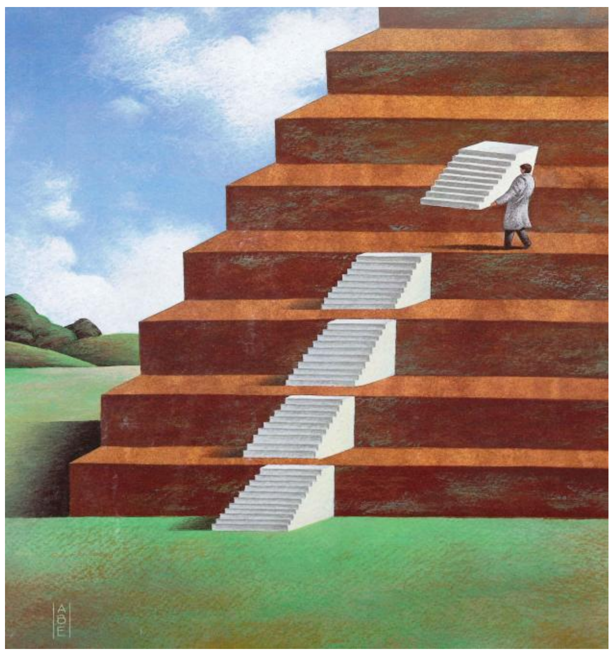
Three Keys to Developing Commercial Real Estate

How to Successfully, Buy the Land, Build the Building, Attract Tenants, Be a Landlord and Own or Sell a Commercial Real Estate Project,

By: Robert A. Wehrmeyer



Without prior written permission of the publisher or authorization by payment of the appropriate per-copy cost no part of this publication may be reproduced, stored in a information storage or retrieval system, or transmitted in any form or by any means, electronic or otherwise except as permitted under applicable United States Copyright Act.

This outline is intended, as a general reference only discussing general issues of interest, and is not designed to give any specific advice and not intended to substitute for professional or legal advice pertaining to any specific or general circumstances. It is important that professional and or legal advice be obtained before utilizing or acting on any of the information presented or contained in this outline. The author and the publisher make no representation or warranties with respect to the accuracy or completeness of the contents of this work and specifically disclaim all warranties including without limitation warranties of fitness for a particular purpose. The fact that a Web site or organization is cited or referred to in this work does not mean that author or publisher endorses or recommends the information the site, company or organization may provide. Web sites cited herein may have changed or may no longer exist.

Copyright © 2011 by Wehr Ventures
All Rights Reserved
Printed in the United States of America
Published by Wehr Publishing
San Antonio, Texas 78015

ISBN:
ISBN-13:
LCCN:

TABLE OF CONTENTS

COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC

Chapter 1: How to Buy the Land, Build the Building, Attract Tenants and be a Landlord- The Money

Introduction-Sounds Complicated!

Just the title of this e-book, "How to Successfully Buy the Land, Build the Building, Attract Tenants, Be a Landlord and Own or Sell a Commercial Real Estate Project" reflects how complicated developing commercial real estate can be. However, like many things in life when you analyze the basic components you often find that the process is simpler than it appears. There is one fundamental component that stretches across each of the major areas of the development process; from buying the land, to building the building, to attracting tenants, to managing the space and even refinancing or selling the real estate project. This single component is money. **All development projects need money.** One must acquire the land, pay for certain up-front costs, pay to get the project built, and pay to support the building while finding enough tenants to fill it.

A. The Financing.

1. Construction Loan

Since development projects can be expensive most developers look to third parties such as commercial banks and investors to supply the money needed to "finance" the project. If a developer can finance a project they can get it built. Getting financing therefore, becomes the single biggest obstacle to moving from the developer's vision, to construction, completion and finally, an open, operating, and successful development project. Almost all commercial real estate construction projects are financed by a majority of debt. The debt is usually in the form of a construction loan from a commercial bank and will typically constitute somewhere between 60-80% of the project cost. The neat thing about construction loans is that the developer/borrower pays only interest during construction and for a short period thereafter and then must refinance or pay-off the loan.

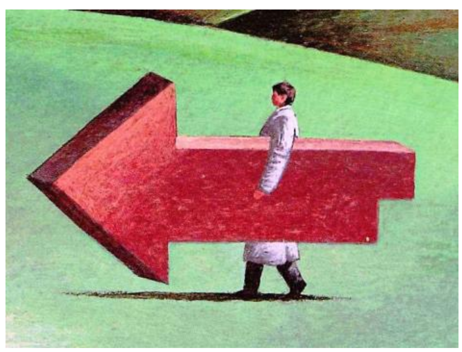
2. The Equity.

The remaining portion of the project cost, the portion not funded by the bank construction loan is often referred to as equity. Equity, can come from many sources, equity can come from the developer, the land the project is to be built on or from third party investors. Remember, the bank only lends a portion of the money needed to complete the project (60-80%). The equity investment is the first money invested and funds the difference. Together, the construction loan and the equity investment make up the money needed to cover the project cost and are often referred to as the development project, capital stack.

COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC

Most developers realize early on in the process that **closing the construction loan, is the most important step in a new development project becoming a reality**. With the closing of the construction loan a project moves from the stage of hoping to be built to a high likelihood it will be built. Therefore, meeting the needs and demands of the construction lender and the equity investors becomes the single most important factor in moving a development project forward.

That being said, financing for a new development project is not always easy to obtain. It can take many months, if not years to find and close acceptable project financing. Although obtaining construction financing and equity investment may sound complicated once again there is a single fundamental component that attracts almost every construction lender and equity investor to a real estate development project.



COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC

Chapter 2: The Most Valuable Asset in Any Commercial Real Estate Project.

Introduction

In Chapter 1, we pointed out how complicated developing commercial real estate can seem unless you focus on the most important aspects of each phase. We also pointed out in Chapter 1 that there is a fundamental component that stretches across each of the major areas of the development process; from buying the land, to building the building, to attracting tenants, to managing the space as landlord and even refinancing or selling the completed project. This single component is money. All development projects need money. Since development projects can be expensive most developers look to third parties such as commercial banks and investors to supply the money needed to "finance" the development project.

So how does a developer get a commercial bank and equity investors to finance the project? Once again focusing on the single most important component supplies the answer. The single most important factor in attracting money (financing) to a development project is the belief the investors will get paid back (and hopefully make a little money). The most reliable way to prove to investors that they will get paid back is to attract rent paying tenants[1] to the project.

1 The Tenant.

The tenant is the most valuable asset in any commercial real estate development project. Sign up the right tenant or tenant mix and you may be able to choose from a pool of eager construction lenders and equity investors to finance the development project. What makes the tenant so important? The tenant is the person or entity that will enter into a long-term agreement to pay rent, bring people to the site and make it attractive for other tenants and businesses. Rent creates cash flow and cash flow help lenders and investors form a reasonable belief they will get paid back. Of course, in a development project certain tenants, are more valuable than others. Most lenders and investors want to see tenants with, a long history of operational success, solid financials, well established brand or niche and a financially stable parent company or owner to guarantee the long term commitment or lease agreement.

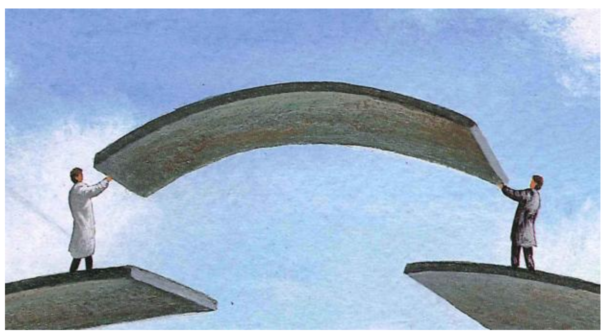
[1] The word, tenant is an old French term and roughly translates to "one who is holding" such as, one who is holding occupancy of a, farm or building.

COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC

2 The Lease Agreement.

The lease agreement might be the most important document a developer can produce. It is the document that will be given the most weight by lenders and equity investors in determining their desire to loan or invest. The lease agreement establishes a legal obligation on the part of the tenant to pay the developer rent often over a long period of time. Of course, getting a tenant to sign a long term lease is not that simple. Remember the building(s) is not yet built and probably will not be for a couple of years.

So how does a developer find these coveted tenants and get them to sign a legally binding contract to pay them rent in a building that doesn't exist yet?



COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC

Chapter 3: The Golden Rule of Real Estate

Introduction

In Chapter 1, we pointed out that there is a fundamental component that stretches across each of the major areas of the development process. This fundamental component is money**,** all development project need money. Since, development projects can be expensive most developers look to third parties such as commercial banks and investors to supply the money needed or to "finance" the development project. In Chapter 2, we focused on the fact that the single most important factor to lenders and investors to finance a development project is the belief they will get paid back. The most reliable way to prove to investors that they will get paid back is to attract rent paying, quality tenants to the project who have signed a long term lease. However, as we pointed out before getting a tenant to sign a long term lease is not that easy, the building(s) is not yet built and probably will not be for a couple of years.

So how does a developer find these coveted tenants and get them to sign a legally binding contract to pay them rent in a building that doesn't exist yet?

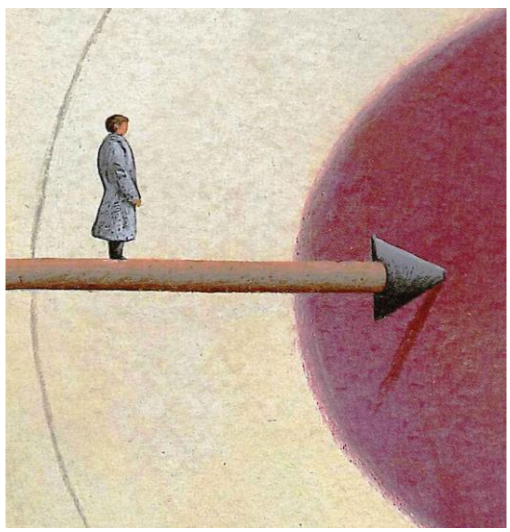
1 Location, Location, Location

Often, the fundamental component to attracting prospective tenants to a development project is location, what this author refers to as the "where" principle. The generally accepted mantra for putting a real estate project on the right track for success is location, location, location. Pick up any article about real estate, look at any Web site, or watch any show on television today and you will find that most real estate decisions are based on location. **Location is probably the single most important factor for attracting and retaining tenants,** especially, desirable, financially stable tenants.

COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC

2 Tenants and Location

As the developer, site selection or location should help you focus on the key benefits to the tenant. The surrounding demographic and market information should strongly support the new project. Focus on the location and the location information most important to the tenant and the tenant's trade or business and getting them to sign a long term lease agreement will be much easier.



COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC

Summary

The golden rule of real estate, location, location, location might well be translated to finance, finance, finance. If a developer can finance a project they can get it built. The best way to convince a lender to lend and investor to invest (the financing) is to sign up high quality tenants to a long term lease. Of course, it's not always easy to sign up high quality tenants to a long term lease in a building that is not yet built. The easiest way to sign up coveted tenants to your development effort is to secure the most attractive location for their trade and business.

The three fundamental keys to real estate development success, ***finance, tenants and location***, it's that simple.

COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC

ABOUT THE AUTHOR: Bob Wehrmeyer is a adjunct professor at the University of Texas at San Antonio, attorney, experienced real estate developer and author of, "The Complete Guide to Developing Commercial Real Estate, *The Who, What, Where, Why and How Principles to Developing CRE*". The book is available for purchase on Amazon.com/books. You can contact Bob through his web site, www.wehrventures.com or Facebook page.

WehrVentures
dba for Otali Solutions, LLC

COPYRIGHT 2011, ALL RIGHTS RESERVED, OTALI SOLUITIONS, LLC