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COMPREHENSIVE CHECKLIST FOR

BUYING COMMERCIAL REAL ESTATE

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Purchasing commercial real estate isn't something anyone finds easy. You might assume you already know that, but if you've never done it before, then you might not really have a grasp on just how many moving parts and stakeholders there are to any transaction of such nature.

Whether you're new to the scene or just trying to brush up before your next transaction, it's useful to have a checklist you can use to guide you through your due diligence so you can make the most of any commercial real estate investment.

A SIMPLE CHECKLIST

While there might seem like there are countless steps involved in this process, the whole journey of buying commercial property with proper due diligence can generally be broken down into the following eight phases:

1) ASCERTAIN WHAT SPECIFIC ASSETS INTEREST YOU:

Your initial property search is likely to fall along the lines of factors such as building size, lot size, property type, and location. Many real estate investors have personal preferences for offices, retail, multifamily, warehouse, healthcare facilities or other types of properties. Other investors simply care about local properties and choose structures based on their return on investment. Whatever your preference, once you begin evaluating properties, you can then narrow down selections based on more specific criteria like sales to debt characteristics and other profitability ratios.

2) OWNERSHIP ANALYSIS

This is when you investigate the transaction history of any specific property, particularly past sale dates, amounts, and transaction times. Look into the names and/or contact information of owners, and perform additional research to find out about the true owners of the properties who may be using multiple LLCs or other corporate structures. This step in the process can help determine whether the property value has risen and how long the property was owned between sales.



3) DECIPHER PROPERTY VALUE

This involves comprehensive analysis of the property itself as well a contrast with similar comps in the area. Start with the most recent transaction price of the building, and then apply the right financial analysis to evaluate cash flows, recent depreciation, maintenance expenses and other cost considerations. Many commercial real estate investors have their own metrics they apply to narrow down the selection process and filter through all the available properties. The existing building owners should be able to provide detailed financial and tax records for you to evaluate financial viability of the property.

4) GET A PROPERTY INSPECTION

Inspect the building itself to see the general condition of the building. Evaluate if there are cracks in the foundation or other potential structural issues. If possible, go inside the building and observe the state of the structure and identify if there are any areas that you may need to renovate. This is also the time when you should involve other professionals in your search. Only a certified professional can determine the specific condition of a building. Once you receive the inspection report, you can discover any significant issues with the building.

5) STUDY THE PROPERTY DEEDS/TITLES

A thorough property title search will show you if properties have potential complications ranging from usage limitations and confusing ownership to tax debts and any outstanding liens. It's not always obligatory to use a title company to do this for you professionally, but the results and peace of mind are typically well worth the investment.



6) PROPERTY APPRAISAL

Even though you should do your own property valuation, a dedicated professional can give you a more specific idea of what potential returns any property investment might offer you. This is a very important part of the process to determine overall profitability. You'll also have a better idea of what timeframe you're looking at to complete the purchase transaction.

7) VERIFYING COMPLIANCE

Zoning regulations are a crucial phase to your overall preparations and process. You need to consider potential expansion, renovations, and plans for future usage. For instance, if you have a retail space, but are interested in transforming it into a multi-use building with housing above the stores, you should research all of the local regulations and ordinances to ensure you are able to make the desired change.

8) FIND LONG-TERM PARTNERS

While certain contractors and professionals might come in and out of the process as needed, some are going to be with you for a long time. The existing tenants and your property management company are likely to be around a while so take time to build a relationship with them and study their numbers. Another entity you need to be very mindful of is your lender, who you are probably going to be working with for as long as you own the building or until it's paid off.

There are obviously many more steps in the process and things to consider when buying a commercial real estate property. This helpful checklist is a starter's guide to keep you on track when thinking about acquiring a new property. While buying commercial real estate is a natural consideration for business owners and potential investors, there is also the possibility of building your own structure as well.



BUILDING YOUR OWN COMMERCIAL REAL ESTATE BUILDING

There might come a point where you think about building your own commercial real estate building. This might be due to the inability to find exactly what you are looking for in the current market offerings, or it can also happen because you just want more control over a specific property on top of managing existing buildings. In either case, building your own commercial building is a serious investment of time, energy, and money, so you have to do it right. While there are similarities with buying commercial property, it's not entirely the same.

The first thing you need to do in this process is being honest with yourself about whether or not this is actually something you want to do. Ask yourself why you want to do it. Do you have your own business you hope will do better in a custom space you own? Or are you just looking to rent out space to other businesses for rental revenue? Analyze your options carefully, especially if you are already a business owner. The time and focus required in constructing any building is going to be the time you don't put into the actual business and can take away from your existing operations.

The next part of the process of buying or leasing a plot of land is similar to buying commercial real estate. While some of the steps require less effort and research, you should still take time to properly evaluate the location, infrastructure and zoning requirements.

Once you make the decision to move ahead with this, be prepared and work with a commercial general contractor who has a track record of delivering projects on time. Investors who do it alone can often suffer from budget overruns, delays, and unreliable contractors which are all common issues that need to be factored into your construction schedule.



Next, be sure you make sound projections. The right financial advisor can help you ascertain how affordable the project is. You need to know how much money this is going to take from beginning to end so you can find the right financing options. Also working with a design-build firm can help you identify all of the expenses upfront.

Before any physical work can be done, you need a great architect and a solid building permit. Be realistic about how involved you will personally be. Hiring a project manager can help alleviate the stress of trying to coordinate all of the moving pieces of a new commercial structure. Delegate as much as you can to the right experts who are better-versed in such matters than you are.

Pick the best commercial general contractor so you don't have to manage all of the subcontractors yourself. Working with a team of experienced professionals will help ensure that the construction process goes smoothly. One final note to help save money on a new commercial building is to ensure you have all of the features and functionality in place so you don't have to make last-minute changes which can quickly increase the cost of construction.

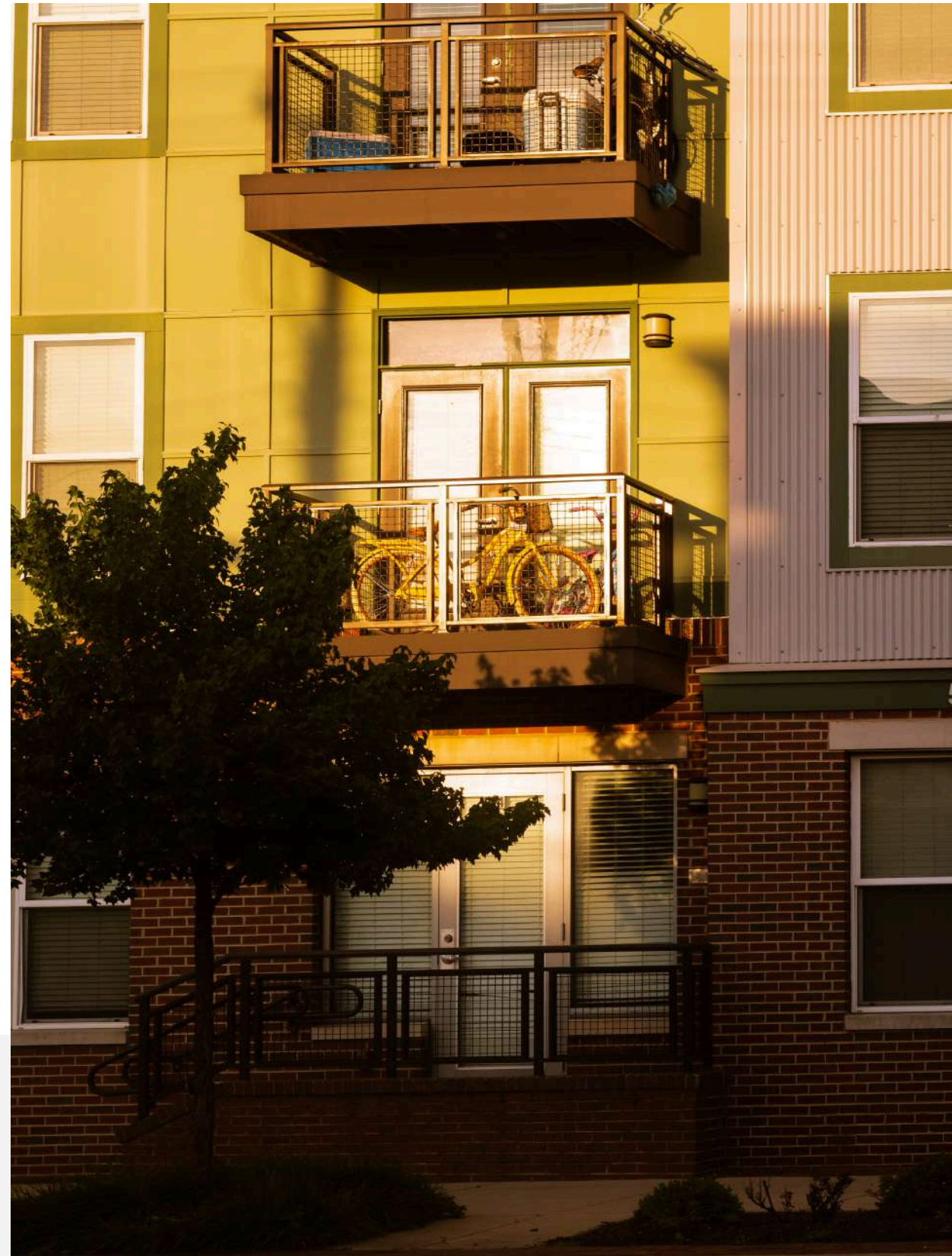


CONCLUSION

Buying commercial property can do wonders for you. If you're an investor, you can use it to preserve your wealth in the property value while also growing your portfolio with climbing property values over time. Along the way, you can enjoy rental income from the tenants leasing from you.

If you own your own business, you can buy your own commercial property, so you have the stability of being your own landlord. Alternatively, you can also build your own space that best suits the unique needs and ambitions of your company.

In any event, doing your proper due diligence and handling the process right is what paves the way for future success and a low-risk transaction that carries the best possible chances of maximizing the returns on your investment.



ABOUT CIVE

CIVE is an upscale Design-Build firm, specializing in top-down build process driven by value engineering – from state-of-the-art design, leading-edge engineering, high-quality construction, and elite project management.

Our strengths lie in a rich mix of talent, experience and ingenuity. Our clients can depend on us to anticipate industry changes and plan for the future, while providing most practical and cost-effective solutions. CIVE devotes customized, individual service to all its clients, whether large or small.

Specialties: Residential, commercial & industrial design, civil engineering, structural engineering, mechanical engineering, electrical engineering, construction management & project management.



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