

INDUSTRY INSIGHT



Commercial versus residential real estate

Some investors have a hard time deciding on where they should put their money

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There are numerous ways to invest in real estate. You can invest in apartments, villas, penthouses, land, buildings, office space. The options are limitless. There is, however, a great divide.

Some investors have a hard time deciding between residential and commercial real estate. We all know the main difference between residential and commercial property investment; the former is investment in properties that people live in, whereas the latter is investment in business premises of any kind, in any form. But that is overly simplistic; there are many differences between the two. Here are some of the main ones:

Opportunities – Commercial investments tend to hand investors a much wider range of potential investments. For example, there are more commercial property investment funds than residential ones.

Rental returns – Commercial property is usually regarded as a higher risk investment compared to residential property, and reflecting on this, the rental return is usually higher. In addition, the tenant pays for most of the property expenses giving the landlord a higher “net rent.” A prime commercial investment where there is a blue chip tenant locked in for a period in excess of three to five years and offering a net return of 6% to 7% is more feasible when compared to a residential investment in an established community that will not offer more than 4% to 5% rental returns with rental contracts mostly lasting only for a year.

Deal value – Commercial deal values are considerably larger compared to residential properties. This is one reason why investors with limited funds tend to stick to residential investments.

With strong capital growth, long-term tenancies and higher cash flow, the more one looks into commercial real estate, the more reasons can be found for investing in it over the usual residential properties. It certainly provides a lot of options for the eager investor willing to weigh up his opportunities.