

*You Don't Have To Be Rich To Start Investing In Commercial  
Real Estate And Earning 7-10% Positive Cashflow Yields*

# COMMERCIAL PROPERTY SECRETS

DAY 2 BOOTCAMP WORKBOOK | AUGUST 2022



# COMMERCIAL PROPERTY SECRETS

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## DAY 2: SUNDAY 14TH AUGUST 2022 (AEST Times)

9:00am – 9:30am	<b>Welcome and Intros</b>
9:30am – 11:15am	<b>Negotiation</b>
11:15am – 11:30am	Break
11:30am – 12:30	<b>Professionals Masterclass: Finance Made Simple</b>
12:30pm – 1:00pm	<b>Professionals Masterclass: Commercial To Retire On</b>
1:00pm – 2:00pm	Lunch
2:00pm – 3:00pm	<b>Professionals Masterclass: Protecting Your Commercial Asset</b>
3:00pm – 4:00pm	<b>Creating Opportunities</b>
4:00pm – 4:15pm	Break
4:15pm – 5:00pm	<b>Your Next Deal</b>

# COMMERCIAL PROPERTY SECRETS

## 5. Negotiation



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## Negotiation

- Know how to create a Win-Win
- Ask open question's
- How do you negotiate?
- Know how to listen
- Build Rapport



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## Negotiation

- Know how to create a Win Win
- **Think of it as a discussion towards a WIN WIN not a Victory?**
  - A conversation with commitment
  - Suitable resolution verses unnecessary compromises



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## Negotiation - Analyst

- **How they see themselves:**
  - Realistic, Prepared, Smart
- **How they may be seen by Others:**
  - Cold, Standoffish
- **View of Business Relationships:**
  - As long as they aren't causing conflict, they are actively preserving the relationship




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## Negotiation - Accommodators

- **How they see themselves: Personable**
  - Conversational, Relationship Focused
- **How they may be seen by Others:**
  - Friendly, Too Talkative
- **View of Business Relationships:**
  - The relationship is most important




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## Negotiation - Assertive

- **How They See Themselves:**
  - Honest, Logical, Direct
- **How they may be seen by Others:**
  - Emotional, Aggressive, Harsh
- **View of Business Relationships:**
  - Needs mutual respect: Nothing more or less




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## In Conclusion

- How does this helps us?
- If we identify the other side we can make them feel more comfortable, understood and in control.
- Ultimately this will earn their trust
- You will learn what you need to know to influence their thought process
- Being adaptable under pressure takes practice

Conclusion




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## Negotiation - Know how to listen

### DO

- Be present, feel the energy, does it feel right
- Listen with your eyes as well as your heart
- Have a sincere desire to understand their point of view
- Seek first to understand and then to be understood

### DON'T

- Listen with intent to reply
- Project your own autobiography by evaluating, judging, probing, advising or interpreting
- Don't be slick




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## Negotiations – how does this help

- If we identify the other side, we can make them feel more comfortable, understood and in control
- Ultimately this will earn you their trust
- You will learn what you need to know to influence their thought process
- Being adaptable under pressure, demands practice.




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## 6. Professionals Masterclass: Finance Made Simple











## Lending Policy – Private Lenders

- More competition in this space then ever before
- Must be in a Company or Company/Trust
- Lower LVR, generally 65%, best case 70%
- Terms can range from 1 to 36 months
- Need clear exit strategy
- Interest for term generally payable upfront
- High establishment fees of 2 – 3%
- Can access and settle very quickly




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## Lending Policy – Development

- Mostly about mitigating risk to the lender
  - Pre-Sales or clear Exit Strategy
  - Lower LVR's (Lower of 65% GRV or 70% TDC)
  - Pre-Leasing any property you are not holding assists
- As a rule of thumb – 35-40% cash contribution of total development costs
- Lenders look for experience
- Facility fees, rates and costs can vastly differ




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## Professional Approach

- In Commercial, we must be **organised** and **professional**
- You will need
  - ✓ All your financial information up to date
  - ✓ Make sure it is clean – no overdrawing / late payments etc
- Use a Finance Broker that understands Commercial
  - ✓ We deal with all the Banks
  - ✓ We only tell the Bank what they need to know




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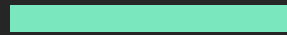
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## 7. Commercial To Retire On



## Why invest in property through a SMSF?

- Increased transparency and control
- Concessional tax rates range from 0% to 15%
- Concessional superannuation contributions
- Strong asset protection
- Investment income and capital gain may be tax-free in pension phase
- Contribution can be consolidated balances of up to 6 members
- An SMSF can purchase your business premises



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## SMSF Investment Strategy

- An SMSF must have a written investment strategy and comply with both the funds investment strategy as well as the SMSF's trust deed
- In formulating an investment strategy (plan), it's important that you take into account the members retirement plans and keep their objectives front of mind.
- A compliant investment strategy must consider:
  - Risks involved in making, holding and realising assets
  - Diversification
  - Liquidity
  - The funds ability to pay benefits (lump sums or pensions)
  - Whether to hold personal insurance on behalf of each of the members



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## Business Real Property

Commercial Property is generally considered "Business Real Property" within the SIS Act.

Definition of "Business Real Property" for superannuation purposes includes any freehold or leasehold interest in real property where the property is used wholly and exclusively in one or more businesses.

Any property considered "Business Real Property" can be acquired by an SMSF whether it's from a third-party or a related party (unlike residential property which can not be acquired from a related party).



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## Borrowing Rules in SMSF (Cont)

- The asset under an LRBA must remain the original asset and any improvements/additions must not change the asset to the degree that it would be considered a replacement asset
- Borrowings can not be used to improve the asset
- When the LRBA is fully repaid, the SMSF has the legal right for the asset to be transferred from the Holding Trust to the SMSF.
- LRBA can be bank funded or via a related party arrangement




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## Borrowing Rules in SMSF (Cont)

### Bank Funded LRBA

- Commercial LVR's can be up to 75%, but most lenders are 65%
- Interest rates are generally higher than what can be achieved outside of SMSF
- Can have additional bank application and legal fees – Guide \$2-3K plus valuation cost to be paid by the SMSF

### Related Party or Member Funded LRBA

- Superannuation law allows your SMSF to borrow from a related party (this includes YOU or a related entity of yours such as your Bucket Company)
- Loan must be on “commercial terms”
- ATO has safe harbour guidelines that you can follow to ensure the terms will be considered arms-length.




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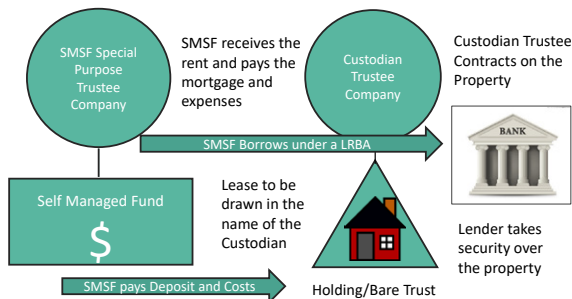
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## The Structure Required when using a LRBA




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## 8. Professionals Masterclass: Legal Aspects of Commercial Property



## 8. Protecting your Commercial Asset

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### What is Commercial Property?

- Is there any legal distinction?
- Any property other than residential property
- Notable exceptions – retirement villages, home parks



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### Commercial vs Residential Property

- Residential – Investment in basic need for shelter
- Commercial – Investment in business activity



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## What does a lawyer do in the process?

### 2 main tasks

- **Technical support**-documentation and compliance.
- **Risk management**- due diligence process, searching, lease reviews, settlement processes.



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## Conditional vs Unconditional contracts

- Unconditional contract = Locked in position.
- Conditional Contract = Ability to terminate.



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## Managing the Deposit

- Break it up - Initial and balance
- Negotiable - Not 10%
- Time to pay – not on the day



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## The Contract of Purchase

- Buying entity
- Finance
- Building report
- Due Diligence
- GST- going concern?
- Body corporate/ Owners corporation issues
- Proper disclosures provided
- Correct conditions



## Watch the Fine Print

Deposit Holder's Trust Account:

Bank:  BSB:  Account No:

Purchase Price: \$  Unless otherwise specified in this contract, the Purchase Price includes any GST payable on the basis of the Property to the Buyer.

Deposit: \$  Initial deposit payable on the day the Buyer signs this contract unless another time is specified below.

Default Interest Rate: %  Balance Default of any payable on:    
 \* If the Buyer is entitled to the Contract Price applying at the Contract Date published by the Queensland Law Society Inc with appropriate interest.

FINANCE

Finance Amount: \$  Unless all of "Finance Amount", "Finance" and "Finance Date" are completed, this contract is not subject to finance and clause 3 does not apply.

Finance:

Finance Date:

BUILDING AND/OR PEST INSPECTION DATE

Inspection Date:  \* If "Inspection Date" is not completed the contract shall subject to an inspection report and clause 4, does not apply.

MATTERS AFFECTING PROPERTY

Title Encumbrances:

Is the Property sold subject to any Encumbrances?  Yes  No, subject below:

\* **WARNING 30.04.2018** You are required to ensure all the necessary pre-contractual enquiries are made and satisfactory arrangements for knowledge and disclosure are made in relation to the property. Failure to do this may result in the Buyer being held liable for the purchase price. It is the Buyer's responsibility to ensure that all necessary enquiries are made and satisfactory arrangements are made prior to the purchase of the property.



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Knowledge Source | I LOVE REAL ESTATE | QUANTUM SHIFT

# Due Diligence

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## Due Diligence

- The Lease
- Financials
- The building ( physical inspection, maintenance issues etc)
- Compliance (town planning approvals, use, etc)




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## The Lease

- Commercial Leases are very different to a residential lease
- Retail v Other Commercial lease
  - Retail shop legislation varies across the country
  - Rebalancing the landlord / tenant relationship especially shopping centres
  - Process to establish leases – tenants can terminate if not followed
  - Process to renew leases and resent rent
- Gross Rent v Net Rent Leases
- Turnover Rent




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## The Lease

- Lease covenants (clauses)
  - What security is on the lease – bond, personal guarantees
  - Rent reviews
  - What outgoings included
  - Maintenance responsibilities
  - Use – proper licensing and approvals obtained
  - Insurance
  - Landlord's property v tenant's property
  - Rights of first refusal




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## The Lease



- Air-conditioning requirements – temperature control
- Obligations to redecorate
- Environmental impact industries – remediation works
- Car parking – can increase income
- Demolition rights
- Relocation rights



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## Financials



- Check the Property income – rent v expenses
- Check the rent roll to confirm income and expenses
- Check the bond and personal guarantees – make sure they reflect the lease



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## Financials



- **Expenses of the Property**
  - Rates
  - Water
  - Land tax
  - Building insurance
  - Common area lighting
  - Common toilets maintenance
  - Air-conditioning for common areas
  - Garden maintenance
  - Security
  - Property management
  - Pest control



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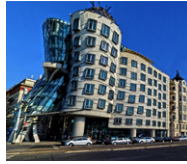
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## The Building

- Building and pest report
- Body corporate records searches
- Maintenance records – air con, fire safety, lifts etc
- Speak to the tenants to find out building issues
- Watertight



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## Compliance

- Compliant uses of tenants?
- Classification of Building
- Mezzanine level approved – other structures approv
- Environmental impact industries? Petrol stations
- Signage licences?
- Title encumbrances – easements other covenants?



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## Settlement and Post Settlement

- Settlement calculations to adjust rents
- Collect bonds/transfer bonds
- Notice to tenants of change of ownership
- Budget yearly outgoings
- Engage property manager



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## 9. Creating Opportunities

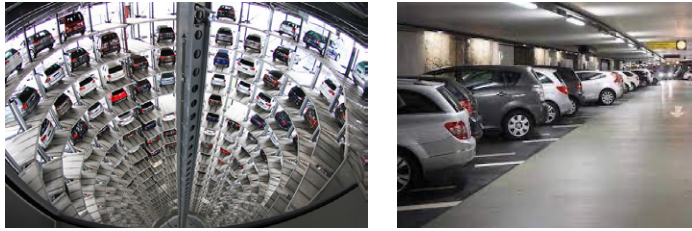








### Other Strata Examples



Car Parks - How much do you need and what are they worth?



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### Breakout Rooms - 10 minutes

- Discuss your next deal:
- What zone do you want to work in?
- What use do you want to offer?
  
- What incentives will you use and why?



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## 10. Your Next Deal



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**Scope – lets do It together**

- How to create your buyers brief
- Complete the checklists per section
- Complete your buyers brief –
  - Pull all the check list info to one last page
  - know what this allows you to do
  - Know how to deliver your buyers brief

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**Questions?**

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