Intro to Commercial Investing

The why, the how, the numbers

Today’s Panel

Rod Cross, director of North Coast Lending

30 years commercial finance experience. Bachelor Business Management; Diploma Mortgage and Finance Broking

Cherie Parik, director Your Commercial Property Specialist

26 years experience commercial real estate. Bachelor Property Economics Hons. Class 1 Licensed Real Estate Agent.

Chris Ayling, director Arum Advisory

27 years accounting experience. Member of institute of Chartered Accountants. Registered Tax Agent. Registered SMSF auditor.

What are we seeing?

Increasing focus on restricting residential investing

- Attempts to favour first home buyers
- Restrictive income assessment
- Mainstream lenders cooling off on trust borrowing
- Increased costs for residential investors – rates, insurance, body corporate – these are generally met by commercial tenants

Coupled with more favourable terms for residential tenants

More generous policies towards commercial investing

Less onerous credit assessment

Commercial lease terms give greater power to landlords

Types of Commercial Property

RETAIL

COMMERCIAL

INDUSTRIAL

Important things to consider:

What to look for in a property

- Lease Terms
- Current rent – net or gross
- Rent review mechanism (fixed, CPI, Market)
- Outgoings & utilities - who pays
- Tenant profile
- Retail Tenancies Act
- Council zoning
- Insurance (flood or fire zones)
- Property attributes (signage, disability access, parking)
- Neighbours – the good, the bad, and the ugly
- Strata property (pros and cons) – admin & capital funds
- Age and condition (old and in need of repair not always a bad thing = opportunity to manufacture growth)

Keys considerations when investing in commercial property investment

Leasing fundamentals

- Rent – how to compare the market (gross v net & $/m2)
- Rent reviews – CPI, fixed or market
- Lease term & options (what is best for the property owner)
- Outgoings – who pays
- General repairs and maintenance vs capital works
- Make good terms and why they are important
- Security deposits v bank guarantees

How to value a property

- Cap rate v Yield
  - High risk = High return…Low risk = Low return
  - Cap. Rate - uses current market value, rather than what you paid for it - primarily used to gauge the risk and value of an asset
  - Yield (sometimes called "The Investor's Reality") calculates the actual cash return, based on your original purchase price and renovations, measuring the success of your specific investment
  - Gross vs. Net Yield
  - Gross yield (annual rent divided by property price).
  - Net yield (subtracting ongoing holding costs like council rates, insurance, property management fees, and maintenance). A much truer indicator of your **actual return** on investment.
- Summation approach – replacement value plus land cost
- Comparative sales analysis – rely on $/m2 (apples with apples)

How to avoid risks of commercial property investment

TIMING?

- Market v You…

LOCATION?

- Access
- Exposure GET IT RIGHT FROM THE START?
- What does the tenant need and how can you create it?

FEATURES?

- Parking
- Disabled access
- Power capacity
- Age and condition
- Ability to manufacture growth

GET IT RIGHT FROM THE START

- Know your numbers
- Make sure of borrowing power first
- Get the right ownership structure from the start
- LEASE TERMS ARE CRITICAL

BORING FINANCE SHIT

All majors are playing in commercial property investment

Several second tier lenders are playing hard – BoQ, Macquarie, MyState, ING

Non Banks very active in the space

The Big 4 are being weighed down with process and regulation

Types of loan

- Full servicing assessment
- Simple assessment
- Alt Doc assessment
- Lease Doc assessment
- Private Funding
- IO: IOA: P&I

Tax Environment

Negative Gearing

What is negative gearing?

What benefits does it offer?

How do the recent government proposed budget changes affect negative for commercial property compared to residential?

Capital Gains

What do the recent government proposed budget changes mean for capital gains tax?

Does the ownership entity affect the amount of capital gains tax and who pays it?

Land Tax

Why the different types of ownership structures are important for land tax?

Foreign Surcharge Duty

What is the Land Tax Rate?

Impact Income Tax

Income tax for different structures:

- Capital Gains
- Rental
- GST

When do I pay Income Tax?

Purchase Structures

Common Structures – trusts, companies

Borrowing Strategy

So Why Commercial

Regulatory and tax environment is proving more conducive for investors

Year on year mandated income growth

Often better quality tenant in your investment

Ability to leverage property value growth to expand portfolio

As usual:

The right property and tenant

The right debt structure

The right ownership structure

Will greatly enhance your wealth creation from Commercial Property

Next Steps

- Join us for drinks and casual chat with property players
- Where and When

Q&A