

Sound Advice for the Small Investor Planning to Build a Commercial Real Estate Portfolio

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Individual stocks and bonds. Mutual funds. Precious metals. Certificates of deposit and interest-bearing checking accounts.

Ask the "average" investor where he or she directs investment money, and more than likely the answer will include one or more of the vehicles listed above. But what other options are available to the investor who wants to truly diversify his or her portfolio?

Commercial investment real estate may be that option. For the individual willing to take on a little work and research, commercial properties offers a wide range of alternatives, from small multifamily apartment buildings to strip shopping centers to self-storage warehouses. And, with the high tech sector slowing down from the high-flying 1990s, the long-term outlook for investment properties is strong.

There's a tremendous range of commercial properties available for the small investor to consider. Each type of property presents its own potential for returns, management responsibilities and, of course, levels of risk. However, a property that is well-managed and properly financed can yield significant returns over the long term.

Investors making a first-time foray into investment real estate should keep the following in mind before closing on a commercial property.

- **Establish a realistic objective** – Just as one would with stocks and bonds, an investor planning to purchase a commercial property should set objectives that are defined and attainable. Since returns on leased commercial properties aren't subject to the short-term roller coaster ups and downs of Bay or Wall Street, investors should not expect dramatic short-term returns during the ownership. Smart investors, however, determine an exit strategy for disposition of the property at a prescribed time, preferably when the property has appreciated in value and market demand is strong. Identify what type of factors may trigger the sale (retirement, the purchase of a new home, relocation, etc.), and keep in mind the following: Real estate -- governed in part by the economic principle of supply and demand -- is not always a liquid asset.
- **Add sweat equity** – Add to the bottom line by investing personal time in the upkeep and management of the property. General remodeling tasks, minor interior and exterior maintenance, general accounting and other related chores often can be completed by the investor. This helps reduce overhead costs while letting the investor retain more of a "hands-on" property owner.
- **Avoid highly leveraged deals** – A highly leveraged financing package is one in which a small amount of cash is used to purchase a large or expensive property investment. These types of deals can prove extremely risky because a market fluctuation can outpace income. Leave highly leveraged deals to experienced investors, which of course, we all can become in time.
- **Start out small** – Investing in real estate may require a great deal more of a time involvement than investing in stocks. That's why first-time commercial investors are advised to purchase smaller properties, such as duplex apartment buildings or single-tenant retail properties. These properties require less initial capital and generally a reduced time management commitment but still provide the experience of ownership and prospect of financial rewards.
- **Stay close to home** – Markets across the nation vary as greatly as the landscape of the country itself. Neophyte property investors are advised to make that initial plunge into familiar waters. An investor certainly will be more familiar with the ups and downs of his or her home market rather than one across a few time zones.
- **Get professional advice** – Commercial real estate, like any long-term investment, presents great opportunity and inherent risks. A commercial specialist experienced in appraisal, brokerage, management, financing and other related areas can prove invaluable to first-time investors in helping to select an appropriate property, minimize risks and chart a long-term path to success.

Select a real estate professional who has been educated in dealing with these and other issues which may surface during the anticipated length of time the property will be held. Also, find an experienced tax advisor who can help explain liabilities and strategies involving the Capital Cost Allowance.

There's plenty of capital available in the marketplace right now, and opportunities are available in the commercial sector for investors willing to take some risks. Like any speculative venture, investment real estate may not always perform up to short-term expectations. Over the long haul, however, a well-managed and properly financed piece of commercial property unquestionably can prove to be a solid investment.

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