Chapter 1

Just Imagine . . . Commercial Real Estate and You!

In This Chapter

- Discovering commercial real estate
- Knowing what to consider as you get started
- Finding the ultimate investment
- Risk-proofing your investment plan

Can you imagine yourself in the world of commercial real estate investing? Imagine yourself walking through the lobby of your 100-unit apartment complex. What would it look like and feel like to be pulling into the parking lot of a neighborhood shopping center that's all yours? Maybe you can imagine that you're watching your construction crew break ground on your luxury home land development project. What if this project leads to a life where you can live a life of luxury and balance? You'd be able to do things such as drive your kids or grandkids to school every day, maybe even in your pajamas, with a big smile on your face because you've invested wisely. Okay, here's one more scenario that may get you excited: Imagine yourself impacting the lives of hundreds or thousands of kids here and around the world who benefit from your charities, all funded by wealth-building skills and invaluable relationships developed from your commercial real estate investing.

We have two purposes for writing this book. The first is to introduce you to commercial real estate investing. We want to share with you that anyone can learn how to successfully find, research, negotiate, finance, and buy commercial real estate of any type. In this book, we do our best to break down powerful investing concepts that were once thought to be too complex for most people. Our second purpose for this book is to give you the confidence to go after what you really want in life instead of shying away from the true potential that you've always known is somewhere inside of you. To make this jump as easy as possible, you even get a free Commercial Quick Start Training Package, which will allow you to quickly implement the moneymaking ideas in this book. See the About the Authors section at the front of the book for details.

Creating the wealth that allows you to follow your real passion is what's waiting for you whether you're an investor, real estate agent, or lender. Commercial real estate will accelerate your financial freedom, and in the process our hope is that you'll find the true meaning of the "why" in your life. That alone makes this book worth diving into.

What Is Commercial Real Estate?

Commercial real estate is many things. It's office buildings, apartment complexes, shopping centers, warehouses, industrial parks, hotels, motels, resorts, and the list goes on and on. It's where businesses are conducted and where many people live together. Commercial real estate is everywhere. (Jump to Chapter 2 for a journey through all the different types of commercial real estate that are available.)

Commercial real estate is also a means of building long-lasting wealth for the investor. To us, long-lasting wealth is an investment that pays you every month. It's also one in which the value increases every year. Compare this to other types of investments that may allow you to draw a monthly payment, but the balance goes down year by year until the pot's empty. Sound familiar? That's not true wealth at all. In this book, we show you how commercial real estate has the ability to generate sizable cash flow every month as well as increase in value every year (and to be tax free!). We challenge anyone to find a better way out of the rat race than to invest in commercial real estate.

Commercial real estate can afford you a wonderful and fulfilling professional career that's second to none. And besides being enjoyable, commercial real estate investors are among the highest paid professionals in the nation. In fact, it isn't uncommon for a commercial investor's check from just one closing to equal one year's salary of an engineer. We see it all the time. We also get to hang out with and see the changes our Commercial Mentorship students are going through. Many of them have joined "The Quitters Club" by saying goodbye to their 9 to 5 jobs. These friends of ours absolutely love what they do and can't dream of doing anything else.

Every ultrasuccessful investor or high-income-generating professional we know in this business knows the secret — it's relationships. Commercial real estate is at its core a relationship business. For instance, big deals, huge fees, and long-lasting and fulfilling careers can all be created through the relationships you make. We talk more about relationships later on in this book.

TIP

As you're out and about, start looking around at all the commercial real estate that you see. When you go to the shopping center, notice what space is leased out. What buildings aren't fully leased? Why might that property be having trouble? After you realize that an investor owns every building, it's difficult to not think about owning your own commercial properties someday. To get started investing now, try out the free bonus that's waiting for you at `www.commercialquickstart.com`. As a reader of this book, you get three online training courses and a one-on-one strategic coaching session.

What to Think About As You Get Started

When choosing to make an investment in anything, you have to take several things into consideration, right? Why am I doing this? How much does it cost? Am I doing this at the right time? Well, the same applies for commercial real estate. In fact, you may find that you have too many choices simply because there are so many different ways to profit in this field. The following sections go over some of the most common questions you may have when deciding which part of commercial real estate is right for you.

Can I make money at commercial real estate investing?

This is one question that we have a definitive answer for: Yes! We know that you can make money investing in commercial real estate for three reasons:

- If we can do it, you certainly can too. Both of us started from modest beginnings and we aren't special by any means. In fact, coauthor Peter Conti used to be an auto mechanic. Coauthor Peter Harris was an introverted engineer.
- We are blessed to be surrounded by our Commercial Mentoring Program students who for the most part have started with little or no experience in commercial real estate. Every time a Mentorship student gets another deal they prove that it really is possible.
- If you look at the most successful investors out there you'll find that they all have a pattern in common: They've typically started out by investing in homes, running a business, or working in a fairly well-paying profession. The next step is to begin investing in smaller commercial properties such as apartment buildings. At some point the successful investors all move up to either big commercial deals or land development.

Coauthor Peter Harris started out investing in real estate by purchasing single-family homes. He did quite well in it, but one day he was daydreaming and said to himself, "What if I could combine all my rental homes under one roof?" He felt that would make managing the properties a lot easier because he wouldn't have to drive around the city chasing rents. In fact, he realized that he could make better use of the time that he saved by investing even more! When he woke up from his daydream, he realized that he had just described an apartment complex. To make a long story short, he sold all of his rental homes and bought large apartment complexes. And the rest is history. His cash flow went from hundreds per month to thousands per month in only two years.

If he can make it starting out where he did as an introverted engineer, and now he's buying commercial properties worth millions, you certainly can too. You see, Peter is simply an average person who applied the ideas in this book to change his life. If he can do it, anyone can use commercial real estate investing to transform his or her life.

Throughout this book, we show you what "good real estate" looks like, and we tell you how to time the real estate market, what markets to stay away from, and how to know a good deal from a bad deal Then we set you up with some powerful guiding principles of investment and some free ongoing training to help move you forward.

What type of investor am I?

You can fall into one of two basic types of commercial real estate investors. The first is the *cash-flow investor,* and the second is the *long-term hold investor.* Both make excellent cases for fantastic wealth building and both can do well in an up or down market. Read on for details.

Cash-flow investor

Cash-flow investors purchase properties for the purpose of putting monthly income into their pockets. And they buy commercial real estate just like you would buy a business. In other words, if you were buying a ready-made business, you would do whatever it takes to make sure that the business is a proven moneymaker, right? You would thoroughly check the financial records to prove that it could stand on its own every month. Well, cash-flow investors do the same. They take every measure to make sure they're investing in a property that produces nice monthly cash flow.

Also, cash-flow investors don't solely rely on appreciation as a way to get wealthy. They know that appreciation is only a bonus, a gift. If it's present, great. If it isn't, that's okay, because the focus is on income. Cash-flow investors know that relying on appreciation is a form of gambling and doesn't make good business sense. In Chapter 3, we show you how to easily evaluate and calculate cash flow for any income-producing property just like the experts do.

REMEMBER

Another plus for cash-flow investors that's frequently overlooked is the ability to weather the storm in a down market. In down markets where sales are slow and prices are falling, people who normally would buy homes to live in aren't buying homes due to fear. These folks eventually become tenants for your multiunit commercial properties. This helps cash-flow investors to actually make more money in a down market.

Long-term "hold" investor

Unlike cash-flow investors, long-term "hold" investors rely on appreciation for wealth building, but they do so in a more conservative real-world fashion. They also benefit equity wise from paying down the loan amount over a number of years.

The long-term hold investor's goals are simple: They want deals with an upside, like the ability to increase the value by improving the cash flow of the property. For example, some of the wealthiest investors we know are our mentors, who are older gentlemen who bought their pieces of commercial real estate decades ago. One of them bought land and another bought apartments. Their philosophy was "Good real estate will always have a higher value over many years if I wait long enough." It's a too-simple strategy that has worked incredibly well for many patient investors. Both of these gentlemen held onto their properties in three separate down market cycles over the years. Both have properties that are debt free, and they have made millions of dollars since.

In this book, we cover the basic foundational strategies such as "buy good real estate and wait" (Chapter 8) along with many of the more creative, accelerated wealth building strategies just in case you're in a hurry (Chapter 9).

Do I have to be a genius to crunch the numbers?

Honestly, the only requirement needed to crunch numbers is to be able to count to ten with your fingers (or at least be able to use a calculator). What you'll find is that any type of income-producing property can be analyzed by simply splitting up the deal into three parts:

- Income
- Expenses
- Debt (mortgage payment)

The process for figuring out the cash flow for a 30-unit apartment complex is the same as the process for a single-family home. For instance, say you bought a three-bedroom, two-bath home and you're renting it for $1,200 per month. As the landlord, you're responsible for property taxes, insurance, and a landscaper. All those expenses total $300 per month. You also pay $800 per month for your mortgage. The tenant pays all other expenses. Here's a quick formula for figuring out cash flow per month:

Income – expenses – debt = cash flow per month

Using the numbers from the previous single-family home example, here's the formula in action:

$1,200 (income) – $300 (expenses) – $800 (debt) = $100 (cash flow)

Wasn't too difficult, was it? Now, here's an example for a 30-unit apartment building. You have 30 two-bedroom units renting for $500 per month. That totals $15,000 per month in income. Total expenses for the 30 units are $6,000 per month (which includes taxes, insurance, maintenance, and property management costs). The mortgage payment is $5,000 per month. Here's how the formula works to find the cash flow per month:

$15,000 (income) – $6,000 (expenses) – $5,000 (debt) = $4,000 (cash flow)

TIP

This concept applies for office buildings and shopping centers as well. Just remember that for any property you want to analyze, you need to get the income first, the expenses second, and the debt payment third. From there, you can see whether the property makes any money. In this book, we go through this concept in much more detail. In fact, after going through the real-life examples that we provide, your confidence level should be incredibly high.

What investing opportunities are available?

Gee, where do we begin to discuss how many types of opportunities you have to choose from when investing in commercial real estate? It may sound cliché, but there's something for everyone. If you like the cash flowing dynamics of the apartment business, there are exciting times ahead for you. How about making huge chunks of money developing land? What about the stability of owning office buildings? Consider also the endless growth of shopping centers.

Throughout this book, we explain how to find deals and how to spot the gems as well as how to tell the difference between a good, bad, or average deal. As examples, we give you simple and practical guidelines to follow as well as real deals.

REMEMBER

When investing in a property, you have two choices:

- You can invest in a property that's "ready to go" with no necessary repairs, problems, or other hiccups.
- You can invest in properties that have lots of problems and need to be fixed up. Commercial fixer-upper opportunities are in every city. Just like you can do with a residential property, you can fix up, flip, and profit with commercial property.

Big investment returns await you if you take the time to study the fixer-upper how-tos shown in Chapter 14. We like the commercial fixer-uppers because after the rehab is complete, most times you can hold for cash flow, hold for long-term wealth generation, or flip for ‘instant” profits that you once thought would take years and years of hard work to earn.

How does financing work?

Are there differences between obtaining a loan for a single-family home and a neighborhood shopping center? The answer is yes, of course, but the differences may surprise you. Pretty much all you need to get a home loan is a good credit score, and then you have to make enough money to pay the mortgage. When you get a loan for a commercial property, the lender is often interested more in how the property performs than she is in your credit score. For commercial real estate, getting a loan is based on the following three main qualifications:

- Does the property produce enough income to cover the expenses and mortgage?
- What is the condition of the property?
- What is the financial strength of the borrower?

REMEMBER

In commercial real estate financing, the borrower (the investor), is number three on the priority list. In other words, a strong cash flowing property in good condition will almost always outweigh the poor credit (or no credit) of the borrower. (Flip to Chapter 8 to discover how to get your lender to say “yes” to your deal, what lenders like and dislike in deals, and tips on choosing the best loan for your deal.)

Understanding the Risks of Commercial Real Estate

Is commercial real estate risky? You bet it is. One of our mentors always said, “Anything you go after of great worth has great risk.” Commercial real estate investing involves big dollars and lots of people. And whenever you have lots of money and people working together closely, trouble is right around the corner. But risk is a facet of doing business — any business. You can’t avoid it. The best thing you can do to protect yourself is to understand all the risks that are possible, and then get your advisors involved to help you figure out how to avoid them. Don’t skimp on getting the best advisors you can hire either. As the saying goes, “It’s expensive being cheap.”

But here's the good news: Risks can be managed to levels of great certainty. Being successful in commercial real estate nearly always means taking calculated risks. Are you willing to risk some of your time and money to be financially free? What if you could secure your family's financial future? There are risks with everything you do in life. You may have heard of people who spend their whole lives trying to avoid taking any risks, and in the process they accomplish nothing. What a shame. The point is that sooner or later you'll probably have to step out of your comfort zone to free yourself from the rat race.

Will you consider taking only a little bit of risk? If so, you may want to start out with a smaller multifamily building. Or maybe you want to roll the dice big time. In this case, check out Chapter 15 for more on land development, which can satisfy the riskiest adventurer.

One of the risks of real estate investing is that if you aren't careful the property can fail. We include a whole chapter in this book (Chapter 13) on why properties fail, because real estate investing and the decisions we make don't always turn out well. Sometimes you just make a bad deal. And sometimes you may hire the wrong property management company. And other times the market may take a turn for the worse and send you in a downward spiral. Chapter 13 may be the most important chapter you read because understanding why properties fail can enable you to spot where your property needs some help. Or, if you're looking at a deal, knowing why properties fail helps you analyze why the property is in its current condition. And don't forget that understanding why properties fail can put you in a great negotiating position and assist you in solving property problems.

Avoiding lawsuits, the most feared risk

The most feared risk in commercial real estate investing is getting sued. Every tenant you have can be a potential lawsuit. You can also be sued by contractors, city personnel, and the list goes on and on. How do you protect yourself? Here are two lines of defense:

- Obtain property liability and hazard insurance.
- Choose a protective form of ownership or holding, such as a limited liability company.

Limited liability companies (LLCs) are by far the most popular form of ownership used today to hold commercial real estate. ***Warning:*** The worst possible method of holding title is to hold it individually in your name. This way, you have zero liability protection and absolutely no privacy. In Chapter 12, we offer many tips and strategies for holding and protecting your property and assets. Your goal should be to build a "legal fortress" with the right experts.

Risk-proofing your investment plan

REMEMBER

In our years of investing and watching numerous successful and not-so-successful investors go at it, we have come up with several fail-safe measures (we call them common-sense measures!) for risk-proofing your investing. Here they are:

- **Do proper due diligence.** *Due diligence* is the process you go through when verifying the financial documents of the property, performing a physical inspection, and checking out the legal pieces of the property, such as the title. Ninety percent of all deals die during due diligence. So, if you don't do a thorough job, the consequences can be costly. You may end up buying a property that's a money pit. However, when done properly, due diligence can actually help you make your sweet deal even sweeter. Reading Chapter 6, which provides the ins and outs of due diligence, may save you millions of dollars.
- **Don't overpay.** Overpaying is common among new investors. Don't be the investor in a deal where the agent sets a record price on selling a property! If you're buying apartments, make sure that you're aware of what price you're paying per unit. If you're buying a shopping center, make sure you know how much you're paying per square foot. In both cases, see what the recent market closings value your property at. Paying too much will lock up the property's cash flow for a long time. (See Chapter 3 for more on pricing your prospective properties.)
- **Have expert market knowledge.** Knowing your market like the back of your hand sets you up for success. Before you close on your deal, make sure you know the following:
  - How competitive your rents are with other similar local properties
  - When and if there's a "slow season" for rentals so you can plan ahead
  - Whether there's rent control in your city, which would inhibit you from raising rents as you thought you could

Getting extra help

Why go it alone when we're here to help you? As a reader of this book, you get additional free material and training at `www.commercialquickstart.com`. At this site, you'll get your Commercial Quick Start Training Package which includes six hours of audio with your authors Peter and Peter, video training sessions, free commercial analysis software, and more! See the About the Authors section at the front of the book for details.

We also like to inquire on crime statistics on the property in question by calling the local police department.

- **Hold your goals loosely.** What we mean is that you should keep your investment's exit strategy flexible at all times. In fact, have several exit strategies ready at any given time. Market conditions change. Your personal circumstances can change rapidly as well. So, don't get wrapped up in executing just one exit strategy, because it may no longer apply.
- **Know where you are in the real estate cycle.** There are four parts to any real estate cycle: expansion, contraction, recession, and recovery. By reading Chapter 2, you can figure out where your particular city is in the cycle and you can determine when to buy, sell, hold, or bail. Each part of the cycle demands that you pay detailed attention to your investment decisions. Understanding real estate cycles helps you take the correct actions with the best timing. There's nothing like timing the market like a pro!

You can discover more about controlling the risk in your commercial investments as you go through this book. You may have thought that risk-proofing was impossible, but you'd be surprised at what a little knowledge can do to your investment portfolio.