

BUYERS GUIDE

FOR COMMERCIAL PROPERTY USERS



IS NOW THE TIME TO BUY A COMMERCIAL PROPERTY FOR YOUR BUSINESS?

Many Toronto area business owner/operators which are currently leasing their commercial property, have begun to wonder if now is the time to take advantage of opportunities to buy an office or industrial/warehouse property for their business to occupy. With interest rates at near historic lows and the stock market continuing to appear uncertain, buying commercial real estate is of interest to many organizations.

Ownership may offer many benefits over leasing. With every mortgage payment you make, you'll build equity in the property. That equity may be increased if the property value appreciates. And as owner you control your building, deciding such issues from corporate building signage on the property, to what capital improvements to undertake. Operating costs are often also reduced as an owner/occupier since there are typically reduced external management fees and you decide on maintenance and up grade schedules. You also won't be subject to rent hikes on lease renewals!

There are of course also disadvantages to ownership. Purchasing your office or industrial property may reduce working capital which might be otherwise used to expand your business. Flexibility for expansion and contraction is another item for consideration. To obtain flexibility for growth it might be necessary to purchase a commercial building which is larger than initially required or one with tenants as you may be able to take over the space they lease over time.

Buying a commercial property in the Toronto area generally requires a cash down payment of 30 to 40 % of the property to obtain financing. Also consider that there may be significant renovations costs required in order to customize the building for your business's unique operating requirements and financing maybe more difficult to achieve on these items.

Perhaps the biggest surprise for first time buyers is the shortage of available commercial, office, industrial and warehouse properties for sale which are both well priced, and suitable for their business to occupy. This is true for all areas in the Greater Toronto Area (GTA) of Ontario including Toronto, Mississauga, Vaughan, Markham, Scarborough, Don Mills, Etobicoke, Malton, Rexdale, Milton, Thornhill, Newmarket, North York, Richmond Hill, Unionville, Brampton, Oakville Burlington Ontario, Hamilton, Stoney Creek, St Catherines, Pickering, Whitby, Ajax, or Oshawa. It is therefore important to do your homework upfront to become "Real Estate Ready". This means establishing your criteria for purchasing and becoming educated on market pricing on past comparable sales and properties which are currently available for sale. You are also well advised to consult your lawyer and accountant to make sure you structure your investment to meet your tax and investment goals.

The tax consequences of becoming an owner are mostly positive. Owners are typically able to deduct a portion of the value of the building and improvements each year as depreciation, a non-cash expense that can reduce taxes on business profits, and mortgage interest. If the buyer purchases the property in his or her own name, the business can pay rent to the owner and the rental payments reduce the business taxable income.

Before you purchase it is important to know much you will pay on a mortgage vs. how much you will pay in rent. Ideally you should become pre-qualified with lending sources for financing in advance.

Once these things are done you will be in a position to act quickly, confidently and with minimal conditions if the property you are looking for suddenly becomes available for sale.

Finally consider your exit strategy. Try to make sure that your use for the commercial building fits with the rest of the properties in the area so that when the time comes to sell, it will sell easily and hopefully appreciated in value.

Purchase Methodology



NEEDS ANALYSIS

MARKET EVALUATION

SELECTING ALTERNATIVES

NEGOTIATION

MOVE IN & CONSTRUCTION

- Assemble Professional Services Team
- Define Purchase Objectives
- Real Estate Strategic Plan
- Define Property Selection Criteria
- Space Programming
- Project Schedule
- Preliminary Project Budgeting

- Property Survey Book
- Identify Market Trends & Pricing
- Tour/Inspect Property Options
- Budget Refinement

- Building Technical Review
- Space Planning
- Preliminary Construction Budgeting
- Project Schedule Refinement
- Cash Flow Analysis
- Project Budget Refinement
- Submit Letters of Intent
- Rank Alternatives

- Establish Negotiating Strategy
- Obtain Internal Approvals To Make Offers
- Negotiate One or More Purchase Offers
- Complete Conditional Agreement
- Undertake Due Diligence
- Building Inspections
- Phase 1-2 Environmental Report
- Finalize Financing
- Waive Conditions
- Property Closing

- Finalize Planning & Procurement
- Move-in
- Complete Working Drawings
- Construction Implementation
- Telecommunications Voice and /Data
- Install Furniture Equipment, Racking etc.

Property Selection Criteria



Financial Terms	Comments
What is your budget for the total project?	
Location	Comments
Please define your geographic boundaries:	
North	
South	
East	
West	
Proximity to key employees, clients major, highways and public transportation	
Timing	Comments
What is an ideal closing commencement date given your lease expiry and business cycle?	
Is Design Build a consideration?	
Building Data	Comments
Total Area	
Office Area	
Warehouse Area	
Lot Area	
Number of parking spaces required	
Building Image-Signage / Exposure	
Warehouse/ Plant Area	Comments
Preferred Clear Height/ Level or Racking	
Shipping Facilities- Number Of Truck Level and Drive-in Doors Required	
Zoning- Outside Storage and Drive-in, Automotive etc.	
Sprinklers	
Electrical Power Requirements	
Column Spacing- Racking considerations, maneuvering space	
Floor Characteristics	
Lighting requirements	
Employee facilities in warehouse: washrooms, change rooms, lunchroom	
Office Space	Comments
Size of Office- Number of Employees	
General Nature of Layout- Number of Private Offices, Workstations	
Special Requirements, Showroom, Labs, Training etc.	
Do you have any special cooling requirements (computer room, training room)?	
Do you have a need for a backup generator and UPS system?	
Communications	Comments
Do you need a fibre optic backbone in the building?	
Do you require high-speed internet, cable service, satellite dish?	
Security	Comments
Importance of electronic card access/manned security	
Other	Comments
Are there any competitors or other firms that you have a preference not to be located close to?	
Other Criteria of importance	