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# SMALL COMMERCIAL PROPERTIES THAT CREATE PASSIVE LIFETIME INCOME – The American Dream Without A Job

By F. Scott Tonges

It's said that in most US cities, anyone making \$75,000 a year (\$6,250 / mo) can live a pleasant life in America. According to the US Consumer Survey (Dept. of Labor) the average annual household expenditure, including income tax and savings, is \$63,784. So, the \$75,000 per year idea has merit. In order to avoid a life of Groundhog Days (working day to day, doing the same thing over and over until you drop), building an income property portfolio, or just acquiring one paid off (no mortgage) income property can achieve this income level and generate passive income; mail box money, for life. The revenue is from rents from a small commercial income property, or more than one. But here's a chart of how large a single property would be needed to generate \$75,000 a year (with no mortgage debt).

		Income Property - \$75K Annual Net Income				COMPARISON			
		Retail		Office		Apartment		Warehouse	
Rent		\$ 14.00	psf/yr	\$15.00	psf yr	\$ 725	mo	\$ 3.50	psf/yr
Size		9200	SF	11000	SF	19	units	24000	SF
Annual income		128800	yr	\$165,000		165300		84000	
Occupancy 90%		115920		148500		148770		75600	
Expense		35%		50%		50%		0	
NOI		<b>\$ 75,348</b>		<b>\$ 74,250</b>		<b>\$ 74,385</b>		<b>\$ 75,600</b>	
Value	8.25 cap	\$ 913,309		\$ 900,000		\$ 901,636		\$ 916,364	
		\$ 99.27	SF	\$ 81.82	SF	\$ 47,455	unit	\$ 38.18	psf

There are several ways to achieve this goal. That is, to own an income property (s) that generates this much income (NOI – net operating income). The properties range from 9,200 Sq Ft (say a 5 tenant strip center) to a 24,000 SF warehouse, or a 19 unit apartment building. Whether one owns a single property that matches this size or several smaller ones (like 5 four-plexes), the result is the same: \$75,000 a year in passive income. In short, each property has a value of appx \$900,000. That is, if you paid \$900,000 cash for a property generating an 8.25% annual return (an 8.25% capitalization rate) you'd net \$75,000 a year. Houses, by the way, are poor long term income properties in most cases as the income vs the value of the home is much too big a gap. A \$200,000 home generating \$1,400 a month in rent, as an example, does yield an 8.4% annual return. But by the time you pay for upkeep, taxes, insurance, the cost of vacancy, advertising, make-ready costs after one tenant leaves but before another tenant moves in, well, you get the picture. Commercial properties are much more stable and less costly for the income they can generate. And don't discount the lowly warehouse. As one of my client-friends of 25 years, George Ablah, who specialized in rehabbing distribution warehouses told me aboard his \$12 million Gulf Stream jet, "With a warehouse, you don't have to keep rebuilding the place!" He went on to explain that with an apartment, as an example, you are forever repainting, re-carpeting, replacing appliances, redoing the landscape, etc....you are "forever rebuilding the place". Something to think about. So, how do you get there?

Comedian Steve Martin use to have a routine in which he proclaimed, "I'll show YOU, how to live like a millionaire! First.....get a million dollars....next....". Thanks, Steve. So, how do you assemble the money so that you own the property that generates this income, a free-and-clear of mortgage property? There are several methods, besides Steve's idea. The shortest route to put together the \$900,000 is to purchase undervalued properties and increase their income, and thereby their value. Upon fix up or better management or both, sell or refinance them for a profit. At the extreme, if you buy a fix up income property with all in costs (purchase, upgrade, fees, incentives) for 75% of the target value, one can refinance after you reach your target value and get back all your invested capital and, perhaps, some of your created equity. Then repeat the process.

**CONTINUED NEXT PAGE**

CONTINUED FROM PAGE 1— Let me give you an example. In my book, **Big Dollars from Small Buildings (1)**, I talk about a vacant 4-plex I came across. Most investors or lenders have no idea how much this property would be worth when fixed up and fully leased, but you'll learn how to do it in the book. The answer was \$250,000. I contracted to buy it for \$110,000. With \$20,000 in work and leased up, it would be a \$250,000 building. In this case, I flipped the contract for \$38,000 with zero investment, so my buyer paid me \$148,000. With his \$20,000 fix up and lease up, his \$168,000 investment was worth \$250,000 for a created equity of \$82,000. He could refinance this property and pull out all his invested capital plus about \$20,000 in profit and repeat the process while keeping the cash flow from the 4-plex. Like the \$38,000 I earned passing on a good deal, one could become an investor starting without cash or credit. By doing what my end buyer did, one could parlay one deal into several. Had my end buyer found the place first, he'd have created a profit of \$120,000 from a single four-plex.

There are multiple ways to do these things: earn money with zero investment which I call generating **seed capital**, then using that seed capital, or money you already have, to buy a property with which you can create value. You don't need to go to the extreme of dealing with a vacant place, but last time I looked in San Antonio, as an example, there were over 300 vacant buildings. There's an entire spectrum of ways to make money with income properties. Just don't pay "retail", unless you plan to keep it for a long time. My suggestion is to learn to accelerate the process and become a Cash Cow Investor. By the way, the first apartment building I brokered in 1976, a 155 unit property in Houston, is still producing profits, 44 years later. During that time, I estimate it has grossed over \$50 million. In an upcoming issue, I'll show you how to get this process started, then quickly parlay seed capital, or current equities or both, into a \$75K per year or more in passive income.

(1) Available on Amazon.com **Big Dollars from Small Buildings.**

**Selling Properties Quickly by Repackaging the Offer:** One of the things I see most often on flyers and other postings of offered commercial properties is a headline like this: **Office Building For Sale or Apartment For Sale.** Really? Not very novel. Your headline and sub-headline should tell the reader WHY they should consider it. Something like **"Own This Office Building for Less Than Rent"** will garner a lot more attention than it just being like all the other offerings. Here's how you pull that off, by the way. Say you wish to sell your 15,000 SF office building, or it could be a strip center, etc. With an SBA 504 loan, as an example, a buyer-user can acquire the building plus much of the fix up costs for only 10% down. But if the buyer only needs half the building (51% is needed for this SBA loan) he can rent out the remainder to significantly reduce his cost, even cover his mortgage payment if you can structure the rents vs value properly. **Another Example**—A sports bar in which the owner, who has 8 locations, defaulted on the loan on one of his properties (a long story involving a state mandated \$15/hr wage requirement). It was offered merely as a building "for sale" by the broker. I contracted to buy it and let the owner offer to lease back the facility for 19 years. In doing so he could lower his costs as the proposed rent was less than his current mortgage payment. I was then able to offer a 8.8% triple net return to and end buyer, who happened to be a Harvard educated lawyer-investor. By repositioning the offer as noted, it let him continue his business vs the agents moving to sell the building out from under him with his "Building For Sale" approach. **In short, repackaging the offering in a more attractive way will make a big difference in how quickly you can get results for any "for sale" offering!**



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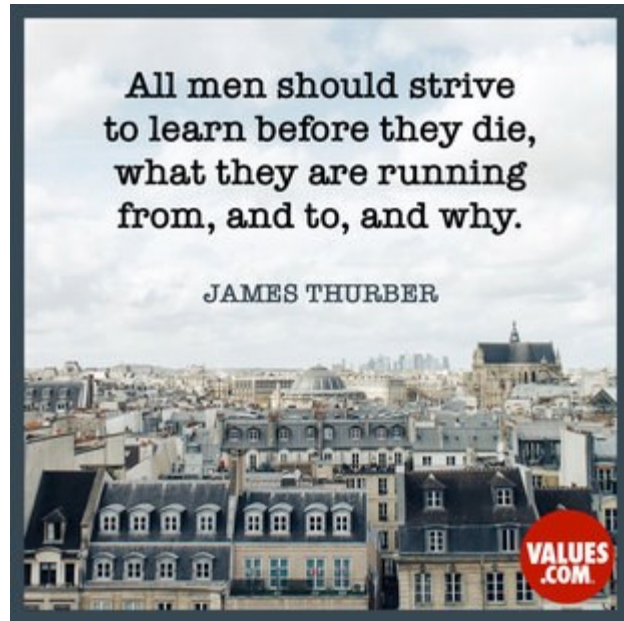
Named among the top 25 commercial real estate brokers in the U.S. by the nations largest commercial service firm (CBRE), Scott spent an average of 6 years in each income property class. His background includes brokerage nationwide of all income property types, building a 100 employee property management company overseeing 1,860 apartment units and 500,000 SF of commercial space in 5 cities, development, and exclusively representing clients like Merrill Lynch, Deutsche Bank US Investments, Connecticut Mutual Urban Investments, Canadian Imperial Bank & scores of private investors. Today, Scott is a private investor, author of 4 books on real estate investment, taught a state approved continuing education course to brokers in Colorado on income property investing for 5 years, is an active Colorado broker, and is a consultant to income property investors and commercial agents. His books are at **Amazon.com.**

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  - Rock gardens
  - Firecrackers
  - Stoneware jars
  - Natural wood
  - Rubber rafts
  - Mother's day

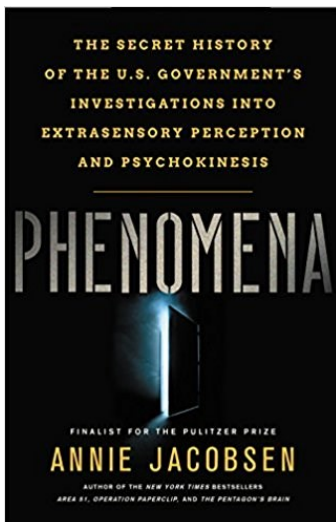


Early experiments in transportation

**BOOK REPORT**

**Phenomena**

By Annie Jacobs



From the excellent writer of best seller Area 51, Annie Jacobs once again digs through a mega-trove of recently declassified government papers to explore the official, scientific research into ESP, psychokinesis, remote viewing (you won't believe this until you read what the scientists saw) and even spoon bending Uri Geller is tested to the limit with results that just may require one to acknowledge we don't know everything. Annie makes great reading from what must have been mind numbing stacks of reports and brings the best to light. It is a page turner and some of the people you'll meet in the experiments will change your thinking in ways you would never expect. The government was, in part, trying to find ways to teach others the unusual, to say the least, talents of a handful of people with amazing abilities. Some of the hard core, scientist-skeptics may, indeed, have found "religion" after witnessing what you can now read about in this book. Keep the lights on.