

# PART

## Introduction to Commercial Real Estate Investing

### **Chapter 1: INTRODUCTION**

- 1.1 Types of Real Estate Investors
- 1.2 Purpose of this Book
- 1.3 Is this Book for You?
- 1.4 Scope of this Book
- 1.5 Overcoming the Barriers to Success

### **Chapter 2: THE BUSINESS OF COMMERCIAL REAL ESTATE**

- 2.1 Sorting Out the Terms
- 2.2 Commercial Real Estate Defined
- 2.3 Benefits of Investing in Commercial Real Estate
- 2.4 Evaluating the Market Outlook
- 2.5 Building Wealth through Real Estate Investing

### **Chapter 3: THE SUCCESSFUL INVESTOR**

- 3.1 Understanding Risk
- 3.2 Developing Your Investment Plan
- 3.3 Excessive Caution Leads to Paralysis



# CHAPTER



## Introduction

**By the end of this chapter you will be able to:**

- Differentiate between the three roles of real estate investors.
- Identify how this book will assist you.
- Determine if real estate investing is for you.
- Recognize that there are jurisdictional considerations.
- Know how to rise above the common obstacles to success.

## 1.1 TYPES OF REAL ESTATE INVESTORS

*Differentiate between the three roles of real estate investors.*

There are many kinds of real estate investor, ranging from the uneducated to the Ph.D., from the charming to the obnoxious, from the sophisticated to the vulgar. There are those who start out with money and those who don't (but be reassured, you don't need that much money to get started). So, do you have what it takes to be successful?

Based on many years of experience, we are convinced that you need only two things to succeed as a real estate investor: an indomitable determination to succeed and plenty of courage.

There are, however, three distinct hats that you must wear at different times to be a successful real estate investor:

1. The entrepreneur
2. The property manager
3. The technician.

### 1.1.1 THE ENTREPRENEUR

This is the dreamer, the person with the vision, the creativity, the desire, and the ability to make things happen. He finds, analyzes, and negotiates the deals. He will arrange financing or set up partnerships. He is the lifeblood of the business and without him nothing would be started.

### 1.1.2 THE PROPERTY MANAGER

This is the person who deals with the tenants, the suppliers, and employees. Without him, things might get done, but the "right" things would not get done properly and cost-effectively.

### 1.1.3 THE TECHNICIAN

This is the "maintenance" person who watches over the building. He decides which repairs need to be done, when, and which brands of equipment to use. The technician decides what to replace, what to repair, and which energy saving measures to implement. He also decides if major changes should be made, such as dividing a large two-bedroom apartment into two small one-bedroom units, or building an addition. The technician who starts as a small investor may do the work himself or hire and supervise others to do it.

The real estate investor must take on all three roles, whether personally or with the help of others. If your budget is generous you can hire some of this expertise, but if your budget is limited, you may have to perform all three jobs yourself, especially when starting out. The important point to remember is that you need to create these "company" positions both on paper and in your mind as part of your business plan. Each one is important to keep your real estate investments growing. You will be building on your strengths and finding outside help, where required, to compensate for your limitations.

*Each position — entrepreneur, property manager, and technician — is important to keep your real estate investments growing.*

### 1.1.4 KEY CHARACTERISTICS

Although you do need some knowledge starting out, most of this can be acquired by reading and by heeding the advice of trained professionals in the real estate industry. You don't need an MBA; street smarts are much more precious. In the end, your temperament, your personality, and, above all, your desire to succeed will be your ticket to success.

If we had only one piece of advice, it would be this: at all costs avoid associating with people who are negative and condition yourself to reject negative thoughts. How do you do that? By following the advice of the sage French pharmacist, Emile Coué, who, centuries ago, invented self-hypnosis: keep repeating to yourself what you want to accomplish. For example, repeat to yourself, "I will buy a property before the end of the month (or year)." It sounds funny, but it works.

Desire is the key. Let it burn inside of you. Become obsessed. The most important thing is to get started. Buy a property — rented or to be rented (it doesn't matter which) — but start and start small (e.g., a \$100,000 property at 5% down = \$5,000).

This is not to say that your journey as an investor will always be smooth; not at all. In fact, it would be a miracle if you never encountered difficult times. In all likelihood, you will have to make sacrifices and exercise self-discipline (particularly in your spending habits). As in anything new, you will make mistakes. But don't worry about any of these hurdles.

Real estate can be very forgiving of mistakes and it is through them that you will learn. Even if you make mistakes, with the help of this book, there is a 99% chance that you will break even. Remember, a property does not disappear. If you can commit yourself and survive the ups and downs, you will have demystified the process of buying and managing real estate.

You will have taken the first step and started building the foundations of your real estate investment program. If by an extraordinary stroke of bad luck, you lose money on your first foray into

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the world of real estate investing, it will be very little because you started small. Remember, there are a number of experienced advisors to help you: lawyers, real estate agents, accountants, and appraisers.

Virtually everyone is a little apprehensive when doing something for the first time and it becomes easy to justify not doing anything, because you can't find the "perfect property" — that is, the ideal property type, in perfect condition, at the right location, for a price you can afford, etc. The fact is the "perfect property" doesn't exist. The best you can hope for is to acquire enough knowledge to make informed decisions and act on them. All the time you spend learning about real estate investment will be wasted if you do not act on it.

You will increase your likelihood of getting started if you can find a good partner for your first venture. Sometimes, a spouse does the trick! And, if you are starting out with limited means, please, go out there and buy a rental property. When in doubt, remember the words of Wayne Gretzky: "You miss 100% of the shots you do not take".

## 1.2 PURPOSE OF THIS BOOK

*Identify how this book will assist you.*

The purpose of this book is threefold:

1. to encourage commercial real estate investing by showing that to be successful takes more courage, organization, and discipline than luck or brains;
2. to give the reader a solid understanding of how to select, acquire, lease, and manage income-producing properties (IPP), so that he can avoid trouble or deal with it at any point throughout the process; and
3. to provide investors or investors-to-be with a comprehensive reference guide that answers the “What should I do if ...?” questions when they arise.

This book is written to support a wide range of readers — from those considering or just getting started in commercial real estate investment to experienced investors and the professionals who advise them. If you are just starting out, this book will motivate you to begin by showing you that knowledge and a little bit of money go a long way. You will gain an understanding of how to do things yourself to save money.

If you have been investing in commercial real estate for years, this book can help you to become a superior investor by pointing out many things that the professionals are doing. You will discover many ideas that you had forgotten or, perhaps, never knew.

## 1.3 IS THIS BOOK FOR YOU?

*Determine if real estate investing is for you.*

This book will benefit a wide range of individuals in or near the commercial real estate industry, but especially the following:

- residential agents who want to move into commercial real estate
- students planning to acquire their real estate agent’s license and intending to specialize in commercial real estate
- real estate investors and property managers, who want an easy-to-use, comprehensive reference book at hand
- residential investors, home builders, and land developers who are considering a move into IPPs, and
- financial consultants, accountants, lawyers, and lenders who work in the real estate industry.

## 1.4 SCOPE OF THIS BOOK

*Recognize that there are jurisdictional considerations.*

Real estate in Canada falls under provincial jurisdiction, which means that taxation, assessment, and legal systems are regulated or influenced by provincial law, as are many of the professionals who service the industry. Land use regulation is imposed by municipal authorities in combination with provincial and federal govern-

ments. Despite this maze of controls, there is, in fact, little variation in how business is conducted among the various provinces and territories. Although the examples in this book are Ontario-specific, readers will find that the information and advice presented apply across the country.

Indeed, there are some differences between various jurisdictions, such as condominiums (in Ontario) being called stratas in British Columbia. But this is superficial and applies mainly to the income tax and legal systems. The basic tenets of this book apply equally well to Toronto as they do to Calgary, Los Angeles, or Sydney.

## 1.5 OVERCOMING THE BARRIERS TO SUCCESS

*Know how to rise above the common obstacles to success.*

Many people view real estate investing as a great avenue to acquire wealth. While this is true, surprisingly it is not always the better-educated people who end up owning investment property. In fact, if a survey were conducted, we believe it would show that just as many, or perhaps more, truck drivers and trades workers as university professors and doctors are real estate investors.

In our experience the three most common barriers to investment success in commercial real estate are:

1. analyzing everything to death and focusing too much on the risk
2. not being aggressive or gutsy enough to make decisions, and
3. perceiving the business as being more complicated than it is.

This book will give you the information you need to approach commercial real estate investment with confidence. It will explain the risks and opportunities involved and give you the tools you need to analyze and compare investment opportunities.

Many books on real estate investing are theoretical, written by those who have little personal commercial investing experience, while many others are written by get-rich-quick artists who count more on their books to make money than on their real estate investments. This book focuses on practical advice, based on our combined 50 years of experience in the industry. It is intended to help you get started, but also to act as a one-stop resource that you can turn to again and again, either to refresh your memory about some less-often encountered detail or to help you negotiate your way through a complicated deal. We hope that it rekindles your enthusiasm and recharges your batteries for real estate investing.

