

## Buying Commercial Property

Commercial real estate purchases may have a bigger payoff, but there are risks.

You'll need an entirely different skill set when deciding to diversify your investments away from traditional home buying.

### AN INVESTMENT OPPORTUNITY

Commercial real estate defines a broad range of properties and transactions, so you'll need to familiarize yourself with the challenges and opportunities involved with this particular investment opportunity. These purchases are typically much larger than a single-family home, so securing financing can be a challenge.

Commercial property is also valued differently from residential property, with a separate spectrum of expense vs. income ratios. It can be very difficult to find comparables for some unique spaces. The legal requirement to evict a tenant can vary, and there are sometimes difficult-to-manage maintenance requirements, depending on the lease. Develop a relationship with a qualified agent or attorney who can walk you



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### REAL ESTATE 101

#### What is a REIT?

A real estate investment trust is defined as “a company that owns or finances income-producing real estate” by the National Association of Real Estate Investment Trusts. In pooling their resources via a REIT, individuals can earn partial income from commercial real estate without having to go through the process of buying the property. They're typically used in making large purchases like office buildings or industrial parks, but REITs may also buy mortgage-backed securities in order to generate income.

through the sometimes complex legal, operational and financial requirements.

#### KNOW YOUR TERMS

Commercial real estate can generally be separated into five categories. Multifamily

properties are residential buildings with more than one unit — including duplexes, assisted-living spaces and garden apartments. Office space is specifically separated by how many floors it has, and allows for multiple differ-

ent tenants in spaces like suburban office buildings or a medical facility. Retail properties sell goods or provide services, and are located in easily accessible locations like shopping centers or malls. Industrial properties range from heavy manufacturing to light assembly operations. Hospitality includes any business aimed at travelers, including hotels, entertainment or dining venues and short-term rentals.

#### FINDING AN AGENT

Interview several agents or attorneys and check their individual references. Recommendations from family, friends and colleagues can help you connect with the best team of pros. A key credential is the Certified Commercial Investment Member designation from the National Association of Realtors. Hiring an attorney is crucial, since use and zoning laws can be difficult to navigate by yourself. Seemingly minor legal issues have derailed many commercial property purchases. A qualified attorney will help you identify these problems before you've made a critical error.

#### CONVERSION ISSUES

One of the hottest trends in urban centers involves purchasing commercial space

and converting it into residential property. But anyone who considers turning warehouses or storefronts into living spaces like apartments and lofts should be aware of the risks. These popular targets for investors can be rented or sold at a profit after conversion, especially if they are located near trendy areas. But problems with installing plumbing, HVAC and electrical are common, so any such project should be tackled by an experienced architect. Find someone who shares your vision for this funky space, but also one who's built a foundation of experience with similar and successful projects in the past.

#### WHAT TO WATCH FOR

Once your search begins, you and your agent should continue watching industry and economic trends, since they can directly impact the value of these properties. Zoning and land-use laws need to be monitored for any changes, as well. Continue networking through other business owners, neighboring tenants and commercial brokers, who may be able to give you valuable information about what's available. Finally, keep market data in mind, since rental rates, construction costs and vacancy rates will play a role in valuation.



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### HOMEWISSE GLOSSARY

**Yield:** The profit from an investment, normally stated as a percentage of the amount invested. **SOURCE:** MLS.com

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