

Commercial Real Estate Tips What Real Estate Investors Should Know in 2022

Commercial real estate tends to offer a higher ROI than most residential real estate investments. However, these high returns often come with high risks.

While the Coronavirus pandemic disrupted the commercial real estate (CRE) industry in early 2020, investors will find that now is a great time to be in commercial real estate. More commercial properties and businesses are starting to open their doors and CRE investors are hoping to get back to the way things were before the pandemic.

Are you looking to grow your commercial real estate investing business this year? This article will discuss the top commercial real estate tips and everything you need to know about growing your portfolio in 2022 and beyond.

Why invest in commercial real estate?

Aside from potential high returns, commercial real estate has plenty of other benefits that attract investors to the industry. Additional benefits of CRE investing include:

- **High cash flow potential.** Commercial properties tend to generate more cash flow than their residential counterparts. Investors who manage mobile home communities, RV parks, and self-storage facilities typically collect rent and storage fees each month which generates significant recurring cash flow.
- **Portfolio diversification.** Investors with commercial real estate in their portfolios diversify better than those who only hold traditional investments like stocks and bonds. Commercial real estate also tends to be a stable investment that provides consistent returns over time.
- **Tax advantages.** Commercial real estate investors also benefit from the tax code and can use it to their advantage. Tax deductions for depreciation and interest can significantly reduce your tax obligations and help you save thousands each year.
- **Hedging against inflation.** This year has seen runaway inflation affecting nearly all aspects of our daily lives. Grocery stores, gas stations, and even sporting events are forced to raise their prices to keep up with inflation. [Studies show](#) that commercial real estate investing tends to outpace inflation while still providing consistent returns.

Cons of investing in commercial real estate

While commercial real estate investing is still one of the best ways to generate consistent cash flow and high returns, there are some downsides that anyone involved with commercial real estate should be aware of if they want to make a successful career in this industry.

High barriers to entry

Commercial real estate investing typically takes more capital to get started. It's no surprise that down payments on a mobile home park, RV parks, or storage-unit facilities are higher than that on a single-family home. However, commercial real estate investments often have several investors in each property which may help to reduce startup costs.

High leverage

Commercial real estate deals typically require more leverage (or debt) since properties are more expensive and require more upfront capital. Being highly leveraged is risky in case of economic downturns where you can't liquidate your property as easily.

Illiquidity

Speaking of liquidity, real estate is one of the most illiquid investments on the market today. Unlike stocks and other traditional investments, it's not easy to sell your commercial real estate properties quickly in times when you need some quick cash for life events or emergencies.

Commercial real estate tips

Investors that want to get involved in commercial real estate investing or those who already have several properties will benefit from the following commercial real estate tips.

Purchases

Waiting until the last minute at the end of the year to close on a purchase is one of the biggest mistakes that commercial real estate investors make. This often leads to a bridge loan with unfavorable financing terms which can ruin your commercial real estate deal. Those who need to close on a purchase by the end of the year should start the process now to avoid this costly mistake.

Start the refinance process now

Investors who have a loan maturity coming due in the next 3 to 6 months should start the refinance process now. Since refinancing may take several months from start to finish, investors should get the ball rolling considering the upcoming holiday season. Lenders also tend to take longer to process loans due to the rush at the end of the year.

Starting the process now ensures you'll close on your refinance in time before the end of the year. Investors in a 1031 exchange who need to close by the end of the year should also look to get the process started for the same reasons.

Knowing the local market

If you already have one or more commercial properties, you probably have a good understanding of the local market. However, those that are still looking for their first investment should do plenty of research on the local market and understand housing trends, unemployment rates, average income, historical appreciation, and many other important factors that guide your investment decisions.

Conduct thorough due diligence

Successful commercial real estate investors know how to spot a good deal and how to run the numbers before making any investment decisions. To make it in this industry, you'll need to analyze plenty of deals with thorough due diligence and background research. You can use your knowledge of the local market and recent transactions to assess whether an investment is worth your time and money.

Protecting yourself and your investments

Forming a limited liability company (LLC) is one way that commercial real estate investors protect themselves and their assets from legal ramifications that may arise with investing in commercial real estate. All commercial real estate investors should consult with legal professionals to ensure their personal and professional assets aren't at risk.

The Bottom Line

Commercial real estate investing offers plenty of benefits centering around high returns and tax advantages. Those who want to start investing should immerse themselves in commercial real estate terminology and use the commercial real estate tips we discussed in this article.

Do you want to get started investing in commercial real estate? Visit our [website](#) to find out how The Madison Group provides commercial real estate investors with loan options from the nation's top lenders to grow and scale their CRE portfolios.

Contact us now to discuss your financing options:
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