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What "Location" Means In Commercial Real Estate

By David V. Tran

People often say there are three things that determine the desirability of a property: location, location and location. Location is also an important factor in commercial real estate investment. For retail properties, location is the key as a lousy business will be successful at a good location. When a commercial property is at a good location, it will attract tenants to the property and retain them there. It will also attract the customers of your tenants to the property. As a result, you as the owner of the property can demand the higher rent & price for the property. So how do you as an investor determine if the property you would like to invest is at a good location? Look at the property and see if the property has these features:

1- Near major roads and freeways: This provides easy access to the property so the customers of the tenants can quickly and conveniently drive to the property.

2- Near busy street with high traffic volume: Commercial listings often mention the traffic volume in term of Cars Per Day (CPD). More traffic means more exposure of your tenants businesses to more potential customers. This is free advertising to your tenants. The traffic could also be foot traffic. For example retail stores at Pier 39 in San Francisco benefit from the high volume foot traffic from the tourists.

3- Near anchored tenants: Big retail stores like Wal-Mart, Target, Costco, Home Depot instantly bring lots of customers to their stores. So if your commercial property is near an anchored tenant, it will benefit from the high volume traffic.

4- At an intersection: This will give the property more visibility as it has more frontage on both streets. If the property is located at a signalized corner then it's even better. As cars stop at the traffic light, people in the cars will notice the stores in your property. The traffic light is also an indication the intersection has more traffic volume.

5- Near local amenities: Stadium, college, big shopping mall and hospital will bring more traffic to the shopping center. Doctors always like the medical building near the local hospital as it is convenient for them to go back and forth between the hospital and their office.

6- Easy to make left turn: The property should have ease of ingress and egress; and multiple ingress and egress if possible so it's easy to come in and leave the property. If it's hard to make left turns, some shoppers will less likely come to the shopping centers. And thus it makes the property less desirable to the tenants.

7- Easy to find a parking space: People don't like to go to a place where they have trouble finding parking spaces. Retail centers must have at least 4 parking space per 1000 square foot of leasable space. It's more desirable to have 6 parking spaces per 1000 SF. Fast food restaurants tend to have 1015 parking spaces per 1000 SF. The width of parking space is

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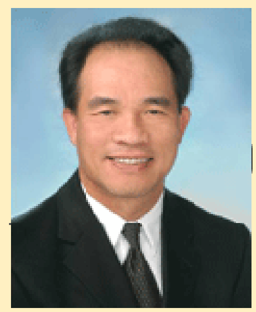

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also important. Who wants a ding on the door after a shopping trip?

8- Good signage: Signage is an important part of a commercial property. Customers often look for the name of the business rather than the street address. A large and tall monument sign in front of the property with the names of the businesses in the property is always desirable.

9- Able to attract and retain tenants: Your tenants will look for a building and neighborhood that are appealing to them and their customers to determine if they should sign or renew the leases. So quality of construction, property condition, landscaping, the appearance of the building and surrounding area are all important factors to keep the property 100% leased.

10- Strong demographics: You want to invest in an area where population has increased. Review the demographic data in the property brochure to see:

- The population growth in the last 5-15 years. In a growing area, tenants will need to retail spaces to serve the customers. This in turns increase the demand for commercial properties.
- Population size. You want to think twice about invest in a small city with less than 30,000 residents within 3 miles ring. In a small town, there is always abundant of vacant land so the tenants can easily move to a new building nearby. This is a property that is easy to buy and hard to sell later on when it's older and less attractive. In addition, it's also very difficult to obtain financing for this property.
- The median/average income in the area is within 1-5 miles radius from the property. You want average household income higher than $55,000 as this is the national average. However, $55,000 in the San Francisco area is not the same as $55,000 in Houston as the cost of living index in San Francisco is 170 and Houston 95. In general, you want to avoid a property in a low income area as it's often a high crime area and tends to have more graffiti and vandalism. The costs of removing graffiti will increase the maintenance costs of the property and burden your tenants. On the other hand, if you want to invest in a fast food restaurant, you don't want to buy a property in an affluent area, e.g. AHI of $120,000/year. High income dinners prefer to have their meals in sit-down restaurants. And so Burger Kings sand McDonalds struggle to make a profit in high income areas due to the lack of customers.