# 10 Do’s and Don’ts of Purchasing Commercial Real Estate

1. **Recognize an investment opportunity.** You don’t want to just acquire a property; you want it to be worth it in the long run. Calculate how profitable buying a specific commercial property will be within the next 1-5 years and how much your investment will be producing.

2. **Always take a tour of any properties you are considering,** especially with someone who has experience. Get an experienced inspector, contractor and environmentalist to check out the place with you in order to get educated input. Make a list of pros and cons, and look over all aspects of the property several times before choosing to make an offer. Don’t go into the property “blind”.

3. **Pay attention to location of the property and the surrounding areas.** Also make sure there is potential for growth by doing a comparison of years past to present. Do research to find out population information about the neighborhood, such as the people’s demographics, age, and socioeconomic status. The area must make you feel comfortable and also offer versatility and allow room for change. A projection report will also be helpful.

4. **Put together a team of experts.** It is highly recommended to obtain an accountant, a commercial real estate attorney, a commercial broker, and a mortgage broker. They can help you determine the right time to buy, the right locations to look at, and everything else to make the deal run smoothly. Don’t sign anything without having your lawyer’s review first; this includes the letter of intent (LOI) regarding the property and any and all contracts. A LOI is a document that basically states your intent with the property. An experienced attorney will be able to make sure the LOI is not binding in the case that something goes wrong down the line with the contract.

5. **Revise your business plan.** Adding additional information about your new purchase, your plans for the new place, and changing any old information should be done in advance in order to figure out your priorities. If you know your business will be expanding soon, be sure to find out how much you can afford and what your necessities are for a real estate purchase.

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# 10 Do's and Don'ts of Purchasing Commercial Real Estate Contd~

6. **Think long term.** Come up with ways on how you plan to use your investment within the next 24 months, being as realistic as possible with your projections. The property may be a good fit now, but how will the new property affect your business now and in the future?

7. **Set your parameters.** Know what to expect to make and who is going to be involved. Think about rental spaces, business partners, and all key players involved in your purchase and set expectations for what you want to happen during this process.

8. **Know the life span of the property.** In large buildings and older properties, there is a lot of potential for something to need repair. It may need a roof replaced, new electrical system, amongst other common issues. Make sure it is in the budget if need be.

9. **Consider environmental problems.** Hazardous waste problems can be a huge concern in a commercial property acquisition. You may not have caused it, but you could be paying for it.

10. **Get Familiar With Key Commercial Real Estate Metrics.** This includes knowing the capitalization rate also known as the Cap Rate, of the property. The Cap Rate is the percentage of annual return produced from the property in its current market value. Knowing the Cap Rate will give you a good idea of how long it will take for your investment to pay off. The Cap Rate is calculated with a simple formula: Cap Rate = annual net operating income / cost (or value).



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