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(800) 637-7737

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Commercial Property Types...Which One Is The Best?

What commercial property types should you buy? You should consider the pros & cons of each property type, as well as, have a good understanding of your investment objectives and your experience. These factors will help lead you to your ideal commercial property. Listed below are the most common commercial property types.

Apartments/Multi-family

Apartments or multi-family buildings are usually the first choice for new commercial investors. Apartment management and financing is very similar to residential, and so new investors feel more comfortable with them. The main disadvantage with apartments, is that they are management intensive.

In order for an apartment to be considered commercial property, it must have 5 or more units. There are numerous sub-types of apartments:

- Low-Rise Garden Apartments
- Mid-Rise Apartments
- High-Rise Apartments
- Student Housing
- Military Housing
- Townhouse Style
- Co-op

When you are looking at properties to purchase, pay close attention to the location and general market for that area. You will want to avoid properties that are located in economically depressed or seasonal areas. Also, the property should have acceptable aesthetic qualities to be competitive with market standards and have a minimum occupancy of at least 85%. What if the property you are evaluating has inferior physical characteristics or is in an economically depressed area? You may have a higher interest rate, higher reserves and tighter underwriting constraints.

Mobile Home Parks

Mobile homes can be a wonderful investment, especially if you own the land and sell off the mobile home. You're just renting dirt at that point! If you're not familiar with mobile home investing, you need to read "Deals On Wheels: How To Buy, Sell And Finance Used Mobile Homes For Big Profit And Cash Flow" by Lonnie Scruggs. This book is a gem! Lonnie explains how to buy and sell mobile homes on a note. His presentation is very basic and understandable. Now back to mobile home parks. Mobile Home parks are rated as 1 Star, 2 Star, 3 Star, 4 Star, and 5 Star. The Star ranking is based on the conditions and amenities of the park.

A *3 Star* park usually has a mix of single and double wide homes that are in good condition. The park is attractive and offers some amenities.

A *4 Star* mobile home park usually only has double wide homes that are skirted and in good condition. The homes will have concrete patios or raised porches.

A *5 Star* mobile home park can be characterized as having deluxe accommodations, with a wide range of amenities and services. The homes are usually set back from the curb with paved streets, sidewalks, street lights and signs. The park is located in a desirable neighborhood and accessible to retail and community services. The homes are late model doublewides and modular homes in excellent condition. The mobile home park should have at least 85% occupancy and be located in desirable areas. Also, be cautious if the park has too many homes for sale (more than 20% of total pads) or more than 20% of total pads are rented homes owned by the park.

Retail

Retail properties are properties that are occupied by one or more tenants and the property is utilized for retail purposes.

A free standing retail, strip center with an anchor tenant is a well known commercial retail business such as a national chain store or regional department store strategically placed in a shopping center so as to generate the most amount of customers for all of the stores located in the shopping center.

An *Unanchored retail center* is a center which is occupied by multiple tenants of which none are anchor tenants. *Single tenant investment grade* retail properties are properties that are net leased to one investment grade tenant (BBB- rating or higher).

Office

The different categories of offices include:

Suburban Garden Office

Suburban High Rise Office

Medical Office

Central Business District (CBD) Office

Potential office buildings should have a minimum of 85% occupancy and is located on or near a main thoroughfare and easily accessible. Properties that have more than 20% of total revenue from owner occupied or owner affiliated tenants, will usually have a higher interest rate on any loans.

Mixed-Use

These properties will be a combination of any of the above property types. A real estate development of mixed use properties, should be complementary to each other.

Healthcare

These property types are nursing homes, congregate care and assisted living centers. Properties should be close to retail and community services. Be cautious of properties in economically depressed or seasonal areas. Also, be sure that the property complies with ADA requirements.

Hotel

Hotels are characterized as either Full Service or Limited Service.

Full Service Hotels can be further divided into Luxury, Upscale, Mid-scale, and Extended Stay hotels.

Limited Service Hotels can be further divided into Mid-scale, Economy, Budget and Extended Stay. When considering hotel properties, the property should have a stable operational history. A property with a history of four or less years should be scrutinized. The minimum acceptable occupancy is usually 60%. Lenders also prefer franchise affiliated hotels with franchise agreements extending beyond the term of the proposed loan.

Industrial

These property types will have usage for industrial purposes only. Such as

Warehouse-single tenant

Warehouse-multi tenant

Manufacturing

Research & Development

Flex Space

Light Industrial

Heavy Industrial

Self Storage

Also is called Mini-Storage, it is used for personal storage for lease by consumers.

Other Specialty

These property types are unique and financing them can be difficult. They include gas stations, oil change facilities, etc.