial real estate industry less risky than other types of investment.

Exposure To A Variety Of Economic Sectors

One of the most appealing aspects of commercial property is that it allows you to benefit from several aspects of the economy. Retail properties have the most vital direct links to the economy, with assets highly reliant on consumer spending patterns. Tourism patterns influence leisure property, and the ageing population influences retirement property.

Because the retail property is usually a long-term investment, few investors try to trade in and out of different sectors to profit. But for those who see potential in the retirement market, commercial property can be an appealing investment option.

Tax Advantages

The tax advantages of purchasing commercial real estate are pretty significant. First, when you buy a building for your business, you will find the deduction of most of your initial investment from your taxable income. That means you'll have less money on which you have to pay taxes. Another benefit is depreciation deductions on building plants and equipment, such as air conditioning, carpeting, and lighting. The equipment's worth and age will determine the exact sum.



Controlling Your Investments

Unlike stockholders, direct property owners have a large amount of control over their investments. Of course, some investors (who may have been harmed by a terrible tenant) choose the stock market precisely for this reason. However, as some recent corporate failures have revealed, prominent company executives are not always acting in your best interests as a shareholder.

Renovations, upgrades, a change of use of the property, the terms of the lease, the type of tenant, development, and disposal are all areas over which you may have control.

Adds Value

Though greater yields and earnings stability are the primary benefits of commercial property, it is possible to increase its worth by 'adding value,' just like some residential property developers acquire a run-down home for remodelling. The chances of increasing commercial property value are frequently significantly higher than residential property. You can add worth to a property in a variety of ways, including:

- Renovations
- Upgradation
- Expanding or subdividing
- Enhancing the appearance
- Obtaining development approval for a redevelopment
- Renegotiation of a lease



- Modifying the usage

Leverage With Proper Market Research

It is feasible to borrow commercial real estate loan against a business investment in the same way that it is possible to borrow against a residential property. You may be able to govern a large number of highly geared properties, depending on your comfort level, financial circumstances, market research.

Real Estate Market Analysis In 13 Easy Steps



The Drawbacks Of Commercial Real Estate

Commercial property is not for everyone, and no investment is risk-free. The following are some potential drawbacks in this industry:

Insufficient Liquidity

Property trust shares are widely available for purchase and sale. It is not the case with most other commercial real estate transactions.

Property syndicates are usually for at least five years, and to sell a holding is difficult unless you can locate a buyer yourself.

One can sell a direct property investment, but it will take several months and incur the usual selling charges, much like a home. It could be a problem if there is a severe economic crisis, and you need to sell a specific property investment as soon as possible.

When it comes to stocks, you may sell at a loss. However, in the case of commercial property, it may entail months of work or even no purchasers at all.

Lack Of Pricing Information

Your newspaper publishes stock prices every day. Prices for managed funds are also readily available. You will often find



each suburb's average residential property prices in the newspapers' real estate sections.

However, aside from sales announced in the daily newspapers, there is little cost information available for commercial real estate developers.

So, unless you own a property trust, you have no means of knowing how much a particular investment has increased in value.

For this reason, the [Property Council of Australia](#) created its commercial property investment performance index, which measures income, capital gain, sale, and total return. Based on billion worth of property, it has become a benchmark for several investors.

Other Information Is Scarce

Take an interest in the stock markets; you will find an abundance of investor information—far more than you can consume. Magazines, books, newspaper supplements, seminars, training courses, websites, stockbroking newsletters and reports, and so on are only a few examples. Even the residential real estate sector is well-covered, with books, at least one magazine, and regular media appearances.

However, except for a few articles and broking reports on listed property trusts, there is little guidance for commercial property investors. Several real estate agencies strive to educate potential investors with books and websites.

You will find regular reports in the news, particularly in *The Australia Financial Review* and [The Australian](#), but this isn't always investor information. Instead, this is primarily news on



trends and sales in the commercial real estate sector and targets people already involved in the business.

There is a lot of material provided for property professionals, but it is pricey and not usually appropriate for beginners. Property Investment Research, which distributes newsletters and annual reports, is a learning data supplier. On the other hand, private investors benefit from reductions from time to time, but their costs remain high.

The fact is that, as a newcomer to the commercial property market, you will have a difficult time finding enough published data to help you distinguish between a good and wrong investment property.

High-Priced

If you merely have a few thousand dollars to invest in commercial property, listed property trusts are likely to be your best option. Property syndicates generally require a minimum investment amount, usually at least \$10,000. You won't be able to get into direct property investment with less than \$100,000, and you'll almost certainly need much more.

In contrast, you can start little (about \$500) with the stock market and progressively increase your investment.

Ongoing Supervision

Direct property investment may necessitate your continued participation in the property. You'll have to maintain the



property yourself unless you hire professional commercial property management.

Market trends must be kept in mind. For example, if you own an office building, the owners of adjoining workplaces may be rewiring their buildings with high-speed telecommunications cabling. If the tenant leaves, your property may become less appealing until you follow the same.

Furthermore, even while lease arrangements provide significant security, they cannot prevent a tenant from falling insolvent. That's when the tenant's bank guarantee (or bond) comes in handy.

Overall, if you're just getting started in commercial real estate, it can appear to be pretty tricky. And many of the market's professionals are content for it to remain a secret to all except the most privileged few. As a result, this article aims to assist in 'lifting the veil' on these commercial real estate insider secrets. Enrol on one of my [structured property development courses](#) and achieve ultimate success in property development.



Summary

You have explored the advantages and disadvantages of investing in commercial real estate.

You might be shocked to learn that commercial property is so appealing, given to high yields and income stability, as well as capital gains. You could even be perplexed why you haven't heard anything about this before. Why is there so much focus on the stock market and residential property investment in the personal finance media but so little on commercial property? I want to lend a hand. Follow my blogs for all of the information you'll need to get started with Commercial Real Estate - I'm eager to help!



FAQs

What is commercial real estate?

Commercial real estate refers to property that serves business purposes, such as an office building, a store, or a warehouse. Commercial property can also include land used to generate income through rent or other means.

What is an example of commercial real estate?

A good example of commercial real estate would be a strip mall. It would generally have several small stores or businesses as tenants and may also have a few larger businesses. The tenants would lease their premises from the proprietor of the mall.

What is the difference between commercial and residential real estate?

There are a few key distinctions between commercial and residential real estate. Commercial real estate is typically used for business purposes and can include everything from office buildings to retail spaces to industrial warehouses. On the other hand, residential real estate refers to properties for housing purposes, such as single-family homes, townhouses, and



apartments. Another key difference is that commercial real estate transactions are often much more significant in scale than residential transactions. Commercial leases and mortgages can be for hundreds of thousands or even millions of dollars, whereas most residential mortgages are for only a few hundred thousand dollars at most.

Is the commercial property a good investment?

Commercial property can be a good investment, but a few things to consider before investing. Some key factors include the property's location, the type of business occupying it, and the current economic conditions. It's also important to remember that commercial real estate prices can go up or down, so it's essential to do your research before making any decisions.