Flipping Commercial Properties & Finding Success as a First-Timer

[Ryan Deasy](https://www.biggerpockets.com/blog/contributors/ryandeasy), Bigger Pockets.com

You know the old expression, “kill two birds with one stone?” Well, my partner and I just did that and it was pretty cool. Figuratively speaking, of course.

Up until this point in my investing career, I had done zero flips and owned zero commercial properties. All of my investing had been single-family homes, duplexes, and triplexes. They continue to serve me well, but I really wanted to “make it” and own a commercial building. So, that is exactly what we just did.

How It Started

It all started with a call from a wholesaler we had looked at properties with before but never pulled the trigger. Her deals were good, but they were not good enough for us to move on. During our phone call, she began to explain that she had a four-unit building in a decent area of the town I invest in. Anything for sale in this particular town, I perk right up. She had officially caught my interest.

The four-unit building she was [wholesaling](https://www.biggerpockets.com/blog/ultimate-beginners-guide-real-estate-wholesaling?itm_source=ibl&itm_medium=auto&itm_campaign=opt) was being marketed for $220,000, or $55,000 a unit. A unit for $55,000 in this town is more than likely going to need repairs and may have some challenging tenants.

However, as she began to explain further, she described something quite different. She was saying it needed few repairs and the rents were as follows:

Unit 1: $900
Unit 2: $900
Unit 3: $830
Unit 4: $1,000

They were slightly under market but not bad. I got the feeling that this could be a really good deal.

Since I also live in this town, I took a quick drive over. The place was beautiful, at least from the outside. The siding was in great shape and the roof appeared to be the same. Now, I did not know what the inside looked like at this point, but I was willing to take a gamble on it.

I called my partner, Michael, and explained the situation. He also invests in this same town and has great financial connections. He said he felt like it would be no issue to find funding if it was as great as I was saying that it was.

I called the wholesaler back and said, “We will take it. Send the contract over.” We signed the contract conditional on seeing the inside.

Moving the Process Along

The next day we were there with the wholesaler and the owner. They took us to the first unit and began to explain the ins and outs of the property. At this point, you start to get nervous about what you’ll see when you walk in. Could be a disaster area filled with the contents of an episode of *Hoarders*. Nevertheless, we were ready to take a look.

She opened the first unit’s door, and we entered. We were met with a very tidy, well-kept unit with unexpected high ceilings. The tenants occupying the space were two young women who clearly valued a clean apartment. We were surprised and relieved.

While this was probably the nicest unit, the three others were in great shape, with only one that was in need of a good cleaning. The basement was also a delight to see. The boilers were all in good shape and the hot water heaters were decent too. Everything was looking great.

We told the wholesaler we wanted to move forward, but at $215,000 cash purchase instead of $220,000. They agreed and we officially had ourselves a heck of a deal!

Well, as long as we could find the money to pay for it. I surely did not have $215,000 laying around and I do not think Michael did either.

Here’s another (butchered) saying, “When you have a good deal, the money will come.” Either way, it did. We were able to raise the entire amount of the purchase, minus 5% from us. The lender wanted us to have some “skin in the game” and 5% is more than reasonable.

Taking Over the Property

In less than 30 days, we closed on the property and took over. We did basically no work on the property and just started collecting the rent. Thankfully, everyone paid on time and there were relatively few headaches to report. But now what do we do?

We had borrowed the money at 12% and 3 points on a one-year balloon with interest-only payments. We would be hemorrhaging [loan](https://www.biggerpockets.com/home-loans) interest in short order, so we needed to either refinance it and keep it or maybe just sell it.

Our original intent was to keep it. Our goal was, and is, to build up our portfolio of cash-flowing [rentals](https://www.biggerpockets.com/blog/how-to-rent-your-house?itm_source=ibl&itm_medium=auto&itm_campaign=opt) and this would fit very well into that category. We figured it was worth $300,000. At a 75% loan to value, that would put us with a loan for $225,000.

This means that, taking into consideration [closing costs](https://www.biggerpockets.com/rei/glossary/closing-costs?itm_source=ibl&itm_medium=auto&itm_campaign=glossary) and other expenses, we would have little if any of our own money into the deal but, more importantly, our investor could get paid back with no problem. Furthermore, with rates in the 4-5% range with bank financing, we would also be cash-flowing well too.

Making The Sale

Michael is also an [agent](https://www.biggerpockets.com/companies/find-real-estate-agent-directory) and has a few clients with the means to purchase a lot of property, and they just so happen to really like this particular town. One particular client really liked our new purchase and would consider taking it off our hands for the right price.

The right price in our mind was $300,000. If we sold for $300,000 after buying for $215,000 just about a month prior with 5% down out of pocket, that would be a killer return any way you slice it. We liked the thought of it and began talks to set up a showing to allow him to see the property and let us know if he wanted to move forward.

He saw it and he liked it. Not at $300,000, but he liked it. Wanting to be fair to the investor and recognizing our good fortune, we settled on $285,000. Still an incredible payday for little time and work invested.

During the [inspection](https://www.biggerpockets.com/rei/glossary/home-inspection?itm_source=ibl&itm_medium=auto&itm_campaign=glossary), some doubts regarding the roof came up. Two out of three contractors said it had five to 10 years left, another said it needed to be replaced right away. This gave the investor some hesitation but he would take a credit to offset his potential liability. The roof, along with a few other small items, amounted to about $5,000 in credits.

At this point, here is what we were looking at with the new investor:

Purchase price: $285,000
Repair credits: $5,000
Net purchase price: $280,000
Amount owed to investor: $204,250

If we sell at $280,000, we are looking at receiving $75,750. After closing, we are looking at netting approximately $70,000, taking into consideration we prepaid taxes, insurance, etc.

At this point, we were pumped, since $35,000 each was a great payday for what we had invested. After some quick decision-making, we agreed to sell and the property officially went under contract.

However, our goal is to acquire properties, not flip them or wholesale them or anything like that. We needed another deal.

Finding The Next Deal

We had begun sending mailers via DealMachine a few months back. Our response from those postcards has been nothing short of amazing. It has truly transformed our real estate investing career.

Lo and behold, we received a call from one of the mailers. The gentleman said, “The only reason I am calling you is that this card says you are a local guy. Is that true?”

I explained to him that, yes, that is true and that I live right in town in one of my rental properties. He liked this and explained to me that he had a five-unit commercial building he would like to sell. He described it as four residential apartments on top of a liquor store. I told him that sounded great and that I wanted to see it right away.

Assessing The Property

Within a day or two, Michael and I were on the way to view the property for the first time. We pulled up to the property and it was massive. It’s a beautiful brick building and over 7,300 square feet. For our neck of the woods, that is a big five-unit. That is bigger than most six-units I have come across. Looking good so far.

During the tour, he described the current state of the property as partially rented. We were semi-fearful that it was partially rented due to the condition of some of the units, but we would soon find it to be quite the opposite.

The liquor store was being rented for $1,200 per month (with language in the contract for it to increase to $1,300 after a few years). The second-floor units were rented at $700 each. This is severely under market. The third-floor units were unrented and the four-car garage was not rented either.

We made our way up and into the third-floor units. As luck would have it again, these units were not only gigantic, but also [turnkey](https://www.biggerpockets.com/blog/mastering-turkey-real-estate-build-passive-portfolio?itm_source=ibl&itm_medium=auto&itm_campaign=opt)-ready. To put it simply, the seller just didn't want to deal with unruly people and would rather keep them vacant than deal with anyone that might give him a hard time.

He had bought it in 1997 and owned it free and clear. Given this, his monthly expenses were not high. He had no debt service to tend to and all utilities, aside from the owner’s meter, were tenant-paid. Still, not a great reason to not rent the units, but to each their own.

From there we made our way down to the unrented garage. The garage units were also immaculate and just filled with a few of his personal items. This gentleman was a hard-working older guy. He had meticulously kept the property and it literally appeared to need nothing. You could tell he took great pride in this building and spared no expenses.

Negotiating The Numbers

Michael and I negotiated the price to $310,000. Without touching anything, the property was worth $375,000, we estimated. What made it even better, though, were the financing terms. Take a look.

Purchase price: $310,000
Down payment: 10%
Financing: Seller-financed
Rate: 5%
Term: Three years with a balloon
[Amortization](https://www.biggerpockets.com/rei/glossary/amortization?itm_source=ibl&itm_medium=auto&itm_campaign=glossary): 30 years
Prepayment penalty: None

In my opinion, seller financing with decent terms is a home run. This was that. A home run.

Making The Swap

Now, how to pay for it. All the while, our four-unit was going through the paces of getting ramped up to officially sell. The buyer was extremely well-qualified and financing should not be an issue, and it wasn’t. Knowing this, we set the closing date for our five-unit about a week out from the sale of our four-unit.

It went as smoothly as closings can go. We sold the four-unit to Michael’s investor client and sat tight for a week until our attorney was ready to have us in to close the five-unit property.

After bringing the $31,000 down payment and closing costs, we were officially the owners of a new, and our first, commercial building. What’s more, we effectively came in with zero money out of pocket. The sale of the four-unit more than funded the purchase of the five-unit and we were even able to pocket some of the proceeds. So exciting!

What’s Next?

Now that we could breathe and really set our sights on our new long-term hold, we dove into managing the property right away. With any property, even ones that appear “turnkey,” there are always a few items that need to be fixed or updated or made to your personal preference.

To date we have spent a few thousand dollars on items like keypads (there is nothing worse than using actual keys), updating our heating systems, and small miscellaneous items like replacing an ancient light fixture.

As of the writing of this post, we have one of those two vacant units rented for $1,250. The other one we are still actively showing but have not landed on someone we would like to rent to yet. As you know, it is important to really make sure you are renting to someone who is going to pay and take care of the place.

Our next big hurdle will be raising the rents from $700 each on the second floor up to market rate. This is important to do before the refinance, as commercial building calculations are based on the income they generate. With the seller-financed deal, we will need to refinance in under three years, as after our term is up, the remaining balance is due in a balloon payment.

What a feeling to have effectively flipped a property and bought a commercial building all in the same process.

We recognize that these sorts of deals do not come around every day. However, I cannot stress enough how transformative our marketing and relationship with wholesalers have been. While these deals may not be commonplace, getting yourself in front of sellers via marketing or networking will yield a much greater chance of finding great properties.