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## CHAPTER 1

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# Just What Is Commercial Real Estate?

From the outset, we need to agree on exactly what constitutes commercial real estate.

We may all agree that a four-bedroom, three-bathroom residence is residential real estate, and that a block of four shops is commercial real estate, but what about a block of 10 units in an apartment complex that both the bank and broker classify as commercial real estate? The fact is, for reasons that seem to me to be entirely arbitrary, where there are four or more units in a residential complex, the building is often classified as commercial for mortgage and insurance purposes and for transaction commissions. What about industrial properties, such as an assembly plant, paint shop, or warehouse; or hospitality properties such as hotels, motels, or amusement parks? Are they in yet other categories?

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And what about specialist properties such as a quarry, a hospital, an airport, or a rocket launchpad?

Let me therefore make it perfectly clear what I mean by *residential* and *commercial* real estate. I know that simplifying things is not very popular these days, but for the purposes of this book, I want to make the following definitions:

*Residential real estate* is real estate where people live (in residences!).

*Commercial real estate* is real estate where commerce is conducted.

Based on this simple and sensible concept, it becomes easy to categorize any piece of real estate. Houses, individual apartments, apartment complexes, condominiums, duplexes, and triplexes are clearly all residential real estate. Conversely, shops, offices, assembly plants, paint shops, warehouses, hotels, motels, amusement parks, quarries, hospitals, airports, and rocket launchpads are all commercial real estate.

In case you want to argue that hotels, motels, and student accommodation should, by my definition, all be classified as residential real estate, as people quite clearly live there, then note the following subtle distinction. The operators of hotels, motels, and student accommodation are definitely renting out short-term residential accommodation to their clients. However, if you lease your building to a hotel, motel, or student accommodation operator on a long-term commercial lease, then from your point of view, your tenants conduct a commercial operation there, and these properties are all examples of commercial real estate.

What if three doctors operate their medical practice out of what was formerly a home? Well, they are not living there, and

commerce is conducted, so it is commercial. What if a carpet factory is converted into loft accommodation? In this case, the use is for residential purposes, so it is residential. Be prepared for many more examples of blatant simplicity in this book.

Just as residential real estate can be further subdivided into categories such as freestanding single-family homes, single-story multiunits, and multistory apartment complexes, so can commercial real estate be further subdivided into categories such as industrial, hospitality, office space, retail, and specialist. The feature these categories all have in common, though, is that commerce is conducted there. The significance of that distinction will become apparent as we proceed.

