

What Location Means In Commercial Real Estate



By David Tran

People often say there are three things that determine the value of a property: location, location and location. Location is also an important factor in commercial real estate investment. When a commercial property is at a good location, it will attract tenants to the property and retain them there. It will also attract the customers of your tenants to the property. As a

result, you as the owner of the property can demand the higher rent & price for the property. So how do you as an investor determine if the property you would like to invest is at a good location? Look at the property and see if the property has these features:

- 1- Near major roads and freeways:** This provides easy access to the property so the customers of the tenants can quickly and conveniently drive to the property.
- 2- Near busy street with high traffic volume:** Commercial listings often mention the traffic volume in term of Cars Per Day (CPD). More traffic means more exposure of the business to more potential customers. This is free advertising to your tenants. The traffic could also be foot traffic.

For example retail stores at Pier 39 in San Francisco benefit from the high volume foot traffic from the tourists.

3- Near anchored tenants: Big retail stores like Wal-Mart, Albertsons, Home Depot instantly bring lots of customers to their stores. So if your commercial property is near an anchored tenant, it will benefit from the high volume traffic.

4- At an intersection: This will give the property more visibility as it has more frontage feet. If the property is located at a signalized corner then it's even better. As cars stop at the traffic light, people in the cars will notice the stores in your property.

5- Near local amenities: Stadium, college, big shopping mall and hospital will bring more traffic to the shopping center. Doctors



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What you should know about commercial loan

By Christine Pham

Here are the few differences between residential & commercial loans:

Loan Qualification: Most of you have applied for a residential loan. You provide to the lender with W2's and/or tax returns. In general the more income you make the higher loan amount you qualify. You could even borrow 100% of the purchase price if your income or stated income is strong. For commercial loan, the amount of loan the lender will approve is based on the rental income of the property, not your personal income. So the more rental

income the property generates, the higher loan amount the lender approves. If you buy a vacant commercial building, you will have difficult time getting a loan as it does not have any rental income. Commercial lenders often require at least 25-30% down payment if rental income is sufficient.

Interest Rate: In residential mortgage, if you borrow less money, i.e. a conforming loan, your interest rate will be the lowest. When you borrow more money, i.e. a jumbo or super jumbo loan, your rate will be higher. In commercial mortgage, the reverse is true! If you borrow

\$200K loan your rate could be 7.5%. But you borrow \$2M, your rate could be only 5.75%! In a sense, it's like getting lower price when you buy an item in large volume at Costco. In addition, the rate also depends on the type of property. For example, the interest rate for a single tenant night club building will be higher than multi-tenant retail strip because the risk is higher. When the night club building is foreclosed, it's much harder to sell or rent it compared to the multi-tenant retail strip.

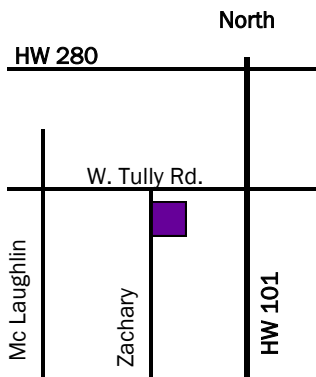
Prepayment Penalty: In residential loan, prepayment

penalty is often an option. If you don't want it, you pay higher rate. Most commercial loans have prepayment penalty. The prepayment penalty amount is reduced every year. For example on a 5 year fixed rate loan, the prepayment penalty for the first year is 5% of the balance. It's reduced to 4% and then 3%, 2%, 1% for 2nd, 3rd, 4-th and 5-th year respectively.

Loan Fees: In residential mortgage, lenders may offer you a "no points, no costs" option if you pay a higher rate. Such option is not available in commercial mortgage.

Direction to eFunding, Inc.

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What Location Means ... (cont.)

always like the medical building near the local hospital as it is convenient for them and their patients.

6- Easy to make left turn: The property should have ease of ingress and egress. If it's hard to make left turns, shoppers will less likely come to the shopping centers. And thus it makes the property less desirable to the tenants.

7- Easy to find a parking space: People don't like to go to a place where they cannot find parking spaces. Commercial property must have at least 1 parking space per 1000 square foot of leasable space. It's more desirable to have 4-6 parking spaces per 1000 SF. The width of parking space is also important. Who wants a ding on the door after a

shopping trip?

8- Easy to find your tenants: Signage is an important part of a commercial property. The customers often look for the name of the business rather than the street address. A large and tall monument sign in front of the property with the names of the businesses in the property is always desirable.

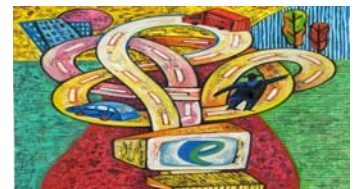
9- Able to attract and retain tenants: Your tenants will look for a building and neighborhood that are appealing to them and their customers to determine if they should sign or renew the leases. So quality of construction, property condition, landscaping, the appearance of the building and surrounding area are all important factors to keep the prop-

erty 100% leased.

10- In A Growing Area: You want to invest in an area where population has increased. Review the demographic data to see

- * How many percents the population has increased in the last 5-15 years.
- * How many new homes have been built in the last few years.

All these things will give you a picture if the town is growing.



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- What you should know about financing for commercial properties.

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