



## Cash Flow- What is it, and how do I get some?

By: *John Robinson*

Cash Flow sounds sexy because it is. It will pay for college tuition, vacation, or that red sports car you always dreamed about. Cash Flow is income after expenses. It follows, therefore, that in order to be worth something, a commercial property must produce more net income after taxes than the costs of ownership. This is the purpose of investment property ownership: creating stable, long term wealth. Good commercial properties with strong cash flows are the stuff dreams are made of.

There are three ways to get Cash Flow in the commercial property market place:

First, you can buy a property that is already leased up with tenants in place. Most small leases in the Maine market run three to five years. The

risk is low, and consequently the return on investment is currently hovering between 7-9%. Compare that to 2.6% returns for Treasury Bills and it starts to look interesting – but, remember, there is always someone out there who wants to buy a bond backed by the full faith and credit of the United States Government. It may take a year to sell an fully leased investment property. So you better be making money.

Second, you can buy a vacant commercial property, fix it up, and lease it out to new tenants. Your broker will market and show the property, negotiate the lease, and help you avoid nasty litigious pitfalls. But if you have purchased in the wrong spot (location), overpaid for the property (timing), or fallen prey to your emotions (wishful thinking), you could be in for a rude shock when the oil bill comes in and you have no tenants. A successful re-positioning should net 10-12% cash flows. You put in the work, now it is time to enjoy the income stream.

Third, you can become a developer. Take unused, problematic, or raw

land and make something of it. For example, buy a corner lot that used to be a gas station and turn it into a take-out restaurant. Developers need to understand traffic counts, curb cuts, zoning, the zoning board of appeals process, the politics of the city council, architecture, engineering, and construction costs. The time and energy necessary to develop or re-develop a piece of property is a full time job fraught with risk. If the Cash on Cash return (net income after taxes in the first year divided by initial investment) is something less than 12-15%, run away quickly. You can't afford to do the deal.

A good property, well located, in good repair, with happy tenants who pay on time, is called a cash cow. Everybody wants one and they are hard to find. Owners who enjoy the benefits of strong cash flow may pass their properties from one generation to the next. A commercial property without cash flow is called a liability. Which one would you rather buy today?

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**Our Newest Associate  
Richard Dodge**

rdodge@balfourcommercial.com  
(207) 774-7715

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office@balfourcommercial.com  
(207) 774-7715

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**Our Newest Associate  
Craig Church**

*Business Broker & Consultant*

cchurch@balfourcommercial.com  
(207) 774-7715