Mastering Commercial Real Estate Investment:

A Comprehensive Guide

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Abstract

Commercial real estate investment in Brisbane offers promising opportunities due to the city's growing economy, infrastructure development, and population growth. Investors can benefit from a range of property types, including office spaces, retail centers, industrial warehouses, and mixed-use developments. Brisbane's competitive property prices, compared to Sydney and Melbourne, make it an attractive option for investors seeking solid returns. Key areas like the CBD and outer suburbs offer potential for rental income and capital growth. With ongoing urban development projects and government support for businesses, investing in Brisbane's commercial real estate can yield long-term financial gains and portfolio diversification.

1. Introduction

This PDF provides essential insights for investors looking to capitalize on the city's thriving property market. Brisbane's strategic location, steady economic growth, and expanding infrastructure make it a prime destination for commercial real estate ventures. This guide covers key factors such as market trends, property types, financing options, and legal considerations. Investors can learn how to identify high-potential areas, analyze market data, and maximize returns through effective property management. With detailed advice tailored to Brisbane's unique market, this guide helps both beginners and experienced investors succeed in commercial property investment.

2. Why Commercial Real Estate Might Make For Better Investments

If you're thinking of investing in property, you may have found resources on how to fix and flip homes. Books and TV shows often show how to get involved in this space, and certainly if you time it right, you could get a quick return on your investment. The process is typically to buy a home that needs renovation, make changes and updates, and then sell for a marked-up price that covers your expenses and brings in a profit for your work.

While it may be appealing to try buying and fixing up homes, there are other real estate investments that you may want to consider as well. In my book, "The Insider's Edge to Real Estate Investment," I focus on commercial real estate investments. In the multifamily segment, I define these as properties with at least five units. There are other types of commercial real estate investments including office, retail, and development.

Given this, before rushing out to buy a single-family home and start renovating it, it could be worthwhile to compare the two types of investments. Once you understand the differences between residential and commercial real estate transactions, you'll be better equipped to make a decision. You could even spot opportunities that aren't easy to find, and offer a higher-than-average return.

The Holding Times are Different

If you're in the business of reselling residential properties, you're likely making a purchasing decision that's based on the repositioning and selling of the asset. This will often depend on both the improvements that are made and the market conditions. If everything aligns, you could bring in a profit when you sell. The potential short-term gain will play a significant role as you consider a home to buy.

For commercial investments, the decision doesn't always focus on the later sale. Instead, it typically hinges on the cash flow. That's not to say that investors don't speculate; however, they tend to be more focused on the income that the property can generate. Based on what they find and how the property operates, they might plan to hold the asset for the long-term.

The Competition Varies

When purchasing single-family homes, investors often find themselves competing with end-users, who are other homeowners in the area. This can present a challenge, as the other buyers on the market might not be as concerned about their bottom line. They might be willing to pay a premium to get a certain amenity or move into what they view as their dream home. This means you may have to pay more than planned to get a home you were considering for a fix and flip project.

For commercial properties, investors are usually competing with other businesses and investors. Some may want to see if the place is vacant or not, as that will impact the cash flow. I often advise that it's better to buy a property that is occupied and brings in a stream of income, as opposed to a place that is vacant and needs a tenant.

The Buying Processes are Distinct

If you're looking for residential properties, you'll generally find them through a multiple listing service (MLS) or advertised as "For Sale by Owner." Finding an off market for a residential property is quite rare, so you'll be competing with the open market to get a single-family home. This means that usually everyone else has access to the same information as you.

Commercial properties often change hands through off-market deals, where properties are not publicly listed. This creates a more inefficient marketplace and could provide opportunities. You might be able to find a great place where you could add value and have less competition when making a bid for it.

Financing is Not the Same

If you're buying a residential property that doesn't generate income, it's rare today that a lender would offer you a non-recourse loan. In most cases, you can expect to have to personally guarantee the debt. This could add pressure as you fix it up and then sell to pay back the loan. In addition, when you sell, the proceeds could be considered ordinary income and taxed at a higher rate than what you might pay for the sale of a commercial property that has been held for a long time and brings in a long-term gain.

For commercial properties, you could be eligible for a non-recourse loan, meaning you won't have to personally guarantee it. In addition, you could benefit from other tax strategies later, such as carrying out a 1031 exchange when you sell to invest in other properties.

As you consider residential and commercial properties, it's true that people always need a roof over their head. As such, you could find more demand in the market than for a commercial property such as a vacant office building. Still, the ultimate decision will depend on your interests and long-term goals. Once you know the market in your area, you can choose a path that makes sense for your situation.

3. Understanding the Cyclical Nature of Commercial Multifamily Real Estate

Navigate cyclical phases for optimal investment decisions.

Seasoned investors in the commercial multifamily real estate market are no strangers to the cyclical nature of this dynamic sector. Over economic cycles and recessions, we've witnessed a pattern where commercial real estate values experience a dip, only to rebound and strengthen post-recovery.

In navigating the complexities of this market, it is crucial to comprehend the distinct phases it undergoes. It is in understanding these phases, that one can create strategy and timing that will benefit investment decisions on when to invest and, potentially, when to exit. These phases, namely recovery, expansion, hyper-supply, and recession, dictate the ebb and flow of the real estate landscape, demanding strategic insight for optimal investment decisions.

Interest rates, a key determinant, wield significant influence over demand and pricing. When interest rates rise, values often dip; conversely, a decrease tends to fuel a rebound, shaping the market dynamics.

In times of economic downturns, those unafraid to seize opportunities, armed with ready equity capital, stand to reap substantial rewards. The ability to buy when prices are low, positions investors strategically, ensuring they benefit most during the subsequent recovery phase. Often it takes a contrarian view and a little old-fashioned courage to make acquisition moves, while others stand on the sideline waiting.

As we assess the current market scenario, contemplating the peak of the interest rate curve becomes imperative. Historical trends indicate that this juncture often marks the beginning of a decline in interest rates, potentially paving the way for a surge in real estate values. To put it plainly, when we believe that we are approaching-;or are at the top of the interest rate curve-;this would be the most opportune time to buy.

Investors who act decisively during periods of market uncertainty position themselves for significant gains. Those that wait for others to begin buying, may miss out on their golden moment. The present juncture, with potential downward shifts in interest rates, underscores the urgency for strategic action. Hesitancy may lead to missed opportunities in the ever-evolving commercial and multifamily real estate landscape. Stay informed, be prepared, and seize the advantage in today's market.

4. Commercial Real Estate Investing: How Much Money Do You Need?

Investments are essential for effective financial management and boosting savings. While wealthy people invest in many opportunities, common people seek the best return-offering options. Traditionally, individuals relied on stocks and bonds, which offered protection over other risk-filled ventures.

However, the exceptional ROI generated from commercial real estate has made them opt for this possibility. Although considered riskier than residential real estate, commercial property has become a rewarding investment for individuals, businesses and seasoned investors.

The rental income from commercial real estate investment is much higher, and capital growth helps in generating excellent returns. However, the earnings depend on the size, location and type of property purchased. A high-end office space in Brisbane CBD will yield more than a small store in the fringe area. It does not mean that only wealthy investors should buy commercial property. Individuals can become a part of this industry as well.

Let us help you understand how much money you need for commercial real estate investing. It will give you a sense of direction and avoid missing out on golden opportunities.

An Overview of Commercial Property Investment

Buying commercial real estate Brisbane helps create a high-yielding asset that brings steady income. It has been used for generations by super-rich people and offshore investors to build a formidable portfolio. It protects their investments from changes in the stock market and political instability. In fact, the sector continued to show its resilience during the economic upheaval created by the COVID-19 pandemic. It is an ideal opportunity for retirees, who can invest a lump sum amount into buying a high-potential asset to enjoy consistent returns for the long term.

If you are toying with the idea of investing in commercial real estate in Brisbane, you must determine whether you wish to invest alone or as a part of a property trust or syndicate. Many people do not even think about this avenue because of the high price tags attached to premium offices, retail stores and warehouses. However, they can still use their savings and take out a loan to buy viable commercial spaces.

One thing to remember here is that banks usually offer only 60% to 70% of the cost of real estate. The buyer must accumulate the remaining and keep some amount aside for operational expenses and maintenance during vacancy periods. It is better to put more of your savings than have a huge debt to repay. Besides the operational cost, the buying process also involves a considerable amount.

How Much Money to Invest In Commercial Property?

The answer to this question depends on your financial health and the type of property you wish to acquire. High-yielding commercial real estate in Brisbane can be acquired for $1 million or above. So, if the buyer takes out a loan, he still has to pay 40% of the cost upfront, which will be $400,000. Buying a property below the million-dollar mark will not fetch the desired income because quality tenants will not like to lease a small or obscure property for their businesses.

In addition to the upfront amount paid to the seller, the buyer will have to make arrangements for the lawyer's fee, accounting costs for property valuation, professional real estate inspection expense, stamp duty and transfer, and lodgement fee. Plus, the buyer must consider the property management cost incurred after the acquisition. So, the new owner will have to manage the operational costs and loan repayment every month, which must be lower than the rental income to generate a profit.

The buyer must note that the tenant management costs can add up to a significant amount. These include rent collection expenses, commercial lease agreement legal fees, staging costs, property listing expenses and dealing with tenant disputes. All these costs must be kept in mind while opting for commercial real estate.

If an individual cannot invest a big amount to purchase commercial real estate in Brisbane, they can use a commercial property trust. It can be started with a low investment, but the consequences of putting a small amount into the trust must be understood before taking the step.

How Much Money to Invest In Commercial Property Trust?

A commercial property trust is a group of many investors who combine their investments to acquire an expensive property. Thus, an individual who cannot afford to buy a $10 million asset can become a part of a syndicate that acquires it. All the trust members get paid monthly income based on their invested amount. Becoming a real estate investor through the trusts is much easier because the minimum investment amount required ranges from $10,000 to $250,000.

For example, if you invested $150,000 to buy a $5 million property, you will get 3% of the total rental income generated from it as a monthly payment. You will also get 3% of the capital appreciation at the time of the sale of the property. As a part of the trust, you must understand that if you put in a small amount, you will be among many buyers in the syndicate and get a small share of the returns. However, if you put a big amount into it, you will make a sizeable income, and the trust manager will be more forthcoming.

Individuals can invest in an unlisted property fund that is not listed on the Australian Securities Exchange and is privately held. The unlisted funds can be close-ended or open-ended. In the latter investment, the trust manager does not offer the investors a specific number of units, and the investment is spread across various assets. It does not have an end date, and the investment can continue for as long as desired.

Alternatively, a close-ended fund involves investment in a single asset that continues for a fixed period. The trust manager will assign a defined number of units to investors at the beginning of the investment.

Commercial real estate investment has become a gratifying opportunity for putting surplus capital into a high-performing sector. The rise of industrial assets and the demand for hospitality properties and data centres is making individuals put their money into diverse assets. With property funds, they can invest with a small amount or borrow money to acquire a property.

5. Overlooked Investment Opportunities in Commercial Real Estate

Smaller but consistent sources of income are often overlooked by property owners. From parking to vending machines, these profit-boosting assets can add up to millions in net value.

In commercial real estate, smart owners exploit every available opportunity to maximize their net operating income (NOI) and create new, leverageable equity. Over time, small changes can generate millions of dollars in cash flow and added value, which will be critically beneficial as you grow your CRE portfolio.

Since transacting my first deal at age 18, I've built an 18-year track record of success as a professional CRE investor with the help and guidance of mentors who are legends in our business. Here are some of my favorite and most effective insider tips to help boost your numbers.

1. ATMs

Nearly every type of property has an area of 24 square feet that can be carved out with minor modifications. If you own property that has any commercial frontage or is located in a heavily trafficked pedestrian area, consider creating space for an ATM.

In most markets in the Brisbane, average ATM space will typically lease for $500-$1,400 per month (as of the date of this publication) and requires an area of approximately 4'x6'. That is at least $6,000 in annual income for 24 square feet (or $250 per square foot).

In areas with heavy pedestrian traffic, an ATM lease could bring $1,200-$1,400 per month, translating to an equity increase of up to $420,000. Talk to your local bank about placing an ATM in your location. Property owners may also choose to install an ATM machine of their own and collect fees on cash withdrawals, but such an operation requires hands-on management.

2. Vending machines

While the cash flow may seem negligible, vending machines can add a surprising equity boost to a property's bottom line. Newer, more automated machines with card readers are more desirable. It's easier to track income and profit with credit-debit purchases than with cash.

You can either purchase machines or lease them. Monthly leases can begin at around $50 per month. For most products, profit is around 50%. With two machines, one for snacks and one for soft drinks, you could expect to sell approximately 300 items per month at an average profit of $0.75 per item. That's a gross income of $225 per month and a net income of $125 per month (minus the $100 lease). While a net annual income of $1,500 seems hardly worth the effort, that's a potential net equity gain of $20,000 for the property.

There are many manufacturers that will either sell, finance or lease the equipment. If you choose to purchase or lease, there are reputable vendors offering state-of-the-art machines with favorable terms. Third-party vendors will also lease space in your property and handle all the stocking and maintenance for you.

3. Coin-operated laundry

In older apartment buildings without washer and dryer connections in each unit, property owners can potentially convert ancillary or otherwise unutilized space in the building (like a basement) into a coin-operated laundry facility.

During the renovation of an old student apartment building close to NC State University, we converted an empty crawl space into a laundry room with four coin-operated washing machines and four dryers. I had 24 units in the building, most of which were two bedrooms, so approximately 48 residents. This simple amenity generated more than $1,000 per month. The extra $12,000 per year meant an instant equity gain of over $200,000.

Most suppliers will offer financing or lease options for laundry equipment so you can get started with little capital out of pocket. Coin-operated washers and dryers can also be purchased from major home supply retailers, through Amazon or directly from equipment manufacturers.

4. Parking

I'll give you a personal example: I purchased a church building a few years ago for $860,000. The building is 6,000 square feet and sits on a busy corner near lots of retail and where parking is scarce. I purchased it for the land value with the intent to demolish the building and develop a five-story mixed-use property. The existing building came with something unusual for the neighborhood: an underground parking garage with 21 spaces.

Knowing the new development would take years, we rented out the parking spaces to pay the property taxes and carrying costs. With 21 spaces rented to nearby businesses at $100 per month per space, we generated $2,100 in monthly revenue, covering nearly half of the $4,500 mortgage.

If we were to keep the building as a rental property, the extra $25,200 per year translates into $560,000 of additional equity in the building (at a 4.5% cap rate) — making up two-thirds of the $860,000 I paid for the entire property. While it may be difficult to purchase a standalone parking lot due to the demand for land, you can look for properties in infill locations that come with extra off-street parking. This additional revenue source can provide a welcome boost to your bottom line.

5. Rooftop cell towers

A cell tower requires as little as 50 square feet for installation. One rooftop tower can support as many as five carriers and 15 other digital antennas, generating up to $12,000-$15,000 in gross monthly revenue. That's $6,000-$7,000 in monthly income on a 50/50 split with the supplier. The extra $72,000-$84,000 per year would result in an equity increase for the property of $1.4 million to $2.1 million, often with no out-of-pocket cost.

Start by contacting Brisbane Tower, SBA and Crown Castle — the largest tower suppliers in the Brisbane. — to gauge demand for a tower on your property and try to get competitive offers. Most will structure their lease payments as a revenue split on the income from AT&T, T-Mobile, Verizon and other carriers.

6. Freestanding cell towers

Nearly all suburban developed properties have a 100'x100' space where a freestanding cell tower can be placed. I've even seen some on footprints as small as 50'x50'. Dimensions, location and zoning are dictated by local ordinances, but if you can carve out a 5,000 to 10,000-square-foot section, a cell tower can potentially generate more monthly income than the property itself.

Rental income or profit sharing on a traditional cell tower can range between $3,000-$8,000 per month based on population density. Even nominal income from a cell tower lease can have a major impact on your equity position and recapitalize in the event of a sale. As with rooftop antennas, cell tower installers and operators can tell you if there is a need for additional coverage where your property is located.

This is the beauty of real estate: Small changes to cash flow create huge differences in property valuations, asset equity and the owner's net worth.

6. Real Estate Investing for Beginners

When investing in real estate, the goal is to put your money to work today so you have more money in the future. The profit, or return, you make on your investments must be enough to cover the risk you take and the taxes you pay. There are other costs of owning real estate, such as utilities, maintenance, and insurance.

Real estate investing can really be quite simple once you understand the basic factors of the investment, economics, and risk. You buy properties, avoid going bankrupt, and earn money through rent, all so that you can buy even more properties.

But keep in mind that "simple" doesn't mean "easy." If you make a mistake, the consequences can range from minor inconveniences to major disasters.

Four Ways To Make Money by Investing in Real Estate

When you invest in real estate, there are four main ways you can make money:

Real Estate Appreciation

This is what happens when a property rises in value due to a change in the real estate market. For instance, the land around your property could become scarcer or busier (for example, if a major shopping center were to be built nearby). Or, perhaps you made upgrades to the property that make it more attractive to buyers. Real estate appreciation is a tricky game, because it is not easy to predict. It is riskier than investing for cash flow income.

Cash Flow Income

This type focuses on buying a real estate property, such as an apartment building, and operating it. You then collect a stream of cash from tenant rent. Cash flow income can also come from other types of real estate besides apartment buildings, such as storage units, office or retail buildings, and rental houses.

Real Estate-Related Income

This income is common for specialists in the real estate industry, such as brokers. They may make money from commissions on properties they have helped a client buy or sell. Real estate management companies sometimes get to keep a portion of rents in exchange for running the day-to-day operations.

Ancillary Real Estate Investment Income

For some, this can be a huge source of profit. Ancillary real estate investment income includes things such as vending machines in office buildings or laundry rooms in rental apartments. In effect, this involves mini-businesses within a bigger real estate investment. They let you make money from a semi-captive collection of customers.

Tips for Your First Property Investment

There are a few ways you can buy your first real estate investment. If you are purchasing a property, you can use debt by taking a mortgage out against a property. The use of leverage is what attracts many real estate investors: it lets them acquire properties they otherwise could not afford.

To manage risk and protect yourself, consider holding real estate investments through special types of legal entities rather than in your own name. These include limited liability companies or limited partnerships. You should consult with a lawyer to decide which method is best for you.1 If the investment goes bust, or someone slips and falls, resulting in a lawsuit, these legal entities can protect your personal assets. That means the worst that could happen is that you would lose the money you've invested. You will have peace of mind knowing that your retirement accounts and other assets should be out of reach.2

Pros and Cons of Real Estate Investing

Pros

Less risk and volatility than the stock market

Can be a good source of cash flow

Lots of tax deductions

Properties give good long-term return

Cons

Not as much potential for aggressive return

Can require a lot of cash

Poor liquidity

Dealing with tenants and building issues can be difficult

Pros of Real Estate Investing

Lower risk than the stock market: The housing market isn't subject to as much of the same volatility as the stock market. You don't have the same earning potential, but you can count on a steady incline most of the time.

Steady cash flow: When you have enough rental properties going, you can count on a stable revenue stream for your business.

Good tax breaks: You can deduct all sorts of expenses from your taxes. These include mortgage interest, depreciation, property tax, and more.3

Long-term returns will often be positive: Over time, most properties will increase in value.

Cons of Real Estate Investing

Potential returns aren't as high as the stock market: From 1991 to 2019, the S&P 500 gained over 600%; housing prices increased by only about 160%.4 5

Real estate investment can be cash heavy: If you really want to get a steady income stream going, then you need enough cash on hand. Whether it's your own money or it's loaned to you, you'll need to be able to pay for building improvements, maintenance, and more.

Properties are not liquid investments: You can't turn a property into cash quickly like you can when you sell a stock.

Managing tenants and building maintenance can be a challenge: Whether you hire a property manager or manage it yourself, running a property can be full of unexpected problems. These can include overdue rent, roof leaks, power outages, and more.

7. Conclusion

In conclusion, mastering commercial real estate investment in Brisbane requires a deep understanding of the market, strategic decision-making, and careful financial planning. Brisbane’s growing economy, expanding infrastructure, and relatively affordable property prices present lucrative opportunities for investors. By leveraging the right tools, staying informed about local trends, and focusing on high-growth areas, investors can achieve long-term success. Whether you're a seasoned professional or a newcomer to commercial real estate, thorough research and a well-planned strategy are key to maximizing returns. With the right approach, Brisbane's commercial property market can provide substantial financial rewards and portfolio growth.

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