Magnusson Balfour
COMMERCIAL & BUSINESS BROKERS

Real Estate

Looking For a *Good Deal*?

As Commercial Real Estate Brokers investors often ask us; " Do you have any *good deals*?" I sometimes feel that I'm supposed to answer with, "Yes, there is among all the available properties on the market this one, special, undiscovered, diamond in the rough that is an unbelievable *good deal*."

Let me state before I go on that yes, there are a lot of *good deals* on the market. The challenge comes in determining what is a *good deal* for an individual investor. What's good for one might be totally innappropriate for another. Let's look at some questions for consideration.

Cash Flow – Are you looking for an existing positive cash flow from an established building? If so, leased properties might make the most sense.

Real Estate Investment...A Balancing Act

Appreciation- Are you less concerned w/cash flow but you want the property value to increase at an accelerated rate? If so, the old expression of *getting in the way of the bull dozer might apply*. A property on the outskirts of current development might work.

Liquidity- You must ask yourself, do you need the option to sell quickly if an emergency arrives, or can you hold on for the long run? Unique properties might hold the most potential for return, but it might take a time to capitalize on them or sell quickly should the need arise.

Time- Are you looking to invest money but not time? An occupied condo, or triple net commercial lease might work. Or are you willing to add time and value to a project in seeking higher returns? Perhaps land for development or rehabs?

Risk vs. Yield – As in other investments, a steady certainty will most likely yield less than a volitile unknown.

Use- Do you intend to use the property? If so, perhaps non-financial issues come into play. Aesthetics or image, location as to proximity to transportation or your clients, cost of aquisition as well as cost to operate.

Looking for the *best deal* in real estate? We at Magnusson Balfour would like to help find the *best deal* for **you!**

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If not, it still could happen, but you are outside of the normal box, and it won't be easy.

CASH FLOW: What is the constant and predicted cash flow of the business? Subtract what you as owner feel you need to take home as a reasonable salary. Take the remainder multiply it by 75%. This will put you in the ballpark for what is referred to as 'available for debt service'. Take the available for debt service number, apply prevailing interest rates; appropriate term for the loan or loans. Do the calculations. You will then have an amount that can possibly be financed.

If the amount for possible financing and the available down payment is greater than the businesses purchase price, you're good to go. Not every bank will be interested in lending for a variety of reasons. Shop around. Financing may have to come from a variety of sources, including possibly the seller. In a future article we will go further into 'sources of financing'. But at least for now you have a good starting point.

So in summary, business financing is based on the interplay of the 4 C's. **C**redit of purchaser, **C**haracter of purchaser (résumé) **C**ollateral, and **C**ash Flow of the business.

We at Magnusson Balfour take great pride in our ability to match 'buyers, businesses, and banks.' Do let us know if we can help you.