

## Residential Versus Commercial Real Estate Investing

Real estate is one of the world's greatest asset classes and most of the world's wealth is held in real estate, but many investment and property advisers will argue that owning your own home is not truly a real estate investment. You live in it, it adds to your monthly expenses and has no income. Unless you manage to sell it at a profit in real terms, that is taking into account maintenance and inflation, it may disappoint you.

You might start out by investing in residential real estate simply because you are used to buying homes and it's easy, but Commercial Real Estate (CRE) is really where the action is and can be a great way to balance your portfolio. It does take some new skills so you might just need to brush up on the different investment terms used and understand the methods and structures before you go about investing in CRE.

CRE normally does not include the single-family homes, it includes office buildings, residential buildings with multiple units, student accommodation, storage units, hospitals, medical centers, industrial and retail properties.

We have outlined some key differences between CRE investing and residential real estate investing.

- *CRE is valued differently* from residential real estate based on the rental income that the property generates after expenses multiplied by the number of years that an investor would expect to recover his full investment, known as the CAP rate.
- *CRE is treated differently by a bank* and most major lenders who work with CRE require a higher down payment than the residential real estate, this can be 30% or more, and the finance period is over a far shorter period than for residential real estate.
- The income that a piece of CRE generates is directly related back to its usable square footage whereas this is not always the case with the residential real estate.
- *CRE leases are generally longer* which provide a stable long-term cash flow which ultimately increases the prospect of raising finance against the real estate (leveraging the asset).
- *CRE helps you diversify* your risk, as an example if you own an apartment building and you lose one tenant you only lose a portion of your rental income as opposed to a full rental income if you lost a tenant in a single-family home.
- *The laws surrounding CRE and residential leasing are different* where residential landlords typically have a higher threshold of responsibility than CRE landlords.
- *CRE requires a higher level of knowledge.* The ability to do your own due diligence and financial analysis is vital to ensure required returns are being met and you don't destroy the value of your asset.
- *CRE can offer better net returns*, between 6.5% and 10%.
- *CRE does not come with emotional strings* like residential properties because you are not dealing with a person's home.
- *CRE offers low competition levels* because these properties generally have a higher price point. This means that the average investor looking for good commercial real estate can't

access the quality opportunities.

- *Investors do have options, to invest alongside other investors* through listed funds, REITs (real estate investment trusts) as well as a direct investment through syndication.

Choosing between a commercial or a residential real estate investment is not an easy decision because both come with their own set of benefits and drawbacks. Once you take the time to understand CRE investing it can be extremely rewarding both financially and personally.

Investing in property is about maximizing your return of both time and money.

While it is entirely possible for an investor to become a direct owner in a commercial real estate the amount of capital generally required typically makes it difficult to enter this sphere. Orbvest offers you passive CRE investing by becoming a limited shareholder in our core medical real estate investment opportunities for as little as 5,000 USD.

We are a niche global real estate investment company, that offers investors direct investment into specialized income producing medical CRE or through our own select portfolio held by the company.

Each investment is ring-fenced in its own legal entity listed on Trop-X, a regulated stock exchange. We target a minimum of 7.5% USD return per annum, paid as quarterly dividends to investors. Our revenue model is derived from equity raising fees (5-7%), from equity participation and the fee carry earned at the exit of each project.

We don't buy buildings, we buy future income streams and focus on fast-growing cities in the USA where we own, manage and enhance these assets for our own benefit, or on behalf of our investors.

To find out more on OrbVest's current medical investment opportunities visit <https://orbvest.com/marketplace> or contact one of our investment consultants on 021 948 2130 or at [support@orbvest.com](mailto:support@orbvest.com).

**“This article was written by the OrbVest editorial team”**