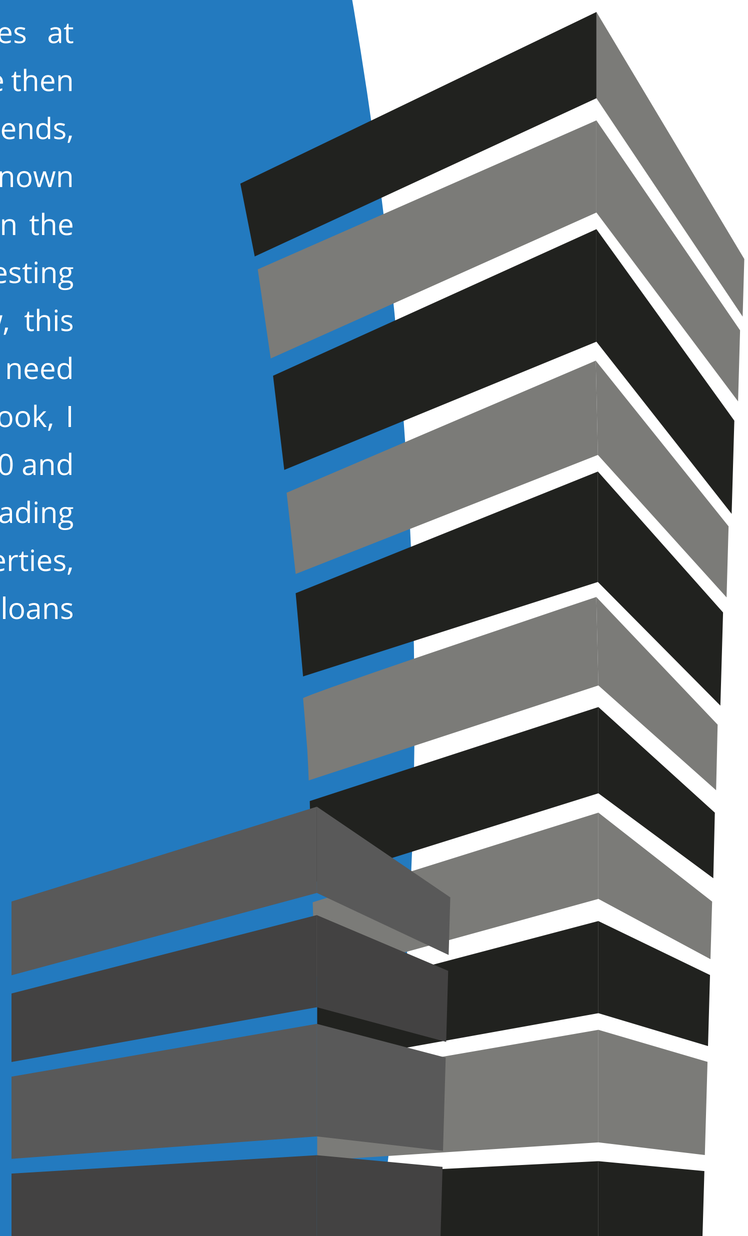
HOW TO INVEST IN COMMERCIAL REAL ESTATE

PAPINO PROPERTIES

HOW TO INVEST IN COMMERCIAL REAL ESTATE: **A BEGINNERS GUIDE**

Investing in real estate is a great way to build wealth. Investors are only tasked with getting properties at discounted prices which falls below the market value then sell it to a potential buyer at a profit. From the past trends, commercial real estate investing, in particular, is known to provide some of the highest income for those in the real estate industry. For anyone who has been investing exclusively residential real estate for a while now, this e-book serves as a breakdown of everything you need to know before you make your first step. In the book, I have first covered some of the market trends in 2020 and 2019, types of commercial real estate, benefits of trading in commercial properties, how to acquire properties, investing in commercial properties and the various loans available for those in commercial real estate.



WHAT'S NEW?

COMMERCIAL REAL ESTATE INVESTING TRENDS IN 2020

Advancements in technology is a wave that sweeps across every viable industry and facilitates various changes in these markets. Much like other industries, commercial real estate investment is also bound to change or mutate with the dictates of technology. For instance, the years to come will see more of smart building technologies and less of the current construction techniques used. This only implies that some people will lose their jobs as other jobs will be created in a different sector hence facilitating critical changes in the market such as homebuyer preference etc. By keeping up and having comprehensive know-how of these trends, investors can analyze more critical before making a purchase and make the right choices while purchasing in 2020.

Adoption of the newly emerging technologies has been one of the most significant changes to occur to the real estate industry in recent years, implying that 2020 will be no different. Investors have seen some of the significant changes take place in the market, such as digitalization of the search for properties, portions of the closing process and management of properties. The next big transition will now be the implementation and adoption of smart technology. This technology comes along with features such as those that will improve the security and safety of the building or improve the overall tenant's experience. For instance, property owners use the new technology to automate a building's primary operations such as lighting, air conditioning, security systems and heating. A research conducted by the Wall Street Journal shows that an average of 65% of the clients are willing to pay more for a smart building as opposed to those properties with no intelligent technologies.

Before getting a commercial property, you need to know of the demographics and movement of people around the places you target. 2020 has seen a changing homebuyer demographics and preferences as most millennials are willing to settle in the suburbs. Although this is true, most of this age group are still hesitant to sacrifice the benefits of living in an urban area. The new generation of customers want walkable resources, and that's why you see most of the current properties are mixed-use buildings that have the potential to attract potential suburban clients. After a keen study of these market trend and shift of preference, a wise investor should therefore anticipate and plan with such tendencies.

As per the emerging commercial markets of 2020, investors should aim at investing in cities with a growing job demand and opportunities. Some of the top areas listed by Urban Land Institute as the most preferable for overall investment prospects include Boston, MA; Nashville, TN; Austin, TX; and Raleigh, NC. While going for a property, you can consider either going for existing properties in these environments or potential land investments as well.

TRENDS IN 2019

Commercial real estate investing trends are subject to cyclical changes, unlike their residential counterparts. Compared to those in the residential market, commercial real estate investing is subjected to more abnormalities and changes. This is so because the commercial real estate industry is a concoction of several sectors such as multifamily retail, hotel, industrial, offices, specialty etc. consequently, each sector of the economy has unique needs and demands which are also dictated by the status-quo of the economy. Otherwise, apart from these factors, there are dozens of other factors that inherently influence the performance of any commercial real estate sector, and investors need to identify their current impacts and future trends.

As the financial year closed in 2019, the industrial real estate sector stood out from the rest of the sectors in commercial real estate. According to research conducted by NCREIF Property Index (NPI), it denotes that the top-performing industry right now in the CRE is industrial. The sector is comprised of data centres, manufacturing facilities, warehouses, storage and refrigeration assets, and other various assets. In 2019, Industrial real estate investment surpassed office, retail and apartment sectors by a significant margin. The exponential growth has been facilitated with an increase in online shopping as, despite industrial, commercial real estate assets being at the forefront of the U.S. economy, their value has never been any admirable.

Despite commercial real estate being incredibly appealing in 2019, it is still considered as being too expensive by an average investor. However, this high price tag has now been partly eliminated by a new trend that intents on levelling the playing field, known as crowdsourcing. This idea of crowdsourcing a commercial real estate investment is becoming more popular and more feasible than ever before. Investors can now quickly shift from residential deals into mega commercial contracts as they can crowdsource funds for investing in commercial real estate. With this, it's now possible to prophesy of a bright future where young entrepreneurs and other real estate enthusiasts will now be able to break into the commercial world.

WHAT'S CONSIDERED A COMMERCIAL REAL ESTATE?

In real estate, commercial real estate property is any property that is typically leased out for the sake of business and retail purposes. Getting a commercial property implies buying or developing an old property that had been designed with the primary intent of housing commercial tenants. Commercial real estate investors lease out and collect rent from a business that occupies their space, unlike the residential investors who collect their monthly dues from residential tenants. Keep in mind that apartments that have more than four units is classified as commercial real estate. Also, in a case where you purchase raw land, then it should also be included in this definition of a commercial property. Real estate being a broad field, commercial properties can be further categorized into five main types. Below is a brief look into each of the classes.

FIVE TYPES OF COMMERCIAL REAL ESTATE

Before I take you into the exact mechanics of how to get a commercial property and invest in commercial real estate, it is significant to first understand the underlying fundamentals of CRE such as the various types and the specific benefits that one accrues from investing in CRE. This way, you can make a sober and informed decision on the given type of asset that you want to acquire, its significance, challenges and finally how to make the acquisition. Although the properties serve a broad range of functionalities, they can still be microscopically into the following types.

- Office
- Retail
- ndustrial
- Multifamily
- Special Purpose
- Storage

OFFICE

Office space is the most common type of commercial real estate. Buildings traded in this category range from single-occupant apartment to high-rise structures used for offices. The properties are, therefore, classified into three different categories, Class A, Class B and Class C, depending on the condition of the building, location and in some cases the extent of repair that is required. Below is a brief look into each category:

Class A: these are apartments that are still in excellent condition and does not require any renovation. They might be those newly constructed offices or apartments which have been extensively renovated in the recent past. The buildings must also be positioned in a trending area with all the necessary social amenities. These apartments are usually under management by professional real estate management companies.

Class B: in this category, the buildings are not in a perfect condition and therefore require some capital investment. Although the buildings might be under proper management and care, they need some repair work before they can be used as a functional office. Class B apartments are, therefore, primely targeted by most investors as they only require a minor repair or upgrade.

Class C: majorly preferred for redevelopment opportunities. The buildings in this category require intense work before the investor can use them. In most cases, they are poorly located and has high vacancy rates than Class A and Class B types. To add on, the structures are mostly outdated and therefore require some massive capital investment to upgrade the obsolete infrastructure.

RETAIL

The retail building is another popular type of commercial real estate. Properties of this type vary from community retail centres and strip malls to restaurants and financial institutions such as banks and in most cases, they are usually located in urban areas. The properties vary widely in size, that is, anywhere from 5,000 square feet to 350,000 square feet.

INDUSTRIAL

From relatively smaller apartments such as warehouse to mega structures such as manufacturing sites, properties under this category are chiefly geared towards manufacturing industries. This is because these buildings provide sufficient space, appropriate height specifications and ability to dock. And generally, these properties are mostly lent for investment opportunities.

MULTIFAMILY

Multifamily properties comprise of high-rise condominium, apartment complexes and smaller multifamily buildings. Any property with more than one unit qualifies as multifamily real estate and as a commercial property if it has more than four units. For most investors, they started by expanding into larger multifamily properties. When leasing out, residential turnover in that specific areas should be a significant factor to be considered as residential tenants tend to have shorter lease terms as compared to retail or office tenants.

SPECIAL PURPOSE

These are properties that have been customized for specific use in that it would be almost impossible to use it for a different purpose. Some examples of special purpose properties are schools, hospitals, self-storage (detailed below) facilities, car washes etc. Industries such as tourism and leisure represent close to 90 percent of special purpose real estate with properties such as amusement parks, hotels, sports stadiums, airports etc.

In the recent past, there has also been a rise in demand for mixed-use development properties. Such properties can be used for a variety of functions ranging from retail use, residential and even public sector in some instances.

STORAGE

Storage units is another great investment for investors. Primarily because it produces lots of cashflow and forced appreciation. A large self-storage property requires no tenants or plumbing and only one property manager if necessary. Maintenance is low since one is not necessarily required, and evictions are easy (auction off goods). When the economy is booming, people will buy goods and store them.

OWNER OCCUPIED COMMERCIAL REAL ESTATE

When an investor purchases commercial real estate with the intentions of utilizing it for personal purposes, then such property is referred to as Owner Occupied Commercial Real Estate (OOCRE). The concept applies to all the five categories mentioned earlier.

Being able to occupy one of the commercial real estate properties in which you invest in is one of the many benefits that accrue to you when you invest in commercial real estate. So briefly before giving you the specific metric on how to invest, I'll take you through some of the benefits that you'll enjoy and those that might pique your interest as an investor who is just about to begin their journey.

THE VARIOUS BENEFITS OF INVESTING IN COMMERCIAL REAL ESTATE

The rewards of investing in real estate can be both personal and financial. Many investors venture into this field to secure future weal and generally for financial security, while others get into the business for its tax benefits and investment portfolio diversification.

HIGHER-INCOME

the main reason for investing in commercial real estate is because of the high profits. Commercial properties have returns ranging from 6 to 12 percent while single-family properties attract a range of 1 to 4 percent as returns. Also, they have a lower vacancy risk in that, if one vacancy in a residential duplex will have a less negative impact on an investor's bottom line as compared to one vacancy in an office building with 25 commercial spaces. Compared to residential real estate, lease periods are longer in commercial real estate, and the fees are reasonable.

CASH FLOW

due to the more extended lease periods, commercial real estate has a relatively consistent stream of income. Also, commercial properties enjoy the benefits of economies of scale since there are several units in one property and as well as multiply your income streams even much faster. In some cases, you also get relieved from the burden of having to pay for maintenance costs, taxes and property insurance as various commercial tenants opt to pay for these costs. Such benefits occur during a triple net lease.

LESS COMPETITION

due to the relatively high financial investment required; commercial real estate faces somewhat less competition as compared to residential real estate. Commercial real estate space is, therefore, less saturated with other investors due to this perceived difficulty of investing.

LONGER LEASES

one of the hall-mark benefit of commercial real estate investing perhaps might be the attractive leasing contracts. Compared to residential properties, commercial buildings tend to have relatively more extended lease agreements with the clients. Commercial property lease contracts are signed for multiple years, implying continuous monthly cash flow and impressive returns to the investor. For example, leasing agreements usually range from 5-30 years, with an option of renewal and assigning over the lease to another tenant.

LIMITED OPERATIONAL HOUR

although this is quite hidden, as a commercial investor, you share a better part of working hours with your clients. Although working hours slightly vary, it's not typical to find a commercial property owner answering maintenance requests or other communications from tenants around the clock. On the other hand, residential real estate can call for a staff member who is always available to deal with issues raised by tenants 24/7. Suppose as a commercial investor you therefore decide to manage your properties personally. In that case, it helps you enjoy the benefit of owning a property and as well allows you to see the difference between regular life and that of an investor. Though, as a first-time investor for multifamily it is suggested to hire a property manager to avoid simple mistakes until you gain experience with the business.

BUSINESS RELATIONSHIPS

investing in commercial real estate opens various windows of opportunities for business-to-business relationships. Compared to residential real estate, this can lead to a more neighbourly and professional interaction with your tenants. In some cases, you might even build a positive personal relationship with business agents renting your apartment that further leads to business relations in future. This is a great venture to expand your network as an investor and as well allows you to integrate with the community in which you are investing seamlessly.

Generally, commercial real estate investment provides a variety of opportunities and benefits that other ventures and strategies cannot match. With this in mind, the next step is now to dive in, into how to invest. Read the following to get insight on how to get started in commercial real estate. I have listed some necessary steps, the success metric to use and even how to acquire a loan and the different types of loans available for a commercial real estate investor.

HOW TO INVEST IN COMMERCIAL REAL ESTATE: **A BEGINNERS GUIDE**

This question only has one answer: invest with due diligence. Despite the niche or sector that you are in, performing your tasks and minding your due diligence is an essential element in ensuring your success in real estate investing. And as much as you have learned about the pros and cons of commercial investing, you should also learn about how residential real estate differs from commercial real estate. Be sure to abide by the following tips after comprehensive mental preparation and coming to a decision that you now want to embark on your first commercial endeavour.

1 FIRST, UNDERSTAND HOW UNIQUE COMMERCIAL REAL ESTATE IS

As an investor, the first step in your endeavour is to understand how commercial real estate is valued differently from residential real estate in the industry. Commercial real estate properties are valued as per the usable square footage, unlike residential estate that is valued through various methods such as through sales comparison approach, cost, income capitalization etc. Again, commercial real estate properties have more extended lease periods compared to residential, commercial real estate. These two factors give a better explanation as to why commercial real estate provides better return and is safer venture to endeavour cause of the perceived high income at the end of the day. Think of commercial real estate in this perspective, the higher the occupancy the higher the value. If your commercial investment is vacant, then the value is lower, whereas with residential real estate the value is the same whether vacant or occupied because it is market driven. When determining value for commercial real estate two components are important to keep in mind, which is, capitalization rate and property value. “Low cap rates equates to high a capital value, and a high cap rate equates to a relatively low capital value(De Roos, 2008, page para).” We will furthermore explain value as we move along.

When purchasing a commercial property, location is fundamental as it influences the demand for your property. Most commercial buildings are leased by tenants who are into business, and therefore you don't want to get a facility in an isolated place than, let's say, an office cannot be located at. And regardless of the investing niche, location remains an important factor when investing in real estate. However, commercial investors need to pay close attention to the type tenants they target or that which drives them to invest in the business. These two factors, location and demographics, significantly affect demand and therefore, should not be overlooked. For example, urban areas make the best location for a space that's intended for corporate offices as compared to a primarily residential neighbourhood. To avoid such location mismatch, you can go through various recent comparable to have a hint on how your property of interest might perform in the market. Always check for up and coming new trends for the area. Like, new social and recreational places for families, stadiums, colleges and businesses.

2 ANALYZE AND THOROUGHLY SCRUTINIZE COMPARABLE

The second step after understanding the difference between commercial real estate and residential real estate investing is to compare the available options within the location of your desire. This should be done in relation to the current tenant requirements and as well while considering the possibility of future developments. Check at the prices at which properties that are similar in style, location and size were recently sold at, an activity referred to as "comps". Having a proper understanding of the props will give your insight into what your property is currently worth in the market. And while doing this, stick to the thump rule, which states that the properties used as a comparison should neither be 10 percent higher or lower in-terms of square footage for the property being evaluated. Applying this method will help you have estimate close to the actual market value anticipated by tenants.

FINDING COMPARABLE HOME SALES NEAR YOU

There are various free comparable property sales online. You can check some of the following platforms for insight:

Redfine: this is a platform that connects property investors to listings and full-time agents online. The platform also has a tool to estimate property value based on recent market data.

PropertyShark: this website uses public data to provide visitors with comparables and recent data.

Zillow.com: provides a listing of recently sold properties and property value estimates

Trulia.com: the websites have a listing of sold property within various neighbourhoods and therefore can be used for comparable sales.

It is advisable to do extensive research before investing your cash. This is obtained by using more than one method to ensure that you source as an accurate value estimate as possible. Some of the ways that you can also use includes driving around the neighbourhood and attending open house meetings as much as you can. Driving around may not seem resourceful but venturing out gives you a sense of the neighborhood and the type of businesses that are in the area. Also, you can use real estate agents as they are specialized in this area and have the most recent data and trends of how properties are being sold within a given region. Researching the region also gives key insight to what the original purpose the location served. Most cases is parallel to market trends. Although this might take some sweat and blood, investors can as well keep a pulse on property list prices and a list of comparison to the actual costs they get sold at.

3 EMPLOY THE RIGHT SUCCESS METRIC

Commercial real estate investing involves an array of formulas, calculations and as well a comprehensive understanding of real estate finance. As an investor in commercial real estate, there are fundamental formulas and calculations that you need to know and have at fingertips.

NET OPERATING INCOME

This equals a property's annual gross income less lousy debt allowance, vacancy allowance and total operating expenses. Gross income comprises of rental income as the main component and other revenues such as vending receipts, laundry and parking fees. Operating costs on the other end are those incurred during the operation and maintenance of a property and include insurance, utilities, property tax, repair and maintenance, management fees, etc. Other expenses such as capital expenditures, amortization of loan points (debt service), capital expenditures, income taxes, principle and interests are not considered as operating expenses. Simply put, this calculation gives the amount of income that will be received by an investor after all the necessary operating costs have been deducted.

Income	
Gross Rents Possible:	$100,000
Other Income:	$3,000
Potential Gross Income:	$103,000
Less vacancy Amount:	$2,000
Effective Gross Income:	$101,000
Less Operating Expenses:	$31,000
Net Operating Income:	$70,000

CAP RATE

Now, we touched upon cap rate earlier in the text. This is the short form for capitalization rate. It is the net operating income divided by the value of the commercial property expressed as a percentage. Appraisers, investors and lenders use cape rate to approximate the price at which different types of income-producing properties are purchased. Analyzing financial data of similar properties which were recently sold in a specific market can be used to obtain a market cap. Since market cap utilizes more of properties financial detail in estimating property value, it gives way much accurate data than a market Gross Rent Multiplier that only considers the price at which a property is sold. Gross Rent Multiplier is a quick yet weak valuation because it is not a reliable calculation for true value. For one, operational expenses are not factored in like maintenance, licenses, utilities, etc. Yet, we cannot entirely dismiss this method of valuation appraisers have been known to use this value approach more than not. Though, Cape Rate calculations are more accurate because it incorporates gross rents, vacancy amount, the selling price of a property, operating services and non-rental income.

For instance, if we a have a willing buyer and a seller, the seller will try to sell their property to hit the highest price for maximum returns or sell at the lowest cap rate possible. On the other hand, the buyer aims at buying the property at the lowest price possible or the highest cap rate as possible. So, the higher the selling price, the lower the cap rate and the lower the selling price, the higher the cap rate. Areas with high cap rates are not great deals for upside potential.

1. If the market is strong, cap rates do tend to fall
2. If the market is weak, cap rates tend to rise

Formulae

NOI	NOI
Cap Rate = ———	Estimated Value = ————-
Value	Cap Rate

Net Operating Income	70,000
Estimated Value = ——————- = —————- = 700,000	

DEBT COVER RATIO

This is also another ratio that can be employed to evaluate commercial properties. In this calculation, the net operating ratio is equally integral, just like in the previous analyses. Investors and lenders use this formula to see whether a commercial property can pay the mortgage and its operating expenses. A DCR ratio of 1 is known as break-even. To be considered for a commercial loan, most lenders require a minimum of between DCR ratio of 1.1 or 1.3. therefore, the higher the debt cover ratio, the higher your chances of getting a loan as most banks prefer large DCR. Below is an example showing how debt cover ratio is calculated:

Net Operating Income	50,000
Debt Coverage Ratio = ———————— = ——————— = 1.25	
Debt Service	40,000

GROSS OPERATING INCOME OR EFFECTIVE GROSS INCOME

When you minus the vacancy amount from potential gross, then you find effective gross income. Below is an example:

Income	
Gross Potential Rent:	$100,000
Other Income:	$3,000
Potential Gross Income:	$103,000
Less Vacancy Amount:	$2,000
Effective Gross Income:	$101,000

GROSS POTENTIAL RENT

GPR is the ideal income a commercial property will give back, assuming it is 100 percent occupied. However, this is most commonly applicable to residential real estate

GROSS REALIZED RENT

GRR is obtained in an ideal situation with an assumption that all units were led at market prices. It is calculated as potential gross rent, minus bad debt and allowance for a vacancy.

GROSS RENT MULTIPLIER

GRM is used to estimate the worth of a commercial real estate, although the ratio only provides a rough estimate. To calculate GRM, you only need two values, the total gross rents and the sales prices. Suppose you can obtain these data for multiple sales of similar types of commercial real estate properties in a specific area. In that case, you can as well calculate the market value of other similar properties within the same locality. You can either use a monthly GRM or a yearly GRM depending on your targets. Put merely, GRM is computed as the sales price of a property divided by the potential gross income, so you divide by monthly gross income for monthly GRM and potential yearly income for yearly GRM. There are beneficial factors to using this method, but an experience investor or appraiser must perform it. Below are the formulae:

Sales Price
GRM = ——————————————————-
Gross Potential Rental Income

With consistent and accurate financial information of similar types of properties, market GRM can be computed to give a rough value of the commercial property. Tax consequences, debt services and operating expenses are excluded from calculations. This is because, in some instances, you might have two similar properties with close potential gross income and widely varying operating costs. Therefore, including such expenses in the above formulae would result in a questionable estimation of the market value of these properties.

The cap rate is a more accurate technique of estimating the value of a commercial property since it takes into account both vacancy amount and operating expenses in its calculation. On the other hand, you can use the GRM tool to get a rough estimate of your property's value.

NET RENT MULTIPLIER

This is relatively similar to GRM since it's also used for both comparisons between properties and as well evaluation of a property's net worth. Only that unlike GRM, it is a more accurate technique since it takes into account all the operating expenses when calculating the value of a commercial property. NRM is based on the assumption that only net operating income is stable, unlike GRM that considers both operating expenses and GPR as perpetual and unchanging.

Formulae used

Sales Price
NRM = ______________________________
Net Operating Income

RETURN ON INVESTMENT OR RETURN ON EQUITY

Return on investment is a technique used to measure the profitability of property within itself and in relation to other similar properties within the same neighbourhood. The accuracy depends on the type of data used in the calculation and therefore, the more accurate the data used, the more precise the result will be.

For example:

Income	
Gross Rents Possible:	$100,000
Other Income:	$3,000
Potential Gross Income:	$103,000
Less vacancy Amount:	$2,000
Effective Gross Income:	$101,000
Less Operating Expenses:	$31,000
Net Operating Income:	$70,000
Less Finance Interest:	$35,000
Net Income:	$35,000

Formula:

$$\text{Return on Investment} = \frac{\text{Net income}}{\text{Total Down Payment}} = \frac{35{,}000}{350{,}000} = .1 \text{ or } 10\%$$

CASH ON CASH RETURN

CCR is used to determine the return on the cash invested on a commercial property, and the returns are expressed in terms of percentages. Below is an example showing cash on cash returns of 15% for a property that $100,000 was initially invested in and the cash flow before-tax for the property is $15, 000.

Formulae used to get the 15%

$$\text{Cash on Cash Return} = \frac{\text{Before-Tax Cash Flow}}{\text{Cash Invested}} \times 100 = \frac{\$15{,}000}{\$100{,}000} \times 100 = 15\%$$

The following shows how before-tax cash flow is derived.

Gross Income:	$54,500
Less Vacancy Amount:	$2,500
Gross Operating Income:	$52,000
Less Operating Expenses:	$17,000
Net Operating Income:	$35,000
Less Annual Debt Service:	$20,000
Before-Tax Cash Flow:	$15,000

CASH FLOW BEFORE TAXES

Determining cash flow before taxes is quite significant as it helps you understand how much profitable your property will be prior to tax implications. And because every investor operates in an environment and circumstances unique to their property, accurately calculating Cash Flow Before Taxes can help with developing tax reduction strategies. Below is an example:

Net Operating Income	$70,000
Less Mortgage Payments	$45,000
Less Capital Expenditures	$15,000
Plus Additional Financing	$5,000
Plus Interest Earned	$2,000
Cash Flow Before Taxes	$17,000

CASH FLOW AFTER TAXES

The only difference between Cash Flow After Taxes and Cash Flow Before Taxes is that you now deduct all the applicable taxes to determine the net income. Here is an example:

Net Operating Income	$70,000	
Less Mortgage Payments	$45,000	
Less Capital Expenditures	$15,000	
Plus Additional Financing	$5,000	
Plus Interest Earned	$2,000	
Cash Flow Before Taxes	$17,000	
Less Associated Taxes	$3,400	(assuming a 20% for demo purposes)
Cash Flow After Taxes	$13,600	

BREAK-EVEN RATIO

Break-Even Ratio is a technique used to analyze the financial performance of your commercial property and to determine the rate of occupancy required to satisfy both operating expenses and mortgage payments. This figure is therefore significant for lenders and banks when considering financing for a real estate property. BER is calculated by adding debt servicing to the annual operating expenses, and the result dived by the Effective Gross Income or Gross Operating Income. Investors evaluate whether an investment is the right choice. The break-even ratio allows investors to calculate a worst-case scenario in the event of high vacancies. And as a rule of thumb, lenders, financial institutions and banks go for Break-Even Ratios of 85% to ensure that before the property breaks even, rents can decline 15%.

Below is an illustration of these calculations.

Debt srvc. + Ann. Op. Exp.	$45,000 + $31,000	
BER = ————————————-	= ——————————————-	= .753
Gross Operating Income	$101,000	

In the above example, the property has a BER of 75.3%, implying that the net income generated by the property would have to decrease by 24% before it hits the break-even point.

4 MAJOR COMMERCIAL REAL ESTATE INVESTING MISTAKES TO AVOID

As a real estate enthusiast who is just on the verge of venturing into the business, it is equally important to know the Dos and Don'ts of the industry just as much as knowing the right success metrics to use. Below are some of the significant mistakes that leave investors in deep financial pits.

Financial ignorance: overlooking financial implications of real estate investing can be devastating. As an investor, you need to learn and understand the debt service coverage ratio or the loan-to-value at-least to the bare minimum before staking your cash on a property.

Going Solo: the desire for high returns drive most investors to do everything by themselves, but this only leads to wastage of time and financial resources. Also, in case a tragedy strikes; you bear all the risks. Find a competent team of like-minded investors and align yourself with them, it'll save you a lot. Forming a real syndication is always an option when forming a team and should be drafted with an experienced lawyer. Also, an LLC which has many tax benefits (consult with a tax professional).Take the time to properly and legally form a business venture.

Improper valuations: every property is unique, and therefore all variations should be captured in asset's valuation, failure to which there could be a catastrophic financial ruin.

Neglecting Due Diligence: yes, don't buy a property that you are not prepared for, you'd better lose it to someone else than satisfying your ego. Take as much time as you want to learn all the ins and outs of commercial real estate before you throw in your cash.

Neighborhood: one thing an investor cannot change is the neighborhood. Look-out for high crime rates and economy. High crime rates sometimes mean high cap rates with no cashflow. If the investment property has out-sourced multiple property management agencies that is an indication of a bad deal. A suggested source to use when researching the location of your investment is, https://www.bestplaces.net/.

COMMERCIAL REAL ESTATE LOAN YOU CAN APPLY FOR

Now that you know about commercial real estate investing, how do you plan to go about financing the investments?

There is an array of loan types available for investors, and as well investors too have unique financial needs. For example, some need long term longs with lower interests while others who need short term loans to bridge a financial gap. Evaluate each type of loan and go for the one that fully satisfies your needs. Below are some of the varieties:

- Conventional Loans
- Conduit loans
- Small Business Administration Loan
- Commercial Bridge Laon
- Hard Money Loan and so many others.

Wrapping up. . .

There is risk associated with every investment, and commercial real estate investing is no exemption. To prosper in this field, you need to practice due diligence, have a comprehensive business plan and be able to build a strong network as you venture deep into the business. Abiding by these thump rules will sure see you succeed.