



MGR'S

Eight Commercial Real Estate

INVESTMENT TIPS

MGR
Real Estate™

Residential & Commercial
REAL-ESTATE

3800 E. Concours St. Suite 100 Ontario, CA 91764

(909) 787-1959

mgrrealestate.com

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Introduction

Commercial real estate markets provide excellent investment opportunities for people of all backgrounds.

However, to take advantage of these opportunities, you must know how to navigate the commercial space with skill and determination. Here are eight essential tips for achieving short- and long-term investment success.



1.

Understand the Market You Are Investing In

No two commercial real estate markets are entirely the same.

To increase your odds of success as an investor, you must understand the trends, laws, etc., that distinguish your local market and shape the effectiveness of your plans and strategies. For example, depending on your location, the approvals process for commercial deals may proceed quickly or at a snail's pace. In addition, property trends in your area may favor or disfavor investment in certain industries or types of buildings.



2.

Create an Organized Plan

*Planning is key for success
in commercial real estate investment.*

The specific elements of an appropriate plan may vary from investor to investor. However, the list of more-or-less universal tasks includes items such as:

- Determining how much you can afford to invest
- Identifying the primary players in any potential deal
- Assessing the current roster of income-generating tenants
- Determining how many rental spaces must be filled
- Estimating how much profit you can make on a given investment



3.

Good Investors Have a Hands-On Approach

Passive investors tend not to reap big rewards on the commercial real estate market.

In fact, the most successful investors are far from passive. Instead, they take action on a daily basis in an effort to maximize their investment returns. They also devote their attention to achieving specific objectives, including things such as staying abreast of local market trends, keeping tabs on changes in the larger economy and creating a repeatable system that helps them quantify potential return on investment (ROI) and actual ROI.



4.

Avoid Tenants with Poor Business Plans or Business Models

The tenants who occupy your commercial rental properties also have a significant impact on your investment outcomes.

Several types of businesses – including bars and restaurants – have a high rate of failure and can add instability to your long-term plans. Minimize your risks by avoiding tenants in these industries. In addition, as a new investor, you'll want to stay away from businesses in industries that are rapidly moving from brick-and-mortar locations to online-only operations.



5.

Know That Commercial and Residential Property Have Different Values

Commercial property valuation differs in fundamental ways from residential property valuation.

In residential markets, property value is determined by comparing individual buildings in terms of factors such as construction costs and square footage. However, in commercial markets, value is determined by how much investors will pay for a property that offers a given level of net operating income (i.e., income minus operating expenses).

In other words, while residential prices hinge on the buildings themselves, commercial prices depend on the income generated by the tenants who occupy the buildings and pay rent.



6. Find a Mentor

Mentors can ease your commercial real estate learning curve in several important ways.

First, they can help you avoid major mistakes in your plans and daily operations. They can also show you how commercial investment works, both in general and in your specific local market.

Just as importantly, a mentor can supply you with access to vital resources that you might otherwise miss as a new investor.



7.

Finance Through a Non-Recourse Loan if Investing with a Partner

You can give your commercial real estate venture a major boost by partnering with another investor.

However, when you work with a partner, you also expose yourself to some serious potential liabilities. Many of these liabilities are finance-related. If you obtain financing through a non-recourse loan, you'll receive two crucial forms of protection. First, if your partnership goes bust, you can remove your name from the loan. You'll also avoid any personal debt obligations in the event of a property failure.



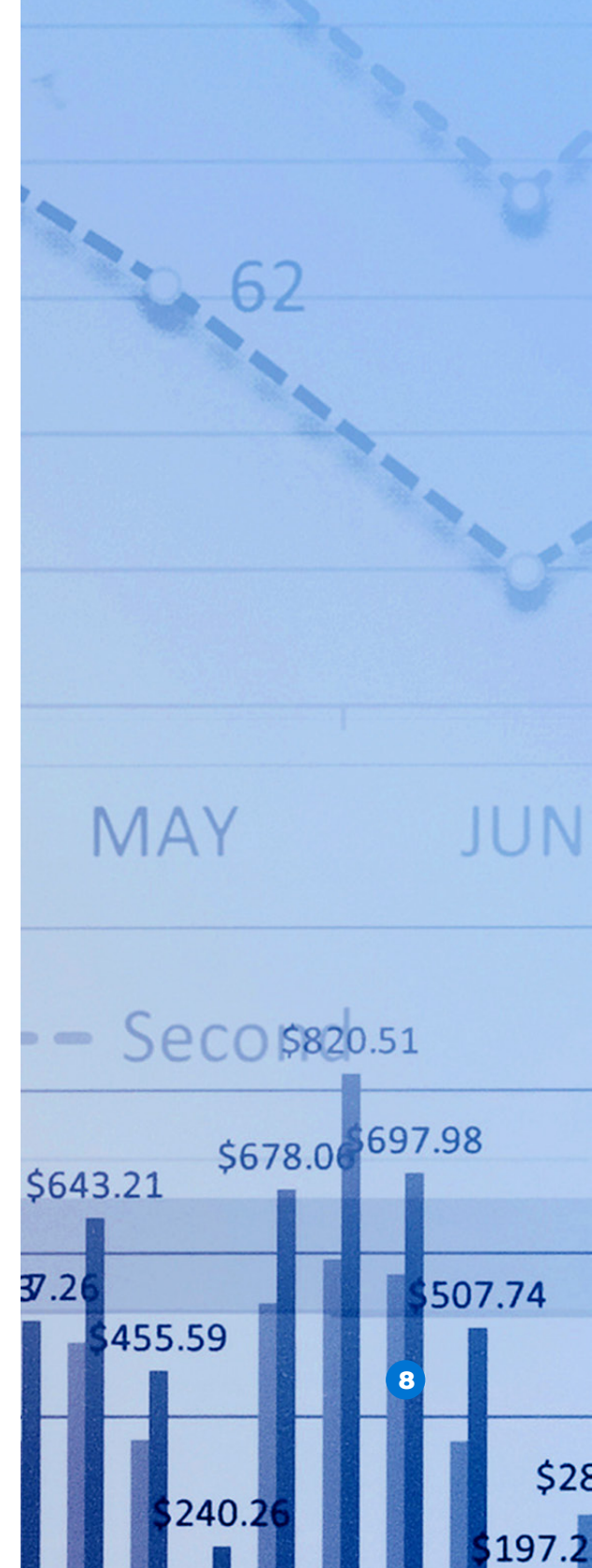
8.

Understand Commercial Real Estate Metrics

Real estate analysts use a range of metrics to quantify, measure, compare and track the performance of commercial properties.

Familiarity with these assessment tools will increase your confidence and help safeguard you from avoidable missteps. The three most common metrics in the commercial space are:

- **Net Operating Income (NOI)** – a figure gained by subtracting first-year operating expenses from first-year gross income
- **Capitalization Rate (cap rate)** – a measurement of a property's net present value (i.e., value after expenses) in terms of cash flow or future profits
- **Cash on Cash** – a metric used for financing purposes that compares the first-year performance of two or more potential property investments



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