

Commercial Real Estate

Date 9/1/09

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Special Interest Articles

The Basics

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Direct Ownership and Triple Net Lease

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Notable note:

Investing in real estate is one of the best ways to amass a fortune even if a person just invests a modest sum of money. Commercial real estate investing involves big money, and it is not advisable to venture into it, if you are not an experienced investor.

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The Basics

There has been a significant amount of press lately about investing in commercial real estate. This has been sparked by the market downturn and prices that have been greatly reduced due to an overabundance of available space. Some feel that it is a safer investment than stocks since you can drive by the building to make sure it is still there. Others feel that real estate is a more stable investment than compared to stocks.

Don't Just Search the Internet

Buying commercial property can be more complicated than buying a home. If you're investing directly find a broker that can analyze regional markets, how the various types are performing in those markets, and the kinds of rents the assets can capture at any given time.

Experts can help you figure out what kind of investment would make you feel most comfortable. For instance an older property that needs renovation may be riskier

Commercial real estate can deliver regular income, either from rent checks or dividends from a Real Estate Investment Trust (REIT). The investment sector has traditionally kept pace with inflation and provided sufficient risk adjusted returns. In years past while the residential market was struggling the commercial market has had high occupancy rates, increasing rent growth and keeping supply under control.

than a newer one that is turnkey. Other experts to include on the team include an attorney for legal issues, an inspector for the property to uncover issues, and of course a financial advisor to show you what you can afford, and analyze the effects of your income or loss on your overall plan.

Unless you can find tenants that are willing to pay a higher rent and cover the costs of the renovation, you may not be able to get a high enough return.

Right now there are buildings with low occupancies, but the price of the building can more than make up for the loss of rent, if you're willing to wait out the current economic conditions. REITS have made investing sophisticated and transparent over the past 20 years. These are publicly traded companies that invest in real estate and pay out 90% of their income as dividends to shareholders.

Another example would be a strip shopping center with no anchor tenants; which has a much higher risk level than a neighborhood center with a grocery store or a drug store anchor. Keep in mind that commercial real estate, can go down in value in any particular location. The local economy can slow down, leading to large area employers cutting lots of workers from their payrolls. Even worse, this can lead to the government raising taxes to cover the shortfall.





Read everything!

Commercial real estate investing needs more focus and careful consideration of all aspects, and it is good if all documents relating to the property and its operation are carefully scrutinized. Leases, their extensions and modifications if any, mortgages, notes, the title policy, certificate of occupancy, contracts regarding maintenance of the equipments used, such as, escalators or elevators, its insurance policy and the extent of coverage, parking lot contracts and the property's tax situation etc should be carefully reviewed with your attorney and financial advisor.

Direct Ownership and Triple Net Lease

The basic choice in property investing is whether you'll invest directly in a property or do it through a third party vehicle.

Buying a property directly offers a couple of big advantages. You can deduct part of the purchase price of the building from your taxes for many years. And if the property goes up in value, you don't have to share the gains with any partners.

This approach also means you can do a 1031 exchange. This allows you to defer, or sometimes avoid, paying capital gains taxes when selling the property, if you plan to use the money to buy another property of equal or greater

value. As long as you keep moving into another investment, you virtually never have to pay the tax on the gain.

Still, the thought of managing tenants and dealing with building upkeep might scare off many baby boomers who are gearing up for retirement and are looking for a hassle free investment. So, many people hire a management company to deal with those headaches. Typically local companies charge anywhere from 5% to 10% of the gross rent, depending on the duties they perform. Larger commercial companies charge between 4% and 6%.

When hiring a management company, check out its references and see how well it is regarded locally. For instance, interview local vendors that have worked with the company, such as plumbers, painters, and carpenters.

Through **Triple Net Leases** you buy a property as an individual investor or as part of a group. These are typically used for retail, office, and industrial properties leased to a single tenant. The lessee handles expenses such as taxes, insurance, and maintenance. The appeal is you can have one long term lease, sometimes 30 years, producing a stable income for the investor.

Sponsored Investment Properties

Investors who don't have the money or inclination to go it alone can turn to sponsors, who buy commercial properties on behalf of small investors for a fee. As the investor you can work with Peak Financial Partners as we offer various types of sponsored plans for our clients. We can provide information on the sponsor and references from other investors.

There are a number of ways of investing with a sponsor. One is **Tenants in Common (TIC)** ownership. A TIC involves a group of investors who each buys a fractional interest in a commercial property, such as an office building. The investors receive the benefits of ownership, rental income

and profit on any future sale, but leave the day-to-day details to the professional managers.

These properties are usually buildings that most small to midsize investors couldn't afford to purchase on their own. Qualified individuals can invest in a TIC with as little as \$100,000.

A drawback of the TIC is that once you invest, you are likely locked in until the property is sold. You could sell your fractional share, but there is a limited market for such a purchase.

Smaller investors can also team up with other investors to form a **Limited Partnership**.

Usually there's a general partner who puts the partnership together with the help of an attorney, and gets paid a fee for managing the property and a share of the profits.

The third type is a REIT. Publicly traded REITs can be volatile since they are actively traded. If you would like a more stable investment you can opt for public, non-traded REITs. These offer all the same benefits, but are not actively traded.

Call **1-614-542-7242** or email info@peakfinancialpartners.com to book an appointment or request a call back. We can explain whether commercial real estate is right for your portfolio.