

# What Type of Return Can I Expect from a Commercial Building Investment

October 17, 2018 | John Manos | President – Commercial Real Estate Lending Division, BankFinancial, NA

For a business looking to diversify its investments, commercial real estate can make sense. It has the potential to create an income stream, provide tax savings and steadily build value as an asset. As with any business investment, though, the question is about what kind of return on investment (ROI) will you get?

Commercial properties often have a higher rate of annual return than some residential real estate investments — 6 to 12 percent vs. 1 to 4 percent. Since no standard return can apply to all real estate investments, you need to consider the specific market, the price of the property, your company's situation and other factors to assess an investment opportunity. Some typical areas of return do exist, and reviewing them can help you to make a preliminary determination about potential.

## Income

Many properties provide an ongoing income stream in the form of commercial rent. Rental history is often the most concrete indicator of what you can hope to earn, but realtors can help you assess the current rent potential. Also, speak with realtors about what factors might increase the amount of rent you can hope to collect in the future. Small improvements to a property to meet market demands can have a big impact on the rent you can charge.

If you purchase a commercial property and plan to use part of it, you may be able to rent out the remaining portion. Small companies are often looking for a portion of an office, warehouse or other commercial building.

## Equity build-up

If you choose the location and property carefully, and perform the required maintenance, a commercial property should appreciate with each passing year. Businesses that choose to operate from a commercial building are amassing equity with each mortgage payment, as opposed to paying rent, which creates no value. When you are ready to retire, you will have an asset to sell, whether or not your company continues to operate without you.

Even if you don't operate your business in the property, steady accumulation of value in commercial real estate can outperform other investments. For example, when it comes time to sell the property, a lower capital gains tax rate, compared with many personal tax rates, can mean you will pay a lower rate than if you had invested in an IRA.

## Predictable costs

A commercial real estate investment in the location you plan to use for your company has a ROI of predictable real estate costs. By owning the location from which you run your business, you avoid unexpected cost increases from landlords. This certainty can help with cash flow projections. You can also be confident that any investments you make in your office location will be yours to enjoy for as long as you choose.

## Tax savings

Real estate investments of all kinds provide many opportunities to save on taxes, and commercial property is no exception. Interest from the mortgage payments you make each month are deductible at tax time, and can help to winnow down the tax you owe on company profit. The money you spend on maintenance, upgrades and other expenses related to caring for the property are also a deduction. Finally, depreciation — the calculation of the annual "aging" of the property — is also deductible.

Check with your financial advisor for other financial gains that may come from a commercial real estate investment. And, read our story on "[5 Tax Advantages of Buying a Commercial Property](#)".

## About the author

*John G. Manos has been the President of Commercial Real Estate Division at BankFinancial, National Association a subsidiary of BankFinancial Corp., since April 2014 and served as its President of Southern Region from 2006 to 2014. Mr. Manos has held various positions with BankFinancial, National Association, since 1999, including Senior Vice President of Regional Commercial Banking. Prior to joining BankFinancial, Mr. Manos was the Manager of Commercial Lending for Preferred Mortgage Associates.*

