Investing in Foreclosed Commercial Real Estate

Buying foreclosed commercial real estate, such as retail, office, industrial, warehouse, or residential rental properties, may represent a unique opportunity for today's investors.

The economic downturn has generated a surplus of commercial real estate properties, and there are fewer investors qualified to buy foreclosed properties. With fewer buyers available, lenders with foreclosed properties are often willing to sell well below the benchmark market price.

Many lenders are eager to divest themselves of foreclosed commercial properties because commercial real estate is generally more expensive to own and maintain than residential real estate. For buyers, this can translate into potential savings—an even greater proportion of savings potential than what is typically associated with residential foreclosures. When you are able to acquire foreclosed commercial property at a price that creates substantial equity ownership for you, you are in a better position to earn profits from the property in the long run.

Buying foreclosed commercial properties is attractive from a business perspective because these properties can often be flipped or rented for a profit with only minimal clean up and repairs. Foreclosed commercial real estate represents a unique opportunity for an entrepreneur who wants to launch a new business. By buying a foreclosed commercial property at a discount, you may not have to rent the commercial space immediately. Another plus is that your business starts out already owning a valuable asset.

Of course, there are risks involved in purchasing foreclosed business properties. The first and most serious risk is simply paying too much for it. Even if the price appears to be quite low, be sure to conduct a careful market analysis on the values of similar properties in the area.

It is a common pitfall for buyers to spend too much money on a foreclosed property simply because it is priced lower than what its market value should be. Look at the trends in the area. If prices are still falling, the price you pay today may be considered high two years down the road. Be realistic about how much more value the property could lose if a downward trend continues.

Another inherent risk associated with buying a foreclosed commercial property is failing to realistically assess the incidental costs tied to the sale, as well as expenses for maintaining the property before you resell or rent it for revenue generation.

Keep in mind that the bank that owns the property may want to dispose of it as soon as possible. This may give you some room for negotiating more favorable terms for the purchase. These terms may include the purchase price, interest rate, and payment terms, but you may also ask for other contingencies and concessions. You may be able to stipulate an offer withdrawal if the property inspection turns up any risk factors that are likely to generate more expenses or prevent your intended usage of the property. You may also seek to have the bank assume some of the responsibility for repair costs or to discount the property further based on any needed improvements.

Purchasing foreclosed real estate properties may present unique opportunities for today's investor. Be sure to do your homework to ensure that you make the right decision for you and your business.

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