

## In the Marketplace

### A fine option for investors

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“It is widely agreed that under most circumstances, your first real estate purchase should be a permanent residence, but what about your second real estate investment? A lakeside cottage? Maybe an island home? What about a commercial property?”

We often find that people don't take the time to understand commercial investment before considering their real estate options. Buying a commercial property does not need to be a high risk venture exclusive to wealthy clients.

A buyer's expectations and realized benefits should be very different from that of a residential real estate purchase.

In most cases, first time investors are looking for safer properties with tenants already in place. Unlike residential tenants, lease terms for commercial tenants are usually a minimum of three to five years, so turnover is less of a concern. In addition, most tenants provide a personal or corporate guarantee within the lease contract, which helps ensure that the tenant will uphold his or her financial responsibility.

Typical commercial loans require 20 percent as down payment. Often, a first time commercial investor will use some equity from their house to get the process started. The down payment can be looked at as an investment.

A broker's goal is to find a building for you that has tenant income sufficient to cover the mortgage and expenses (including real estate taxes, property maintenance, insurances), plus provide a return on your investment (down payment). A safe investment may yield a 5-8 percent return, often called ROI (return on investment). The ROI will be lower if an investor is initially repaying a home equity line. Savvy investors with higher risk tolerance often realize significantly higher returns.

Investing in real estate is a big decision. Understanding your options is crucial, and we suggest that commercial real estate investment is a viable opportunity. A commercial real estate professional can help you find property that will produce enough income to cover its expenses, provide a return on your investment, and appreciate in value. Before long, the equity available could be used for the down payment on a mountain-side condo, or another commercial property.