

**COMMERCIAL REAL ESTATE INVESTMENT  
VERSUS  
RESIDENTIAL REAL ESTATE  
- Allistar Walker**

Every man and his dog, or so it seemed in the last few years, were pursuing personal wealth and riding off into the sunset on the back of their residential real estate investments. Now there is uncertainty while clouds pass over the dreams, as real estate prices go south or stagnate, and companies like Blue Chip bite the dust taking down many people with them. The interesting thing is this happens time and time again and still people get caught.

Is commercial property any better? Well, possibly not if you fail to understand the cycles and bone yourself up on some knowledge **before** you invest. It is not harder than residential property, just different. It is not the purpose of this article to compare commercial returns because they are as varied as many residential deals are. Suffice to say it is far better to buy well than expect to sell at a premium, ie Make your profit on purchase.

Let's have a look at the basic differences:

<b>Commercial</b>	<b>Residential</b>
- Deal with contracts (less emotional content)	- Deal with people (more emotional content)
- Less legislation protecting the Lessee – agreement is paramount	- Too much legislation protecting the tenant. Agreement can be overridden.
- Less management	- Mostly more management
- Longer to sell	- Faster to sell
- Borrow to 70% average	- Borrow to 95% average
- Better returns	- Generally lower returns
- Lower risk of Lessee turnover	- Often high tenant turnover
- Lower maintenance	- Higher maintenance

When the teddy goes down the toilet in the middle of the night, you as the landlord could be rung up by a residential tenant to sort it out. No such thing with Commercial, they sort it out themselves, as well as other problems and minor repairs. Talking to many commercial building investors, we find that although they may have had experience in residential, they much prefer commercial. It is important to 'know the numbers' and, like residential, location is critical but much more so.

*Allistar Walker is an Auckland based mortgage and loan consultant specialising in commercial and residential finance. P 0800 005 066 or visit [www.mortgagehelp.co.nz](http://www.mortgagehelp.co.nz).*