LeadDeveloper

Invest In Commercial Property To Achieve Your investment Goals

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10 Criteria For Buying Commercial Real Estate

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When it comes to invest in commercial property, there are many things you need to take into account to achieve your property investment objectives. This blog post will discuss the 10 most important criteria you should consider when making such a purchase. Remember that each real estate is different and will require its own set of specific considerations, but these 10 points will give you a good starting point for your research. So without further ado, let's get started!

What Is Commercial Real Estate (CRE)?

Commercial real estate, or commercial property, is the real estate sector that deals with purchasing, selling, and managing properties used for business purposes. It includes everything from office buildings to warehouses and retail stores.

The commercial real estate market is different from the residential real estate market in several ways. Commercial properties are usually much larger, and they are leased instead of bought outright. In addition, the commercial market is much more cyclical than the residential real estate market, with vacancy rates and rents fluctuating along with economic conditions.

Recommended Reading - Getting started guide to commercial property.

Why Invest In Commercial Property?

There are many reasons why you might want to invest in CRE. Some of the most common reasons include:

- To generate passive income: Commercial property market can be a great way to produce steady monthly or annual income through rents or leases.
- To hedge against inflation: As prices for goods and services increase over time, buying commercial properties can help protect your portfolio from inflationary pressures.
- To diversify your investment portfolio: Commercial real estate can be a safe and stable acquisition compared to other asset types like stock markets or bonds.

How To Buy Your First Commercial Property?

The process of buying a commercial property can be complex, so it's essential to do your homework and work with a qualified real estate agent or broker. Here are the basic steps you'll need to follow:

Define Your Investment Objectives

What are you hoping to achieve by buying commercial properties? It will help you focus your search and narrow down the options - the later section of this blog details 8 primary property investment objectives and ways to achieve them.

Research The Market

Get familiar with current market conditions and prices for different Commercial real estate properties. It will give you a realistic idea of what you can afford. Check out this 13 Easy Steps Real Estate market analysis blog for researching the market.

Hire A Real Estate Agent

A good agent will have extensive knowledge of the local market and can help guide you through the buying process.

Submit An Offer

When you find a commercial real estate property you're interested in, submit a written offer to the seller.

Negotiate The Terms

Once the offer is accepted, you'll need to negotiate the final sale price and other transaction terms. You can seal a great deal with these 7 real estate negotiation tactics.

Close The Deal

Once all of the negotiations are complete, you'll need to finalise the purchase by closing the deal.

Check out the detailed article on buying commercial property - 11 step guide to getting into commercial real estate.

What Are The Primary Property Investment Objectives?

Now that you've worked through some 'big picture' difficulties to help you clarify your overall approach, it's time to create a list of particular goals and buying criteria. It will assist you in finding suitable commercial real estate properties within your price range.

There are eight goals for commercial real estate investing.

When developing your investment strategy, you may choose to change the particular order of significance for the following set of objectives. It's up to you to figure out how they'll fit into your overall plan. Furthermore, you are likely to have competing objectives, necessitating the development of strategies and procedures to determine how you will achieve each one. Let's look at some of the leading financial goals that have lasted the test of time. The property in question should:

1. Be valuable in the long run
2. Maintain a steady cash flow
3. Maintain a stable rate of growth
4. Encourage super-growth
5. Keep the loan appeal going
6. Come up with future collateral
7. Provide for expense control
8. Provide tax benefits.

#1 Value That Lasts

If you're a long-term investor, you've probably already learned from my articles that a property's enduring value - remaining appealing even after many years and multiple tenants change. It links with understanding current trends (both cyclical and emerging) how they will affect different property types and time frames. As a result, the enduring value should be at the top of your priority list.

#2 Continual Cash Flow

An investment in a prime location that does not guarantee steady income will not assist you in meeting your monthly mortgage payments. As a result, anytime you plan commercial real estate investing, you should always look beyond the first few years. That is why it is critical to developing a marketing plan from the start. When it comes to selling or re-leasing the property, you should be able to choose from a variety of possibilities.

#3 Consistent Growth

Although inflation has been under control in recent years, you should ensure that each investment provides you with consistent and predictable capital growth. The type of property will depend on the location and the anticipated market for that property at the time.

#4 Exceptional Expansion

With a good consultant, you'll occasionally find investments that offer real growth potential above and beyond the market average. It can happen as a result of a clever change of use. Componentisation can result in subdivided properties.

Always be on the lookout for hidden jewels that might help you boost the total worth of your portfolio. Furthermore, as you gain a deeper understanding of the influence of your buying criteria, you'll be able to zero in on exactly which properties might provide you with this type of rapid development.

#5 Appeal For A Loan

To keep your lender happy, make sure you have a steady cash flow, long leases, minor maintenance requirements, and a desirable location. It would help if you began to consider each of your potential investments from a lender's perspective. That way, you may be confident that practically every financial pitch you make will be successful.

Recommended Reading - Top 10 Effective Finance Options For Your Next Property Development Project

#6 Collateral In The Future

It is critical to be able to borrow money right away. To reassure your financiers and underpin your future borrowing capacity, you must also look a little further ahead to when should you consider a piece of your core portfolio as being retained for the long term.

#7 Cost-Cutting

Even if your rent money is secure, you should look for properties with net leases wherever possible (where your tenant pays all the building outgoings). What is the significance of this? Because without careful management, your property's operational costs (such as rates, taxes, maintenance, and service contracts) may unexpectedly arise, affecting your overall return.

As a result, you must defend yourself on two fronts. Controlling costs is equally as effective as raising rentals to improve your bottom line.

#8 Tax Advantages

According to your eight objectives, you should view tax benefits as a subsidiary rather than the primary purchase motivation. There's no denying that depreciation allowances can provide significant benefits (as well as income protection). However, if the bargain isn't viable before considering prospective tax savings, you shouldn't be acquiring the first place.

What Are Some Key Considerations When Buying Commercial Property?

Now that we've covered some of the basics, let's take a closer look at the specific things you'll need to consider when buying commercial property. Below are 10 significant criteria for investing in commercial property.

You'll need to create specific purchase criteria to meet the investing goals discussed above. You can use these to evaluate every property investment you make. These criteria depend on their relative relevance for making sound property investments, as most investors determine over time.

#1 Tenant Calibre And Lease Duration

The tenants' calibre and the lease length could be the most critical factors in attaining your financial goals. You're well on your way to making a successful commercial property investment if you have solid corporate (or government) multiple tenants and a minimum five-year lease term.

#2 New Construction

In general, when a commercial real estate is newly constructed, it will continue to appeal to future tenants and will require less maintenance to preserve its current aspect. Because of this, you can achieve many of your goals, including enormous tax advantages due to generous depreciation allowances during a building's early life. Become an expert in commercial development with Commercial development 101.

#3 Flexible Design

A flexible design also means you won't be left with an inefficient floor plan if your primary tenants leave at the end of the lease period. When it comes to re-letting, you'll have an easily flexible plan that allows you to tap into a large market, along with an excellent rental income.

At that point, you can take advantage of further savings available on property taxes by depreciating any necessary renovations.

#4 The Lease Structure

The frequency and method of your rent reviews, who pay the operational costs, and the extent to which a tenant is liable for total building maintenance are all factors to consider when negotiating a lease. You can negotiate these elements deal-by-deal, but they affect many of your goals.

#5 The Lack Of Competition

The absence of competition refers to the number of similar potential properties in the vicinity of yours, and it's simply a matter of weighing the pros and cons of the many investment options available to you. It decides whether the need will likely become oversaturated, which could impair your property's return or make re-letting more difficult.

#6 Emerging Trends And A Strong Position

If all other factors are equal, the better the location, the better the performance of your commercial real estate property. What defines a good location depends on various criteria, some of which are subjective. The nature of the property, including factors such as visibility, public transportation accessibility, and location within a defined area, determines it for that sort of commercial property. However, as with the other criteria, you should not use this as your sole criterion.

What is the meaning of emerging trends? Demographic dynamics, such as population shifts, always lead to new investment opportunities.

New trends in building, design, energy conservation, security, elevator technology, automation, and so on are also emerging. All of these will affect the future demand for and appeal of the sites.

Taking advantage of a new trend as soon as it emerges can significantly boost the performance of any sites you already own, as well as provide you with the ability to improve underperforming properties you're looking to buy or build.

Keep looking for hidden opportunities to obtain a competitive advantage.

#7 Yielding

Passing yield refers to the current yield on an existing investment. You are unlikely to receive any increases from your market reviews if you derive it from rentals regarded as 'above market' (that is, more than the rents already being paid by tenants of similar sites). Alternatively, suppose the rent is below market and with fixed future reviews, incremental, or tied to the Consumer Price Index.In that case, you'll be adding to (and deferring) the problem until the lease expires.

On the other hand, your passing yield may be at market rentals. It should imply that your cash flow will improve, and you may even see some exceptional growth if you spot an opportunity that many investors may have neglected.

#8 Zoning Passes

Zoning refers to the current and potential uses of your commercial real estate. Your local government can provide you with zoning laws and other related information.

A 'non-conforming use permit' can sometimes be obtained, allowing residential property as an office space. While you can currently utilise it for workplaces, it may only be possible to use it for residential purposes in the future.

Suppose many of these non-conforming properties have existed in a specific neighbourhood in the past. In that case, some inner-city towns have introduced 'mixed use' zoning to legitimise (and actively encourage) the coexistence of uses. It's something you should be aware of because specific zoning and density changes occur regularly, and if you're lucky, you can profit from them.

Recommended Reading - 13 Golden Rules Of Investing In Commercial Real Estate

#9 Title Possibilities

A property surveyor can tell you (for a small fee) if you can subdivide the title into a parcel of land or an entire structure, in which case you can significantly increase the marketability and thus the value of your commercial property.

You can still sell the property as a whole. Still, new buyers may be drawn in by the added flexibility of selling off a section of it if the need arises - and people are willing to pay a premium for that flexibility, which is typically well above the cost of constructing it.

#10 Vendor Motivation

Although vendor motive is essential, it should not be your primary reason for purchasing a commercial real estate property. A motivated provider will invariably give you some additional fascinating perks after you've analysed all of the fundamentals and satisfied your prior standards. These can range from leaving some money in the property at a low-interest rate on a second mortgage to allowing you to up value all of the plant and equipment so that you can depreciate it from a much higher base.

A seller may specify the written-down value of a property's plant and equipment (also known as chattels). However, the contract is frequently silent on the specific worth of these assets. It allows you to apportion the contract price by valuing the plant and equipment at their current-day worth, resulting in a more extensive depreciation base and an immense tax advantage. This process is known as 'up valuing.'

When working with a motivated vendor, your primary focus shifts away from price to establish the most favourable contract conditions.

Summary

So, if you are looking to invest in commercial property, make sure that you ask yourself the following questions to buy a property that meets your investment objectives. Have you determined your primary investment objective? What type of commercial real estate do you want to purchase (office space, retail plaza, industrial park etc.)? What is the length of the lease terms?

I've covered all of these questions and more in this article. But if you want to learn more or take your property investment and development skills to the next level, I suggest you enrol for my Property Development Courses. In some weeks, you will gain an in-depth understanding of the real estate market – from finding deals and negotiating leases to maximising your return on investment. You can confidently achieve your property investment objectives with my course under your belt.

FAQs

What should I look for when buying a commercial property?

When buying a commercial property, it's essential to consider the potential for future growth in the area and how you can use it to meet that growth. Additional considerations include: 1. Tenant calibre and lease duration 2. New Construction 3. Flexible design 4. The lease structure 5. The lack of competition 6. Emerging trends and a strong position 7. Yielding 8. Zoning passes 9. Title possibilities 10. Vendor motivation

What factors are currently influencing the commercial property market?

Several factors are currently influencing the commercial property market, including but not limited to: interest rates, the economy, consumer spending, inflation, supply and demand. For example, when interest rates are low, more people may invest in commercial property since it is relatively safe. And when the economy is strong, businesses may be more likely to lease or buy commercial space to expand their operations.

What are the 5 primary property investment objectives?

The 5 primary objectives for investing in property are: 1. To generate a regular income stream 2. To achieve capital growth over the long term 3. To provide tax benefits 4. To achieve liquidity (the ability to sell the property when needed); and 5. To diversify a portfolio.

Why invest in Commercial Real Estate?

Commercial real estate can offer investors stable and consistent returns, thanks to the long-term leases that are typical in the industry. Commercial buildings also have a low correlation to other asset classes, making them an attractive investment during times of market volatility. And with the current economy showing signs of expansion, commercial real estate is poised for growth in the coming years.