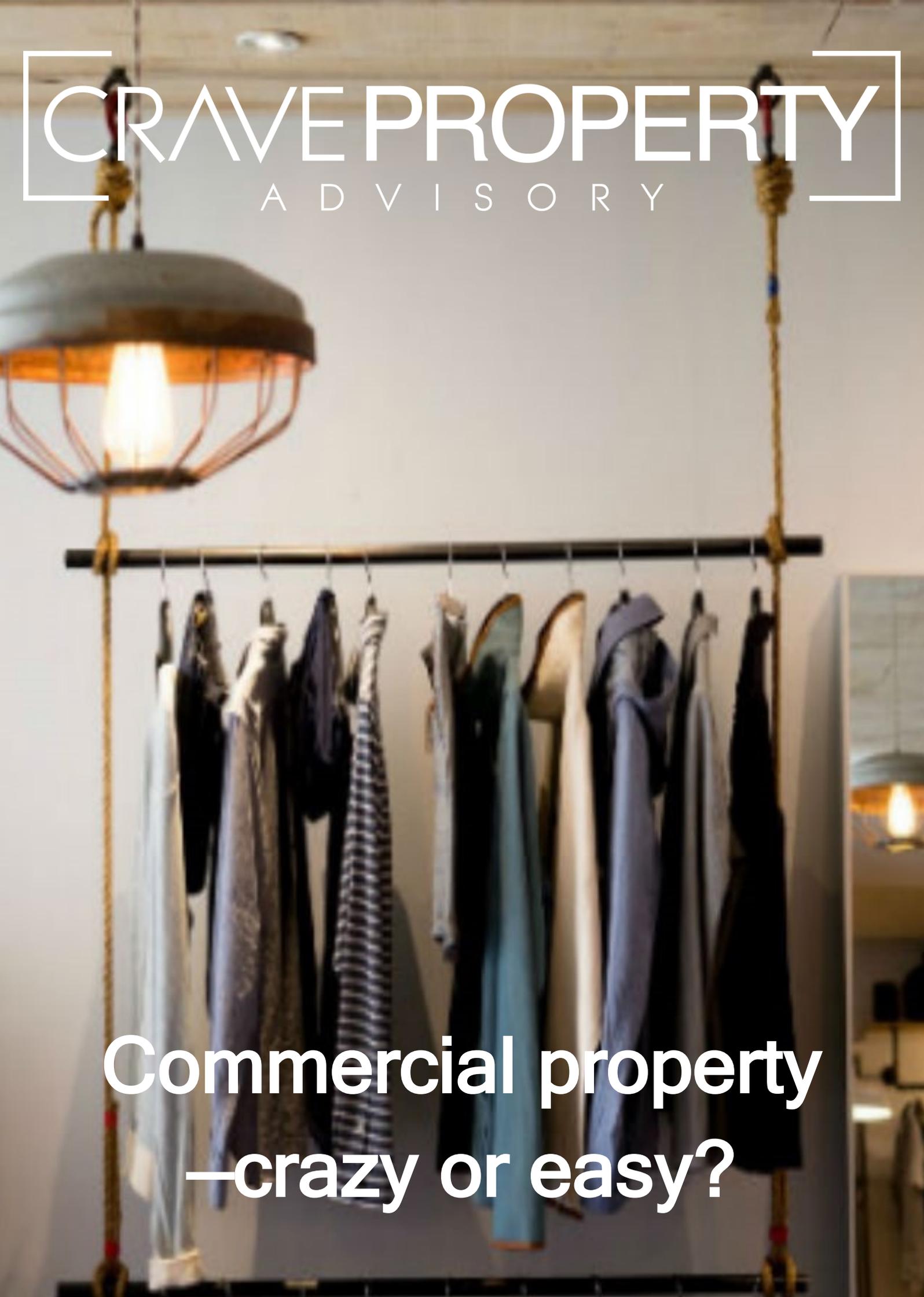


# CRAVE PROPERTY

A D V I S O R Y

A photograph of a clothing store interior. A black metal hanging rack is suspended from the ceiling by two thick, braided ropes. The rack is filled with various garments, including shirts, blouses, and dresses in shades of blue, white, and black. A large, dome-shaped pendant lamp with a metal cage and a warm-toned bulb hangs from the ceiling on the left side, casting a soft glow. The background shows a white wall and a glimpse of another part of the store on the right.

**Commercial property  
—crazy or easy?**

# Commercial property

## - crazy or easy?

Are you looking for good capital returns and diversity in your investment portfolio? Then it might be time to consider commercial property. The changes occurring in and around our cities are unlocking deals that would make a residential investor's heart sing.

Those of you who like variety will also enjoy the switch to commercial property investments as the type and financial entry points are extensive. Everything from a \$50,000 car park, through to \$21M+ for a major Bunnings site or office block is on the table.

Couple this with a longer term view and a versatile acquisition approach, and commercial property can provide a good source of income for those of you with a residential property addiction.

### Differences

1. **Entry points** – the variety of acquisition types are typically split into three main categories of retail, office and industrial, and include freehold and strata titled opportunities. While the deposit required is higher than residential (at 30%+), the entry point is lower due to a range of more affordable options – eg – \$50,000 for a car park.
2. **GST** – GST applies to all aspects of commercial property, including the purchase price therefore this needs to be added to your cost / benefit calculations. Of course, this needs to be factored into the other side of the ledger, as GST can be claimed as a credit against earnings / rental returns on the property. Check with your accountant for advice on personal scenarios.
3. **Yields** – generally, investors will enjoy a greater return with a well chosen commercial property. You should expect an average return of 8%+ which stacks up attractively against the 3% – 5% of current residential returns. This is due to the higher level of risk considered for commercial.
4. **Risk** – The higher risk largely relates to potentially higher vacancy rates, and the requirement for specialist tenants (referred to as lessees). For example, a suburban retail outlet will have a smaller number of potential lessees than a two bedroom suburban unit. It may take six + months to find a suitable lessee, however it may only take a few weeks to find a new tenant.

5. **Capital gain** – along with the smaller pool of lessees, there is also a smaller number of potential purchasers. This can result in commercial property delivering a slower increase in capital gain, and this needs to be factored into your decision making.

Commercial investors are often attracted more to the higher yield, with capital gain a bonus (but of course we aim for both).

6. **Lease duration** – commercial property leases are generally much longer than residential. These can start from three to five years, with options to renew for a similar period. Attractive when compared with residential leases of six to twelve months . . .as long as you have a good lessee.

7. **Lessee quality** – given the duration of leases, lessee quality is critical and an area of specialist skill when dealing with commercial property. But get it right and appoint a quality long term lessee such as Bunnings, or a good food chain and you could have a pivotal addition to your portfolio.

8. **Running costs** – an upside to commercial property is that the lessee is responsible for covering running costs such as insurance, rates, and general repairs. This is one contributing factor to the higher yield, in that you retain a higher level of your rent.

9. **Refits and maintenance** – while costs are higher for commercial property – eg – residential air conditioning could cost \$1,500 whereas retail air conditioning could cost \$10,000 + – these costs are typically covered by the lessee. Make sure this is in the contract though.

10. **Lease documentation** – just as you would for any purchase, it is important that all conditions are included in your lease / contract documentation. Commercial leases can be very detailed and it will be important to have a commercial leasing specialist compile and review any agreements.

### **Key points to consider**

Sounding good? Before you dive right in, remember to develop a clear plan with some key decision making boundaries including a realistic budget and – just like other investments – consider your interests as well as the following.

- **Property type** – where possible, choose a property with multiple uses and potential tenants / lessees.
- **Infrastructure** – consider current infrastructure and always investigate future development. This will reveal opportunities as well as areas to avoid – for example, a road upgrade may make the investment easier to access and increase value.

- **Location features** – these will depend on the type of property you are purchasing. General features include visibility, accessibility, public transport, position within the surrounding suburb, number of similar properties in the area as well as specifics relating to property type such as display areas, parking, window size.
- **Surrounding businesses** – a major issue as surrounding business could offer support to lessees, or make success harder to achieve.
- **Tenant (lessee) quality** – a critical feature of commercial property success. A good agent can provide invaluable support however you should play a key role in understanding potential lessees' backgrounds. Past performance is a good indicator of success but ensure you understand the financial strength of the tenants – do they have the ongoing ability to make the business a success? Depending on property size look for a strong corporate or government tenant with a long term lease. Multiple lessees also offer a little extra insurance.
- **Building quality** – items to consider include the usual of construction age (when was it built?), and will the building require significant capital expenditure at some point? Also investigate whether the internal design is flexible to allow for a changed layout if required, or there are ways to unlock other opportunities.
- **Yield** – what is the current yield, is it below or above market, are rental reviews tied to CPI or incremental, is there any opportunity to offer your lessee incentives which will increase your yield?
- **Existing lease**—The value of commercial properties closely correlates with the lease on the property. If a commercial property becomes vacant, or the lease is about to expire, the value of the property would generally be expected to fall. In contrast, any price falls associated with residential properties are generally less dramatic and usually happen progressively over a longer period of time. Also, as mentioned previously, ensure you have an experienced lawyer draft up a lease that make responsibilities very clear.

## A final word

Commercial property offers significant returns as long as investors conduct quality due diligence. One key point to consider is that commercial property will often be closely impacted by the economic climate. When the economy is healthy, business expands and demand for premises increases, but the opposite is also true. For this reason, it is important to track the status of any industry leasing your premises or hold commercial properties with multiple uses.

# About Crave

Crave Property Advisory will help you buy property you crave. Drawing upon our skills and systems, we will help you confidently purchase property and build a successful portfolio Australia-wide.

As buyers agents and property strategists, our services extend to home, investment and commercial purchases, and include advice on adding value to maximise your purchase.

## The Crave difference

The Crave difference flows from tailoring and actioning a plan that meets your needs. We source property that fits any key strategy including capital growth, cash flow, high yield, adding value or a combination of all four.

This means you're not limited to following just one approach, and can adjust your strategy as your skill, confidence and equity builds.

Depending on your requirements, we can recommend a range of professionals to build your personal property team. This includes financiers, accountants, legal professional through to town planners, painters and plumbers.

## Lead the market

Using the range of Crave Property Advisory services, you will have the ability to lead the market, rather than have the market lead you.