Australian Property Investor
Newsletter

FEBRUARY 18, 2016

Investing in commercial

Most property investors are comfortable with residential property, having owned or rented themselves, but commercial property investment can be a little more daunting. The main reason for this is that there are so many additional factors to consider, such as GST, complicated leases and who's responsible for the outgoings (expenses) for the property.

By Rebecca Mackie

There are three main types of commercial property: retail, office and industrial. As with residential investing and the choice between house, apartment or unit, a number of factors can influence your choice of property. This article will not go into depth on the different types of commercial properties, but will look at the benefits and risks of commercial property as a whole.

The main risk with commercial property is the higher vacancy rates due to the fact that economic conditions have a greater effect, so businesses may close or downsize and leave your property vacant. You may feel the pinch if your apartment is vacant for a few weeks but with a commercial investment this could be months or more.

The upside of this is the higher returns you can get from your commercial property. While most residential property returns an average of around four per cent, you can expect your commercial property to be higher, at an average of around 10 per cent and it's not uncommon to receive a return of 12 per cent. This positive cash flow is the reason why people add commercial property to their portfolio.

Residential leases are typically for six or 12 months but commercial leases are usually for a much longer period of time, say five years, and usually include the ability to renew for another five years, and another.

This means that with the right tenant, you can expect a stable flow of income for many years. However, unlike a residential lease, which may be around four or five pages, you can expect a commercial lease agreement to span up to sixty pages and you will need a solicitor to draw this up for you, or review one you are provided.

The right tenant…

…the holy grail of property investing no matter what the type! Government or big organisations are generally the most stable but if you operate your own business then buying a property for your own business is the best way to find the most stable tenant. Running your own business can mean that having the cash flow and borrowing power to be able to purchase a commercial property might not be feasible, but you may be able to purchase this property with your superannuation depending on your circumstances.

Another factor that hinders commercial property investment, which may be the biggest for most people, is the cost. Purchasing inner-city office or retail space can be expensive and suburban industrial premises can also be costly, given the land content. You can still buy quality commercial premises with a lower budget by looking at strata titles or smaller suburban stand-alone premises.

Unlike residential property, when your commercial property needs repairs or refurbishment, they're expenses that are typically borne by the tenant. You will also find that, typically, your commercial tenant takes good care of your property as it is their place of business and the condition of the property will be important to them as it can affect their income.

You'll also find that in most cases the tenant is responsible for all of the outgoings of the property, meaning that you just have to worry about collecting your rent and paying your loans.

While seen as more risky than residential property, commercial property also has many advantages and investors looking to increase their cash flow should consider whether adding a commercial property to their portfolio suits their investment strategy.

Rebecca Mackie *has extensive experience dealing with tax and structuring advice for investors including structures in self managed superannuation and direct property. For more information, go to www.gatherumgoss.com*