

PLATINUM

COMMERCIAL PROPERTY

Monthly Mastermind
Event

Tamara Read
Nicolle Beer
Greg Miller

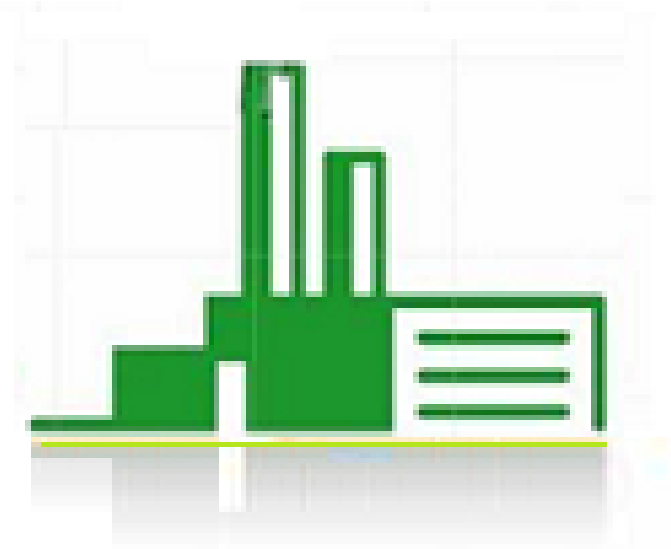
State Coaches



I LOVE
REAL ESTATE

Commercial Property – What is it?

- Property primarily used for business purposes
- **General Commercial** -
 - ❖ Property only - Retail, Office, Industrial
- **Specialist Commercial (Business Real Property)**
 - ❖ Business component + property component e.g. storage sheds, carwash, caravan park, hostel, motel, backpackers, aged care, child care etc.
- **Cash Cow & Manufactured Growth** Potential
- Increase in Rent **Increases Value!!!!**



Typical Commercial vs. Residential?

Item	Commercial	Residential
Yield		
Value		
Outgoing Expenses		
Capital Gains		
Lease Duration		
Vacancy Rate		
Vacancy Period		
Tenants Care of Property		
Tenant Demand		
Rental Increases		
Lending Serviceability		
Leverage (LVR)		
Availability To Purchase		
Experience / Expertise		

Typical Commercial vs. Residential?

Item	Commercial	Residential
Yield	Higher (5-10%)	Lower (3-6%)
Value	Tenant / Rent Based	Market Based
Outgoing Expenses	Tenant Pays	Owner Pays
Capital Gains	Lower	Higher
Lease Duration	Longer (3, 5,10 yrs)	Shorter (6,12 mths)
Vacancy Rate	Higher	Lower
Vacancy Period	Longer (months)	Shorter (weeks)
Tenants Care of Property	Higher	Lower
Tenant Demand	Lower	Higher
Rental Increases	Built into Lease	Demand Driven
Lending Serviceability	Lease Strength	Borrower Strength
Leverage (LVR)	Lower (70%)	Higher (90%)
Availability To Purchase	Lower	Higher
Experience / Expertise	Higher	Lower

Medium Risk Strategy -

- Existing tenanted commercial property with long term lease e.g. leased industrial shed

High Risk Strategy -

- Vacant commercial property
- Existing business real property e.g. caravan park, storage sheds, motel, backpacker
- Development / construction of commercial property



Commercial – Why **Medium to High Risk Strategy**? (Module 3 Appendix) -

Commercial – Why **Medium to High Risk Strategy?** (Module 3 Appendix) -

- ❖ Medium to high **skill level** & experience required –
Due diligence & Management
- ❖ **Longer vacancy** periods potentially
- ❖ Higher **funds required** – **Lower LVR**
- ❖ More **specialist borrowing** & tenant strength important
- ❖ **Value** based on strength of lease
- ❖ **Fewer buyers** come time to sell & buyers less emotional



Ideal Commercial Property?

- ❖ **Multiple income streams** – multiple tenants, rent hardstand, rent signage etc. **Positive cash flow.**
- ❖ Natural growth potential (rental rate increases, CPI increases in lease)
- ❖ Potential to **add value / manufacture growth** – increase rents, add income streams, reno, strata, subdivide, construct, develop etc.
- ❖ All **manufactured growth strategies** used in residential equally apply to commercial & the process is exactly the same – reno, strata, develop (DA), construction etc.



Cycle of Commercial Property Market -

- ❖ **Residential market trending** - commercial more subdued
- ❖ **Interest rates increase** – return on commercial declines – money flows away from commercial to secure investments (e.g. term deposits)
- ❖ **Macro-economic factors** affect availability of borrowed money hence what banks prepared to lend on, LVR & interest rate – affect value commercial (e.g. exchange rates, interest rates, balance of trade, availability foreign capital)



Commercial Property: Process Outline -

- Phase 1 – Selecting Target Property Type & Location
- Phase 2 – Researching Demand
- Phase 3 – Researching Supply - Mapping / Profiling
- Phase 4 – Deal Finding
- Phase 5 – Property Due Diligence
- Phase 6 – A Team
- Phase 7 – Feasibility
- Phase 8 – Financing
- Phase 9 – Negotiating & Purchasing
- Phase 10 – Leasing & Managing



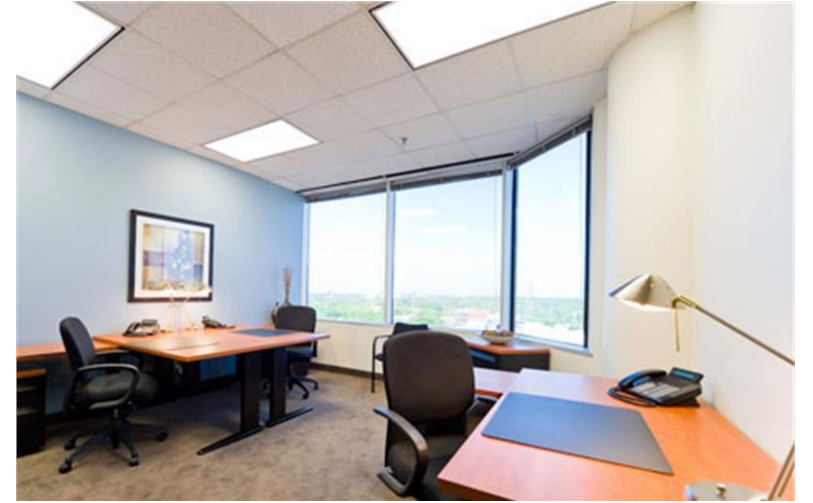
1A. Select Target Property Type –

- ❖ Before researching locations & “going shopping to buy commercial” you **must first decide on the target property type**:
 - ❖ Commercial offices,
 - ❖ Medical offices / centre’s
 - ❖ Industrial property
 - ❖ Retail buildings
 - ❖ Mixed use / Multiple income property
 - ❖ Special purpose – Business real property
- ❖ **YOU must have an opinion on what you are buying**



A) Commercial Offices:

- ❖ Individual offices to multi-storey office buildings
- ❖ Larger buildings = complex & costly to maintain & manage e.g. lifts, air-conditioning
- ❖ “Look” = significant & décor needs to be “up to date”



B) Medical Offices / Centres:

- ❖ Typically **consistent tenancies**, easy to let & refill, tenants typically **10-20 yrs**
- ❖ Generally **strong yields** 8-12%
- ❖ **Low entry price** e.g. from \$200k up



C) Industrial Buildings:

- ❖ **Lowest entry point** into commercial
- ❖ **Simplest** class of commercial & cheapest
- ❖ **Easiest to understand** & highest cash return
- ❖ Typically **simple box construction** with office partitioned off = cheap to build & maintain
- ❖ Less reliant on foot traffic = **site location less influential**
- ❖ Best grouped together so businesses feed off each other & Council's like to keep them together



D) Retail Buildings:

- ❖ **Single shops**, strip shops, small shopping centres through to **shopping malls**
- ❖ From <\$100k single shops to hundreds of millions shopping malls
- ❖ **Simpler structure** than office buildings – simple box-type build with architectural frontage



D) Retail Buildings:

- ❖ **Location is everything** - very site conscious – dependent on foot traffic
- ❖ **Bigger bulk retail centres** tending to go further out into more industrial areas - but grouped together to create a destination for shoppers



E) Mixed Use / Multiple Income Properties:

- ❖ Retail / residential; Retail / industrial; Offices & retail / & or residential
- ❖ **Reduced risk** due to mixed tenancies & businesses = 100% vacancy unlikely
- ❖ **Diversity** from exposure to different sectors



F) Special Purpose–Business Real Property:

- ❖ Particular zoning & design e.g. for particular industry or business
- ❖ Storage sheds, car washes, child care centres, sporting facilities (squash courts / tennis courts), recreation facilities (theme parks, tourist destinations e.g. cheese / ginger factories)



F) Special Purpose–Business Real Property:

- ❖ Accommodation facilities (caravan parks, hostels, backpackers, motels, hotels, retirement / aged care facilities), industrial buildings with specific design criteria etc.



- ❖ **Market cycle & trend** of industry impacts e.g. tourism
- ❖ Smaller target market for leasing / resale = **Increased risk**

The Deal – Storage Shed Facility

- Storage shed deal
- Going concern business real commercial
- Freehold
- Direct cash cow
- Hold for cash-flow not re-sale
- Further development potential



1B. Selecting Location

- A) Base on **location fundamentals** – population size / growth; employment diversity; business movement; income profile; industry / government spending; supply / demand; rental affordability / vacancy rates; council attitude, residential market – commercial lags resi e.g. the more prosperous a resi area, the more “things” to store & more likely to spend \$ on storage – hence need to understand resi!!
- B) Base on **yield & price point of “For Sale”** properties e.g. 10% yield & \$600k max – The Deal



The Deal – For Sale

FOR SALE |

| \$520,000



PROPERTY ID: 2309989

Property: building

Land Size: 2169 m²

Council Rates: -

Auction: -

Building Size: -

Water Rates: -

PROPERTY FEATURES

Fully Fenced

INSPECTION TIMES

STORAGE SHEDS (CHILDERS SELF STORAGE)

- * 45 Storage Shed complex (3 only 6m x 4m) (30 only 6m x 3m) and (12 only 3m x 3m)
- * 720m² floor area, 2 only 30m x 12m Colorbond Sheds
- * 2169m² of land (2 titles) fully security fenced with 24hour electronic access
- * Situated in visible location on the edge of town
- * Showing excellent returns

Tender Date - N/A

2) Research Demand

- A) For chosen commercial type (e.g. storage sheds) & location - research demand via?

2) Research Demand

- A) For chosen commercial type (storage sheds) & location - research demand via?
 - ❖ **Commercial agents** specialising in storage sheds for sale & lease
 - ❖ **Industry Assoc.** – Storage Shed Assoc. Australia
 - ❖ Specialist industry **consultants** e.g. self storage industry consultants
 - ❖ Self storage **franchising companies**



❖ **On-line** & newspaper ads for self storage

❖ **Local agents** that may get enquiries for storage or manage storage facilities

❖ Local **resi agents** that can characterise resi demand so can relate to commercial demand e.g. affluent areas

❖ **Run own add** – internet, website, newspaper to assess response



B) Research What The Market Wants -

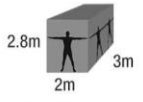
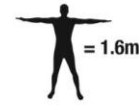
- From same sources research:

- ❖ **Location** – proximity to resi, location of affluent suburbs, proximity to competitors
- ❖ **Position** – main road exposure, visible frontage, corner block for easy side street access for trucks
- ❖ **Storage Style** – self storage vs limited access; 24hr access vs business hours; ground level vs multi storey; secure document storage; controlled temperature storage (wine, docs); hard stand storage (cars, boats, caravans, jet skis etc.)

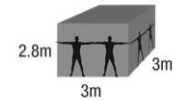


B) Research What The Market Wants -

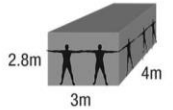
- ❖ **Storage Size** – shipping container, garage, locker, m²
- ❖ **Security** – camera surveillance, key pad access
- ❖ **Additional Services** – packing material, doc disposal, vehicle cleaning, sourcing / shipping goods
- ❖ **Specific Features** – ease of parking, lighting
- ❖ **Storage Rates** – different storage sizes & durations



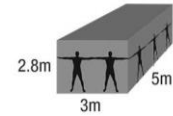
2m x 3m unit



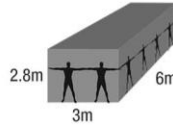
3m x 3m unit



3m x 4m unit



3m x 5m unit



3m x 6m unit



3) Research Supply -

- Ways to Research Supply?

3) Research Supply -

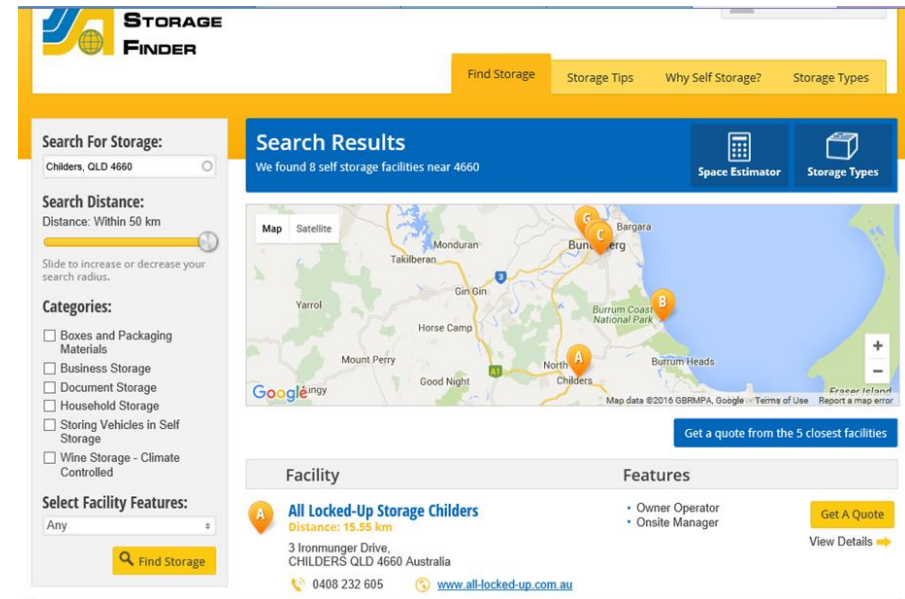
○ Ways to Research Supply?

- ❖ A) Map existing commercial properties / precincts
- ❖ B) Profile existing market
- ❖ C) Profile existing businesses
- ❖ D) Profile other “For Sale” properties / businesses
- ❖ E) Gap Analysis

3) Research Supply -

○ A) Map Existing Commercial Properties / Precincts:

- ❖ Map existing storage shed facilities within distance e.g. 50km e.g. www.storagefinder.com



- ❖ Add to map **existing infrastructure of importance** to target market e.g. main roads (high visibility & good access); affluent resi areas;

○ B) Profile Existing Market:

- ❖ What is the **trend in the area** – business district becoming more popular / static / dying? Potential to die in future?
- ❖ What is **average vacancy duration** (how long to re-tenant / re-occupy)
- ❖ Benefit of being near **competitors** e.g. car yards
- ❖ **Sensitivity of being near competition** – storage facilities too close = over supply, reduced occupancy, reduced profitability / yield & property value
- ❖ Potential for **new competition** e.g. 100% occupancy could attract competition – turning to oversupply
- ❖ **Capitalisation** rate of area



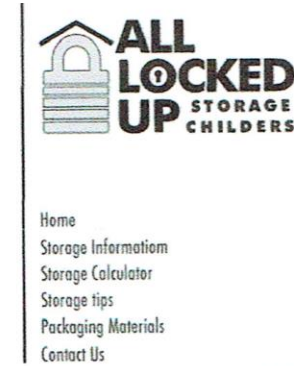
○ C) Profile Existing Businesses:

- ❖ Call mapped existing storage shed operators & **learn as much as possible about the competition** – strength & weaknesses & what factors = success:
 - What facilities do they offer?
 - Who do they service / clientele – demographics / income?
 - What is their catchment area?
 - What volume of traffic pass?
 - Rental rates?
 - Their occupancy e.g. waiting lists & for what?
 - Capacity to expand?
 - Who manages & how long in business?
 - Plan to retire? For Sale any time soon?



The Deal –

- One other self storage in town
- Recently developed
- Has capacity to expand
- Has diversity of rentable spaces etc.



Welcome to All Locked Up Premier Storage in Childers...

Welcome to All Locked-Up Childers Storage; a modern purpose built storage facility.

- Safe & secure all weather units
- 24hr - 7 day access
- Shed Sizes from 3m x 3m - 3m x 6m and 3m x 9m
- Jumbo Sheds also available - 9m Long x 4m Wide x 4.2m High (Roller Door 3.3m wide x 3.6m High)
- Suitable for residential & commercial storage
- Secure Parking for your Caravan, Car, Boat etc..
- Insurance Cover available
- Boxes, tape & bubble wrap for sale
- Free use of trolley on site
- Easy access to your goods -24/7



◉ D) Profile Other “For Sale” Properties / Businesses:

- ❖ To better understand industry – research operators who’s property is “For Sale” – including outside your target location – present as potential purchaser to get max info disclosed – e.g. for storage business:
 - Business income, rental rates & seasonality
 - Operating & holding costs
 - Cash-flow details
 - Occupancy rates
 - Client profile
 - Management info
 - Compliance info – Council, Govnt., Industry, Building Code
 - Insurance
 - Industry Assoc.
 - Marketing strategy – internet, newspaper, yellow pages, advertisements, photos, copy, direct & mass marketing

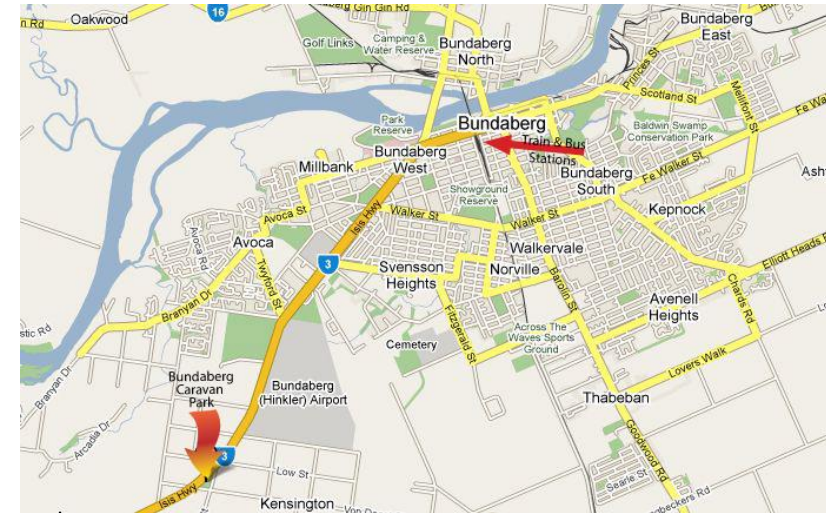


- ❖ **Visit** existing businesses to better understand industry
- ❖ **Develop profile** of what makes a good storage shed business - typical operating costs, income range, factors affecting these parameters – can use to compare with your property of interest



○ E) Gap Analysis:

- ❖ Used if **establishing business from scratch** e.g. storage shed facility
- ❖ Identify on map - **potential gaps** (areas) not yet serviced by a storage facility - taking into account demographics of areas, knowing essential characteristics for success
- ❖ Research **main feeder roads** in area & area demographics to highlight areas of potential
- ❖ Conduct further research & due diligence on potential gaps re **development potential**



4) Deal Finding -

- Research “For Sale” & Off-market Properties – How?

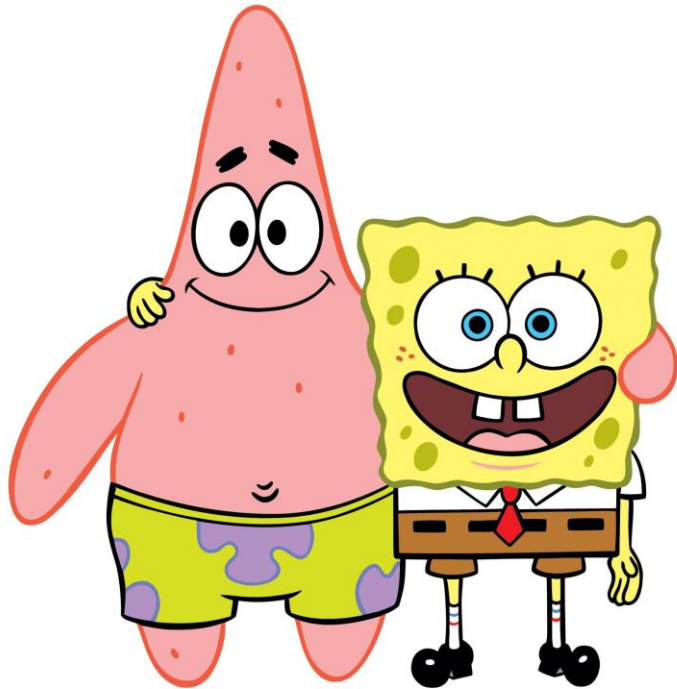
4) Deal Finding -

○ Research “For Sale” & Off-market properties – How?

- ❖ Commercial property websites – realcommercial.com.au; commercialrealestate.com.au
- ❖ Businesses For Sale websites (often freehold property is sold with business) – businessforsale.com.au; Domain, For Sale by Owner etc.
- ❖ General websites – Gumtree, Trading post, Google
- ❖ Commercial agents, resi agents, buyers agents
- ❖ Specialist agents & brokers e.g. tourismbrokers.com.au
- ❖ Business & property managers that may know owners interested in selling
- ❖ Talking to locals
- ❖ Letterbox drop & door knocking
- ❖ RP Data to research off-market properties

4) Deal Finding -

**GOOD COMMERCIAL AGENT NEEDS TO
BE YOUR BEST FRIEND**



The Deal –

- For Sale by local real estate agent who also manages the leasing
- 2 buildings of 45 sheds, mixed size from 6m x 4m to 3x3m, 80% occupancy at sale
- Security fenced, 24hr electronic access



5) Property Due Diligence (DD) –

- A) General DD
- B) Specific Property DD
- C) Tenants Business DD
- D) Business Real Property: Business Worth DD
- E) Research Opportunities

5) Property Due Diligence (DD) –

A) General DD -

- Detailed due diligence on **properties of interest**
- **Commercial brokers** invaluable when doing research
- Talk to other agents **not selling the property** – detail what you are planning to do & spend, get feedback on capacity to tenant before locking in deal



Property Details

RPD: L3-4 RP901674:PAR CHILDERS	Date: 30/06/2012	Property Type: Vacant Land - Freehold
Valuation: \$ 255,000 (Site Value)	Date: 30/06/2011	Area: 2,169 m ² (720 m ²)
Valuation: \$ 255,000 (Site Value)	Land Use (2): NONE	Area \$/m ² : \$221 (\$667)
Land Use (1): LIGHT INDUSTRY		Water/Sewerage:
Council: BUNDABERG REGIONAL		
Features:		

5) Property Due Diligence (DD) –

B) Specific Property DD – What to Research?

5) Property Due Diligence (DD) –

B) Specific Property DD – What to Research?

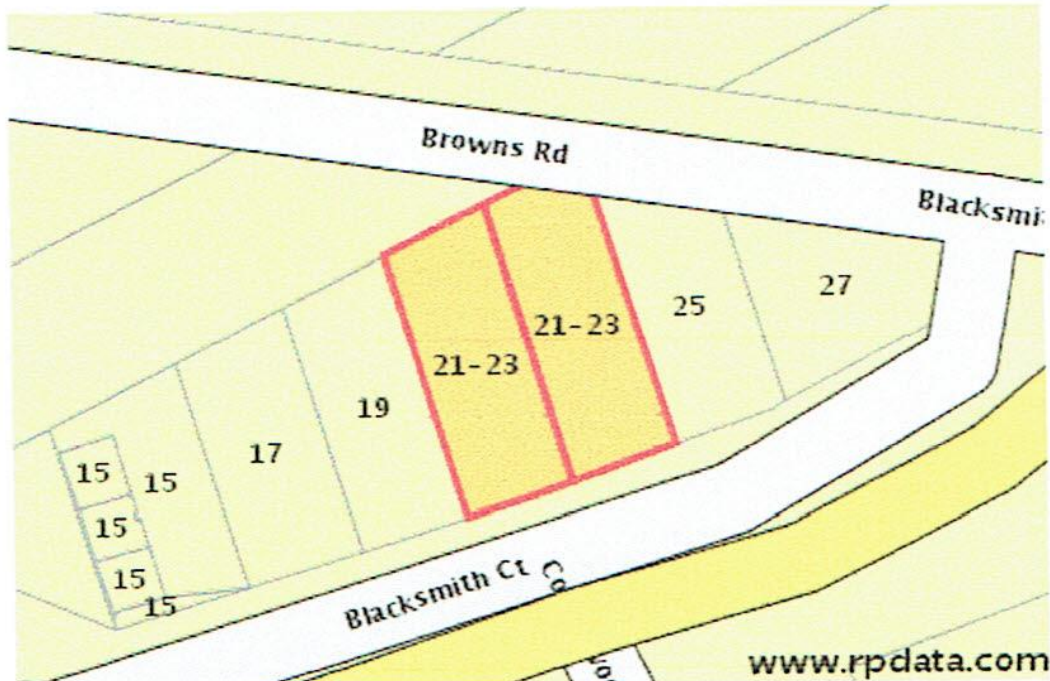


1. Land Tenure	8. Usage Rights Council Approved
2. Location Risk	9. Building Compliance & Approval
3. Property Factors & Appeal to Tenants	10. Equitable Access
4. Rental Rate	11. Condition of Existing Premises
5. Multiple Use Capacity	12. Property Management
6. Industry Specific Improvements	13. Site Specific Constraints
7. Size & Affordability	14. Development Potential

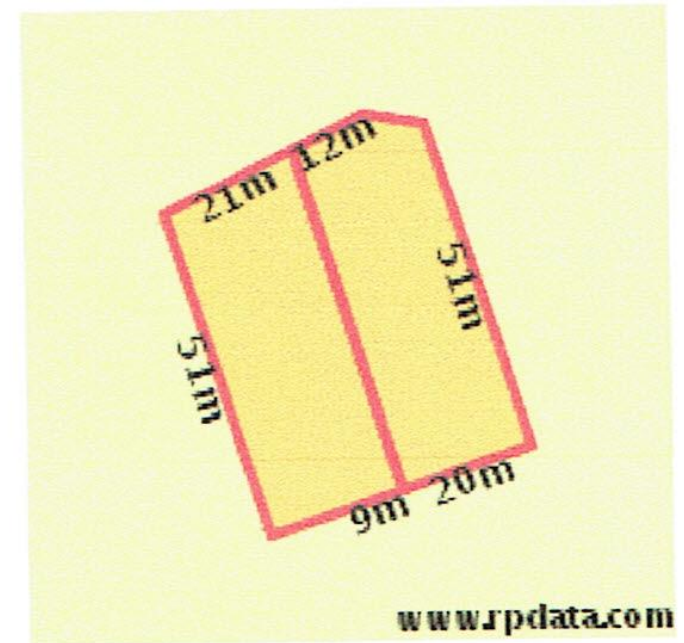
1) Land Tenure –

- ❖ Freehold more valuable vs leasehold

Cadastral Map



Property Dimensions



◉ 2) Location Risk –



- ❖ Risk that location **no longer relevant** for usage e.g. town centre move
- ❖ **New competition** (buildings, estates) = risk to older locations
- ❖ **Potential for competition** – small retail affected by new supermarkets / megastores
- ❖ Risk of **losing anchor tenant** e.g. Bunnings
- ❖ **Traffic flow change** – positive / negative e.g. new motorway re-directs traffic away from tourist accom.

◉ 3) Property Factors & Appeal to Tenants –

- ❖ Property condition, management, location, access, parking etc.
- ❖ **Specific usage requirements** e.g. industrial building – bigger the better - stud height, door heights, transport access & visibility, parking, open space, internal flexibility (temp dividing walls)

◉ 4) Rental Rate –

- ❖ **Per square metre rate** for allowed usage e.g. café in commercial lower than industrial building next door
- ❖ In CBD high build cost not reflected in rental rate



◉ 5) Capacity to Use Property for Multiple Uses –

- ❖ E.g. industrial shed used for storage, mechanic, distribution point, indoor sports vs café where fit-out limits usage
- ❖ Industry specific usage - **Positive and negative** – Tenant may stay longer but if vacates may have longer vacancy. Some fit-outs expensive e.g. dental
- ❖ Have back-up plan to be able to change usage e.g. caravan park to retirement village



◉ 6) Industry Specific Improvements -

- ❖ E.g. mezzanine floor / offices in industrial shed, car hoist for mechanic workshop, loading ramps, built in shelving
- ❖ **Positive or negative** depending on if in demand

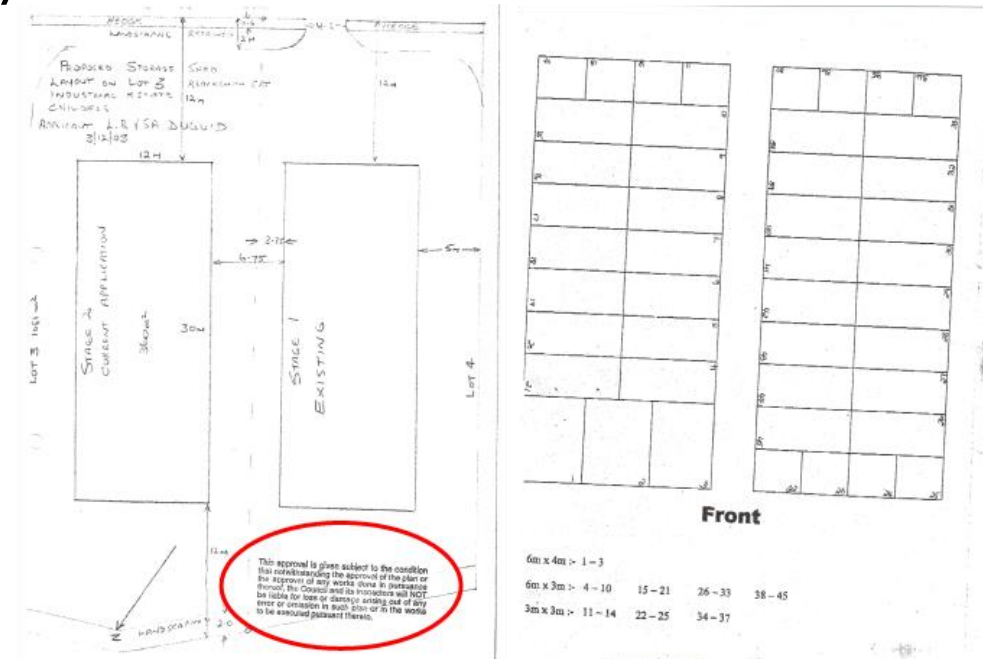
◉ 7) Size & Affordability to Rent –

- ❖ **If too large** – fewer tenants can afford e.g. Whole floor vs smaller self contained office suites, large “box” retail vs smaller space
- ❖ **Confirm need for size & type**
e.g. office space in regional area may be less demand, demand for storage?



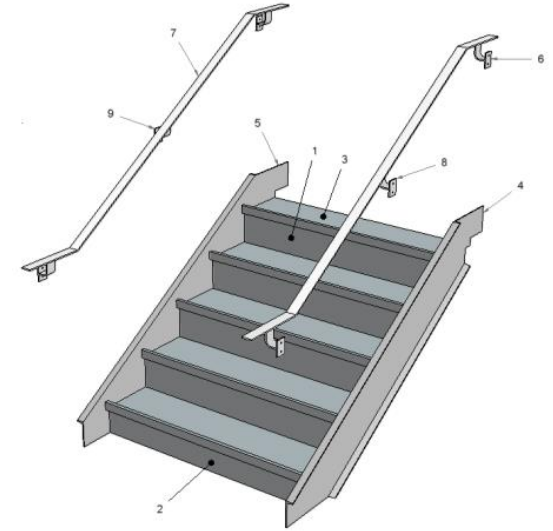
8) Usage Rights Council Approved –

- ❖ Confirm **usage is Council approved** e.g. medical, food prep – café, restaurant
- ❖ **Town planning** criteria important - Zoning, land size, cover, setbacks, car parking, driveway access etc.
- ❖ **Complaints to Council** & show cause notice/s issued?



9) Building Compliance & Approval –

- ❖ Confirm all built structures **Council Approved** & comply **National Construction Code of Australia**
- ❖ **Works required** to achieve compliance? E.g. glass type, balustrade, stairs etc.



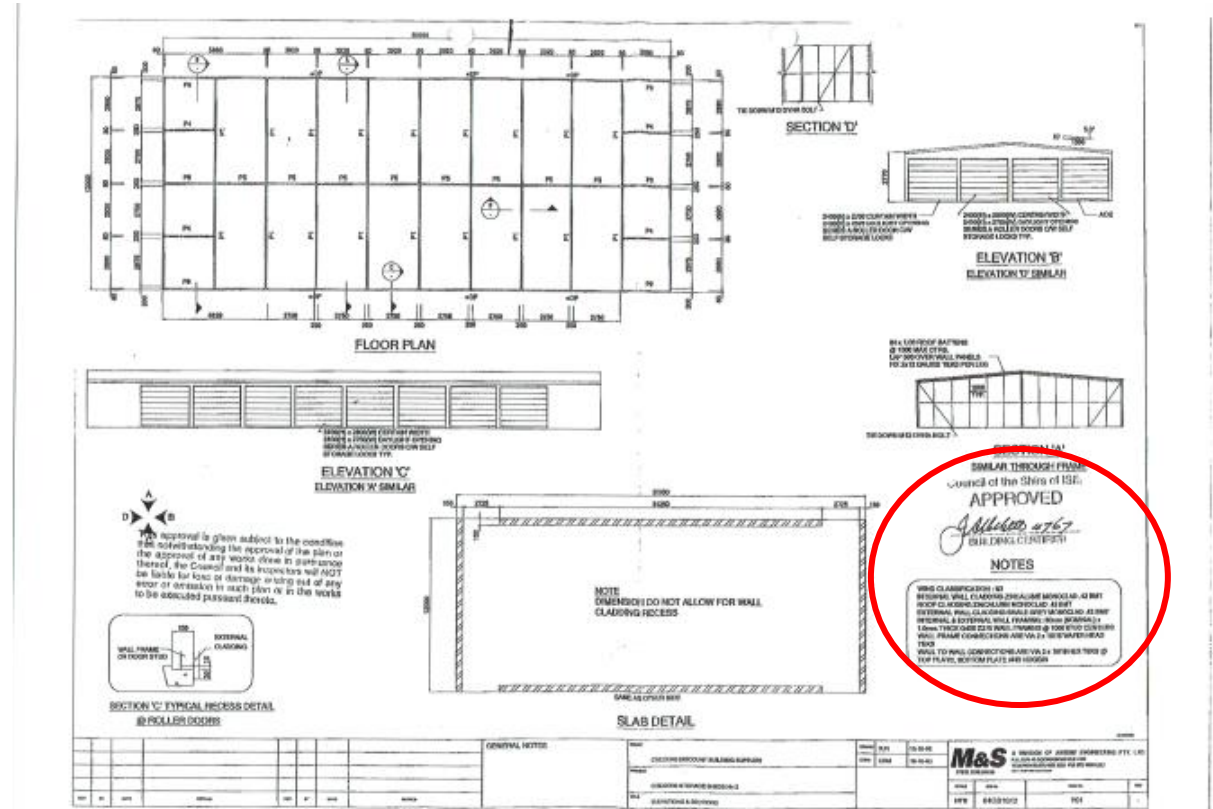
10) Equitable Access Compliance –

- ❖ Federal Govnt **Disability (Access to Premises Building) Standards 2010** – provide people with disability equitable & dignified access to public buildings
- ❖ Confirm property **complies, is exempt, or requires works**

11) Condition of Property –

Assess condition, aesthetic appeal, structural integrity e.g. termite, dry rot, rising damp, asbestos, electrical etc.

Research required general repairs, maintenance, reno



◦ 12) Property Management –

- ❖ Self managed or professionally managed?
- ❖ Typically tenant maintains property because its in their best interest for running business
- ❖ Landlord responsible for exterior maintenance?



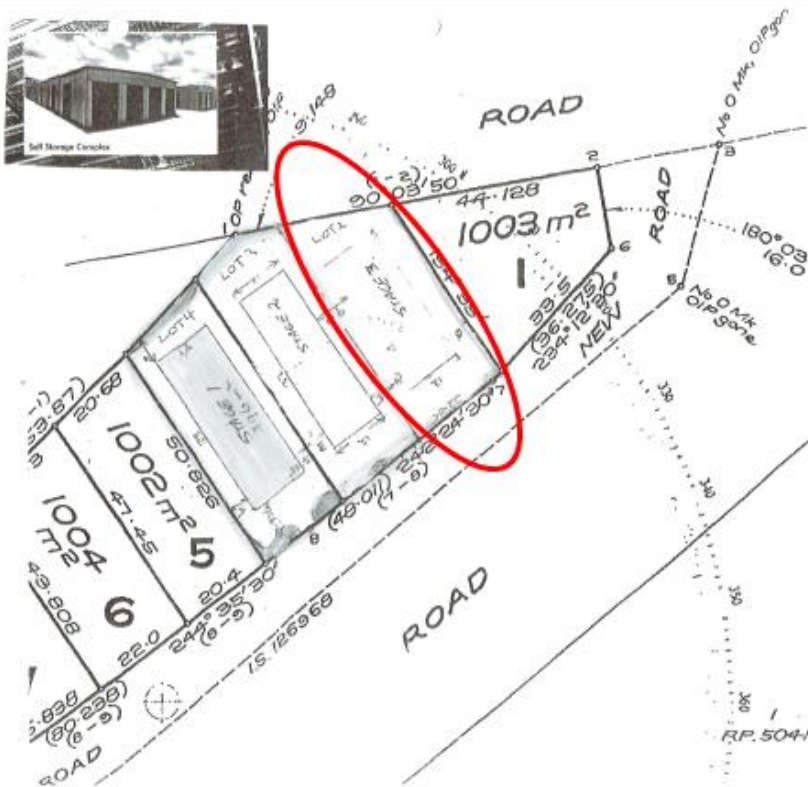
o 13) Site Specific Constraints –

- ❖ Research constraints affecting property now & in future e.g. flooding, overland flow, bushfire, heritage, trees, contamination, easements, covenants, encroachment, caveat, disputes, site infrastructure, services, road access, pollution (noise, air), cyclone, Body Corporate, crime



14) Development Potential –

- ❖ Capacity to – add buildings, add fittings / fixtures, divide into multiple lettable spaces, strata-title, subdivide land etc.



- ❖ Stage 3 Storage Sheds Potential
 - Have to buy next door – currently rental house

5) Property Due Diligence (DD) –

○ C) Tenants Business DD -

❖ 1) Existing Lease Terms & Conditions – Lawyer review obligations:

Original lease or copy?

Legal capacity to enter lease?

Every page signed?

Commencement date & conditions to commencement

Conditions or obstructions to lease effectiveness e.g. zoning, licenses

Rent review – frequency (3yrs – so can up rent & value), don't have coincide with lease renewal, linked to CPI? (gives certainty & saves disagreement)

Rent review date & confirm steps

Chattels – who owns? (impacts depreciation, tax, maintenance \$)

Security deposit?(multi tenanted property) \$ & when

Bond? \$ & when

Rights of renewal (ROR) 5 x 5 x 5 (lease = first 5yrs, subsequent = renewal options, Can effect P&I

❖ 1) Existing Lease Terms & Conditions – Lawyer review obligations:

Outgoings – What, Who pays, multiple tenancy split based on floor space?, rates paid by tenant (ensure get evidence), Body Corp fees & service costs e.g. lifts, aircon, fire

Reinstatement clause – return to original

Ratchet clause –rent adjusted to market but not go below start rent

Building insurance – Who pays – typically tenant but be aware, special insur conditions?

Sub-leasing – landlord consent needed?

Usage rights – limited to specific business? Tenant can change?

Usage restrictions – e.g. storage hazardous chemicals

Body Corp By-laws – rules & restrictions

Non-competitive clause – same business can't tenant building



❖ 1) Existing Lease Terms & Conditions – Lawyer review obligations:

Alterations & improvements clause – permission required?

Maintenance & repairs – Who responsible?

Failure to meet lease conditions – automatic cancellation, cancel by written notice?

Covenants – e.g. signage size/location, outdoor furniture?

Deferred payments or rehab on lease cessation e.g. petrol station

Termination rights – e.g. property sold, destruction premises?

Purchase rights / first right of refusal?



LEASE

❖ **2) Quality of Tenants Business** - the more successful - the longer the tenant is likely to be in business & the more secure your income stream:

❖ **Growth industry** e.g. medical practitioners rarely go bankrupt?

❖ Analyse **tenants competition** – business SWOT analysis (strengths, weaknesses, opportunities, threats)

❖ **External factors** that could impact on business – market cycles, government policies (e.g. students), technology changes (video stores, retail store vs online, paper vs electronic storage)



5) Property Due Diligence (DD) –

◦ D) Business Real Property: Business Worth DD –

Financial statements – 3yrs	Existing employees stay/go
Income tax returns – 3yrs	Vendors Statement – business >\$200k (excl. stock & land)
Detailed expenses	Good will e.g. business name, staff
Detailed income	Client profile - demographic
Current value of assets	Management – current/historical
Liabilities not in balance sheet	Occupancy rate - variability
Financial statements since last year end	Inventory list
Current/future existing stock, premises, equipment, employees	Rules & method of enforcement
Availability raw materials/products	Rental agreements, rules, fire / emergency response plans

○ D) Business Real Property: Business Worth DD –

○ Management DD -

- ❖ E.g. storage shed business – dedicated **onsite management** vs off-site local agent:
- ❖ Who manages & **roles** re bookings, advertising, entry exit inspections, complaints etc.?
- ❖ **How long** managing?
- ❖ **Fees & charges** & last increase?
- ❖ **Record keeping** & capacity to provide e.g. ledgers, statements, entry / exit reports
- ❖ Current **vacancy rate** vs area avg.
- ❖ **Trades availability**



Childers Storage
21 & 23 Blacksmith Court, Childers Qld 4660

Storage Agreement

COLIN BARRY HOSKING and CORAL ERICA HOSKING as trustees for the G.T. SUPERANNUATION FUND trading as CHILDERS STORAGE ("Childers Storage")

of Childers First National Real Estate, 98 Churchill Street, Childers Qld 4660
T. (07) 4126 2777 Fax: (07) 4126 1186

Before you are provided with access to a storage space you must provide our office with 100 points of identification. Please find below the identification requirements. We require at least one form of identification from each of categories 1, 2 and 3.

Category	ID Required	Point Value
1	Current Agent Rent History Receipts	40
1	Passport	40
2	Telephone Account	10
2	Electricity or Gas Account	10
2	Vehicle Registration	20
2	Medicare Card	20
2	Debit/Credit Card	20
3	Birth Certificate	50
3	Current Drivers Licence	50
3	Proof of Age Card	50

SOME IMPORTANT POINTS

- Childers Storage may refuse you access to the Storage Space until all monies due under this Agreement have been paid.
- Either you or Childers Storage can terminate this Agreement by giving seven days' notice.
- Storage Fees are payable monthly in advance and are not refundable.
- Childers Storage can increase the Fees and Charges at any time but the change will not take effect until the first day of the calendar month beginning at least seven days after you are given notice of the increase to allow you an opportunity to terminate.
- You must not store inflammable, dangerous, illegal, stolen, perishable, environmentally harmful or explosive goods.
- You must not carry on any business or activity other than the storage of goods, and must keep the Storage Space clean and in good repair.
- Childers Storage **does not** insure the goods and is not liable for the loss of or damage to any goods stored on the premises. Goods are stored at your sole risk. You should take out insurance cover.
- You must tell Childers Storage immediately your contact details change.



4126 2777
childers@fn.com.au

○ E) Research Opportunities

○ Capacity to **increase rent** & **add lettable areas**:

- ❖ **Under-market** rent & potential to increase?
- ❖ **Add** rentable storage & hardstand?
- ❖ Tenant willing to pay for **improvements**? E.g. specialized machinery – makes tenant more competitive & willing to sign longer lease



6) A - Team

Initial	Subsequent
Commercial RE agent, buyers agent	Leasing agent / property manager
Lawyer – commercial specialist	Building certifier
Accountant	Building / pest inspector
Business adviser / broker	Builder
Finance broker / \$ lender	Tradies
Specialist consultants	Valuer
Industry bodies	Town planner
Larger franchise holders - > \$1M	Designer
	Land surveyor
	Insurance broker
	Quantity surveyor (Depreciation)
	Cleaner



7) Feasibility -

- A) **Cash Flow** Analysis - Sensitivity Analysis
- B) **Market Value** Analysis
- C) **Deal** Analysis



A) Cash Flow Analysis – See Cash Cow Monthly Webinar

- Conduct **cash flow analysis**:
 - ❖ Lease income / business income
 - ❖ **Holding** costs (only those paid by landlord)
 - ❖ Bank **interest** on 100% of costs
 - ❖ **Depreciation** a bonus
- Conduct **sensitivity analysis**:
 - ❖ **Interest** rate increase
 - ❖ Rental **vacancy**
 - ❖ Increased **maintenance** costs
- Calculate **Break even point**



A) Cash Flow Analysis - Feasibility

Item	Formula	\$
Income	A	
Rent		
Sales		
Hold Costs / Operating Expenses		
Interest - Loan		
Interest – Owners Funds		
Management		
Outgoings		
Total Hold Costs	B	
Annual Cash Flow	A-B	

A) Cash Flow Analysis - The Deal

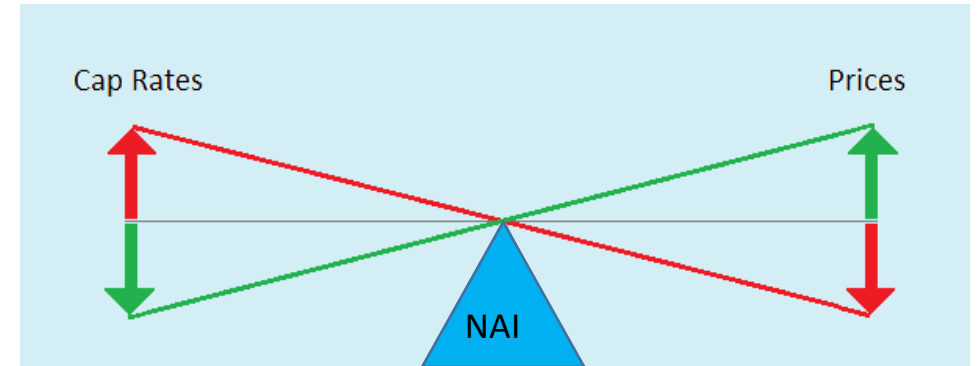
Income	Operating Expenses
Rental	Interest
Packaging	Property Management
Locks	Travel
Trailer Hire	Advertising
Security Deposit Bond	Phone
Key Bond	Bookkeeping / Accounting
	Landlord Costs (land tax, air con maintenance, annual inspections etc.)
	**Rates, Insurance, Body Corp
	Business Operating Costs

B) Market Value Analysis -

- Market Val of Commercial = Capitalisation of income = Income Capitalisation Method
- Property leased for good return is worth more than if property leased for poor return, regardless of what other properties have sold for in similar condition in surrounding area. **Hence income has huge impact on value!!**
- Different to Market Val of Residential = Comparison Method

B) Market Value Analysis -

- 1) **Market Value** = Net Annual Income / Area Capitalisation (Cap) Rate
 - ❖ E.g. Net Annual Income (\$100k) / Area Cap Rate (10%) = $100k / 0.10 = \$1M$ value
 - ❖ E.g. Net Annual Income (\$100k) / Area Cap Rate (8%) = $100k / 0.08 = \$1,250,000$ value
 - ❖ ***** Higher Cap Rate = Lower Market Value*****



B) Market Value Analysis -

- 1) **Market Value** = Net Annual Income / Area Capitalisation (Cap) Rate

Net Annual Income	Cap Rate	Calculation	Market Value
\$68,000	11%		
\$68,000	8%		
\$68,000	6%		

B) Market Value Analysis -

- 1) **Market Value** = Net Annual Income / Area Capitalisation (Cap) Rate

Net Annual Income	Cap Rate	Calculation	Market Value
\$68,000	11%	68,000/0.11	\$618,181
\$68,000	8%	68,000/0.08	\$850,000
\$68,000	6%	68,000/0.06	\$1,133,333

B) Market Value Analysis -

VALUER

- **2) Area Capitalisation Rate** = Net Annual Income / Market Value (expressed as %)
- ❖ Cap Rate is the **average yield that investors are willing to buy at** for a particular asset class in a particular location. E.g. if buyers are willing to buy at a 10% yield in that area then the cap rate will be 10%.
- ❖ Determine cap rate by looking at the **yield of similar sold properties** in the area.
- ❖ E.g. \$2M Sale Price & Net Annual Income (\$100k excl. GST) = $(\$100,000 / 2,000,000) \times 100 = 5\%$ Cap Rate. Repeat calc for sales in area for good indication of cap rate in area
- ❖ Also research by asking **valuers and commercial agents** in area for Capitalisation rate of area

B) Market Value Analysis -

- 2) **Area Capitalisation Rate (%)** = (Net Annual Income / Market Value) x 100

Net Annual Income	Market Value	Calculation	Cap Rate
\$68,000	\$618,000		
\$68,000	\$850,000		
\$68,000	\$1,133,000		

B) Market Value Analysis -

- 2) **Area Capitalisation Rate (%)** = (Net Annual Income / Market Value) x 100

Net Annual Income	Market Value	Calculation	Cap Rate
\$68,000	\$618,000	$(68,000/618,181) \times 100$	11%
\$68,000	\$850,000	$(68,000/850,000) \times 100$	8%
\$68,000	\$1,133,000	$68,000/1,133,000) \times 100$	6%



❖ Cap Rate reflects **RISK**:

- Risk of **asset class** (Retail shop vs Medical)
- Risk of **location** (Mining town vs Metro)
- Risk of **tenant quality** (Tattooist vs Dentist)

Cap Rate Applied to Your Property will be Influenced by Certain Factors (e.g. 5% inner city vs 7-8% to 10% weak tenant suburban vs 10-14%)

- Vacancy now & in future
- Rent received
- Quality of tenant & ability to pay rent
- Prospective rental rate growth
- Rent review frequency e.g. yearly & linked to CPI
- Lease covenants (effects ease of re-tenanting)
- Permanency of tenants e.g. 1 yr vs 5 yrs lease
- Economic strength of tenant – National tenant vs local
- Rent received vs market rent
- Alternative usage potential e.g. redevelopment
- Risk to cash flow e.g. unacceptable increases in rental / outgoings
- Availability of finance for property type
- Contracted deferred payments – rehab



B) Market Value Analysis -

3) Calculate Potential Purchase Price of a Property:

Purchase Price (Market Val) = Net Annual Income / Cap Rate %

❖ E.g. \$68k Net Annual Income / 11% Cap Rate = (\$68,000 excl GST) / 0.11 = \$618,181 potential purchase price)

Net Annual Income	Cap Rate	Calculation	Potential Purchase Price (Market Value)
\$68,000	11%	68,000/0.11	\$618,181
\$68,000	8%	68,000/0.08	\$850,000
\$68,000	6%	68,000/0.06	\$1,133,333

B) Market Value Analysis -

4) Increase in income (rent) has HUGE impact on Value:

- ❖ Anything you can do to increase rent has direct impact on increasing value!!!!!!!!!!!!!!
- ❖ E.g. Area Cap Rate @ 9%

Net Annual Income	Cap Rate	Calculation	Market Value
\$68,000	9%	$68,000/0.09$	\$755,555
\$78,000	9%	$78,000/0.09$	\$866,666
\$88,000	9%	$88,000/0.09$	\$977,777

- ❖ Hence \$192.30 / week increase = \$111,111 value increase!!

B) Market Value Analysis -

5) Yield Verses Cap Rate

- ❖ Often used interchangeably – however:
- ❖ Cap Rate has an inbuilt “judgement factor” hence **subjective**. Properties net income stream (**either actual or predicted**) expressed as % of asking price
- ❖ Yield = **Actual** net income as a % of sale/purchase price: $\text{Yield (\%)} = (\text{Actual Income} / \text{Sale Price}) \times 100$
- ❖ **Area** Cap Rate **Property** Yield



C) Deal Analysis – See Cash Cow Monthly Webinar

- Profit potential of deal

Item	Formula	Total Costs \$
Purchase Price		
Purchase Costs		
Hold Costs		
Strategy Costs e.g. Renovation		
Total Costs	A	
Market Value	B	
Profit Potential	B-A	

8) Finance -

- Use **specialist** (commercial) finance broker/lender/ valuer
- **Lease doc loan** – serviceability based on existing lease not your personal serviceability
- Determine **funding terms & negotiate** – LVR, loan term / duration, P&I & for how long, interest rate, charges / fees etc.
- Typically **65 – 70% LVR**; 10 - 15 years **loan term**
- Often **P&I** for first period e.g. 2 - 5 years?
- **Annual review** not uncommon
- **Revaluation & refinance** - 6 – 12 months gap after purchase? Copy of leases, info on tenants, comparables, property features



9) Negotiating & Purchasing -



- Confidentiality Agreement to release info?
- Obtain sellers approval to deal direct with their accountant
- Counter offer made after valuer, accountant, lawyer, financier review
- Can be protracted negotiation from weeks to months
- Separate purchase contract for a) property, b) business & equipment
- If being sold leased – check all details in contract
- Negotiate directly with owner & confirm all instructions / negotiations in writing

10) Leasing & Managing

- See previously section 5) Property Due Diligence - Existing lease terms & conditions – All of these aspects are to be considered in a new lease
- Be **actively involved** in the re-leasing process
- **Good commercial agent** will know who is looking to move, who coming to town etc.
- Periodically research comparable properties for lease = **competition**



QUESTIONS?