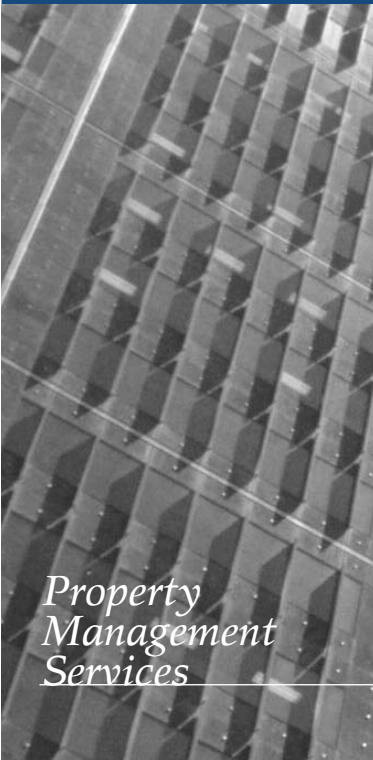




COMMERCIAL PROPERTY INVESTMENT GUIDE

*Your guide to purchasing and managing
a commercial investment property*



*Property
Management
Services*

Proudly provided as a guide to investors by





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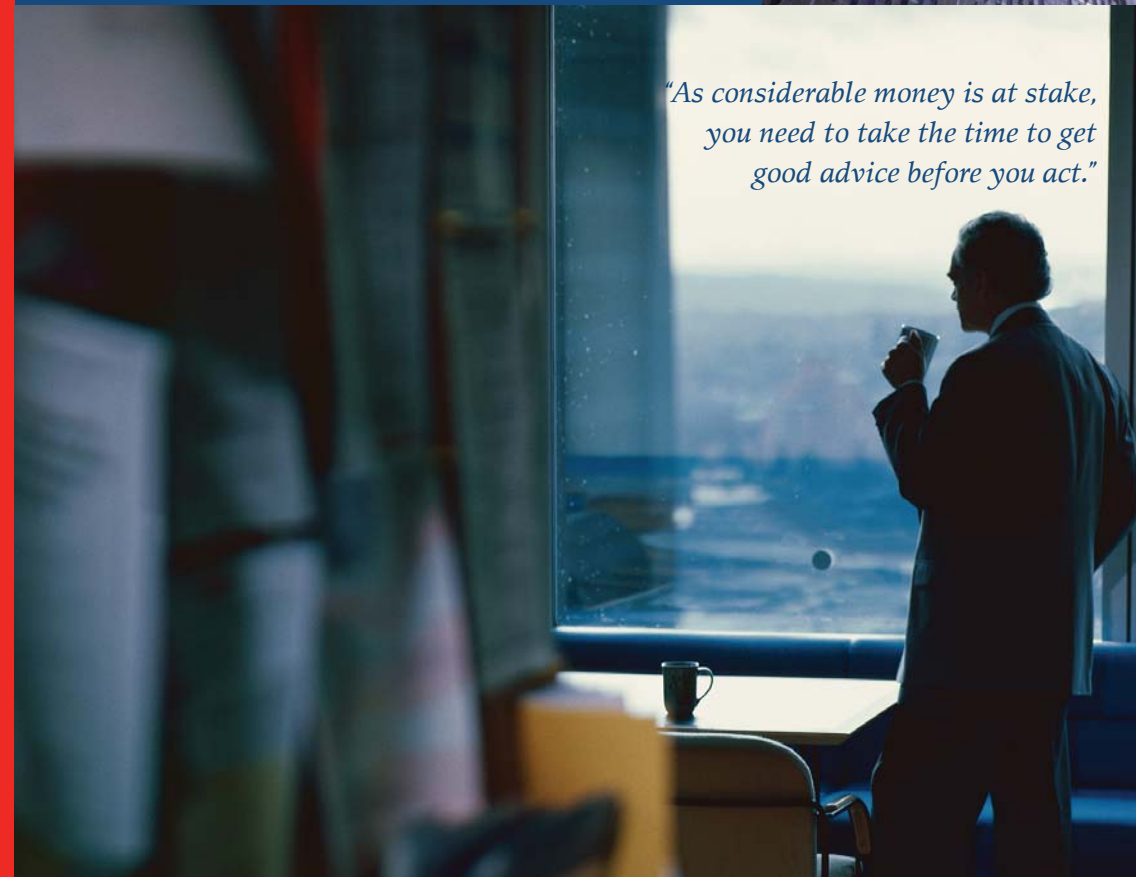
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INTRODUCTION

Property represents a very secure and sound, long term form of wealth creation.

As such, Australians are increasingly turning to property investment to secure their future. A well managed investment can offer many advantages including income and capital growth. Many investors may also be able to use their investment to reduce tax payable on their assessable income. Property is also a good option as part of an investment portfolio, particularly with people who do not need immediate access to their money and wish to protect themselves against inflation over the long term. It is important to be aware however, of the responsibilities of managing your property investment and assuring proper care and responsibility. As considerable money is at stake, you need to take the time to get good advice before you act. This booklet is only an overview and is not intended to advise you as to the financial and legal implications of such an investment, but rather provide an overview of the considerations for any owner or potential owner of a commercial investment property.

Remember, consideration of any investment presents wide and varied alternatives and there are always plenty of experts ready to pass on their opinion. It is wise, therefore, to always seek appropriate advice from a qualified financial advisor or accountant.



“As considerable money is at stake, you need to take the time to get good advice before you act.”



WHY INVEST IN PROPERTY?

There are some good reasons to invest in commercial property including:

- *Property is a solid, long-term investment*
- *Property investment provides capital growth*
- *Property market information is easily accessible and widely available*
- *Property is tangible - you can actually see and drive past your investment.*

Financing

There are a number of different options available for financing your investment property through a range of lending institutions. One of the most common forms of financing is that secured by a mortgage. Mortgage repayments can have fixed or variable interest rates and may be interest only or principal plus interest.

There are options also to use a revolving credit facility to draw on the money. Financial institutions such as banks, credit unions, etc will have details on the different options available to meet your specific needs.

Sometimes it can be hard to get to the bank to arrange finance. Rather than you having to go to them, First National Financial Solutions* have a fleet of relationship lenders out on the road who can visit you, even after hours. As well as offering highly competitive rates, our Lenders can provide all the finance help, information and advice you need.

Phone First National Financial Solutions on 1800 720 363

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Using Home Equity

If you do not have or prefer not to use cash for a deposit, you can borrow against the equity in your own home. A home equity loan may be used to cover such aspects as the deposit, associated costs of purchasing a property such as stamp duty, legal fees, etc and perhaps commitments during any vacancy periods.

Negative Gearing

Negative gearing is a common term associated with property investment. In simple terms, it refers to the situation where your outgoings may, particularly in the early stages, exceed the incoming rent on the property. Where this occurs, there may be the opportunity to gain tax

advantages through claiming tax deductions on the outgoings. If you are a PAYE tax payer, you may not have to wait for the tax adjustments, as you may be eligible for a tax reduction. Nonetheless, negative gearing is not for everyone because there are some risks. Property values may decline from time to time, the flow of rental income may be interrupted, interest rates may rise or your ability to finance the cost of borrowings may suffer. Investors need to take account of their ability or willingness to deal with these risks and to discuss them with their advisors before negatively gearing an investment property. For advice on negative gearing and your financial and tax circumstances, you should consult your accountant or financial adviser.



The benefits of commercial property investment

A well-chosen commercial property may provide a good steady return on investment and, over time, increase both in rental potential and property value. Good tenants or lessees will assist in increasing equity in your property and if well-maintained will be a tangible asset. With the assistance of a good real estate agent, the management of the investment from the landlord's point of view is relatively easy with little time required.

Successful investment in property looks to increasing income and property value in the long term. Investment in property may not be suitable for the short term, even though it may sometimes provide a benefit.

Choosing an investment property

Just because you may be a first time investor doesn't mean you can't choose to invest in commercial or industrial property. The principles are similar to any property investment and the results can be even more rewarding. We all expect our investment property to grow in value, both in the eventual capital value and in the rent that it will generate. Therefore, a choice needs to be made on two important criteria: location and quality. Keep in mind that this is not a property that you will occupy and always look at the property through the eyes of a potential tenant.

A property located close to transport, with good access and parking facilities will be in greater demand and usually command a higher rental. The building, too, needs to be desirable and of a size to suit the area's potential. The building should be sound and as low maintenance as possible. As a rule, more modern buildings require less upkeep and are usually more desirable to tenants.

Who manages the property?

All property requires ongoing maintenance.

There are landlords who take an active and hands-on role in the management of their property and there are those who are happy to have an agent professionally manage their investment. Obviously, those who manage their own property must be prepared to oversee their own repairs or organise a qualified tradesman, do their own cleaning and collection of rent. The preparation of a lease is usually done by a solicitor.

Frequent changes to Acts of Parliament in each state mean changes to the way the property is administered. Many of these include administrative duties like appropriate records being kept, for example receipting, access notices for inspections, inspection sheets, bond investments or bank guarantees.

In addition, they are required to:

- ensure the premises are clean/secure and fit for occupation at the beginning of the lease;
- ensure all facilities are in good working order and safe, and
- be available to arrange urgent or essential repairs

It is vital that all landlords who manage their own property are completely familiar with the legislation in their state that governs industrial or commercial tenancies.

Landlords who engage an agent to professionally manage their investment will not be required to stay abreast of changes to Acts of Parliament - this becomes the responsibility of the agent.

What costs will I have to meet?

As you'd expect, there are various costs associated with property investment in addition to the maintenance costs. When you acquire a property, there are government charges by way of stamp duty and registration fees on the transfer of title and mortgage. There are also solicitor's fees and real estate agent's fees for managing your property (and selling it if you decide to do so in due course). Your real estate agent can assist you in the calculation of these costs.





How much do I rent the property for?

As with any rental property, your commercial property must be able to meet the market and be competitive with other properties being leased. If managing your own property, it is essential that you compare your property with that of others by using comparative market analysis, in which all aspects of the building and its location with several others of similar size and type. This may be difficult to do given that you may not know the rent charged or the condition of the property and internal improvements.

An experienced property manager can provide a market analysis. He or she can inspect your property and compare it with similar commercial or industrial properties under their management. As they are aware of the local rental market, they will be able to set a rent that will allow your property to be rented at the earliest possible opportunity, whilst ensuring you get the best return for your investment.

Your property on show

Prior to renting your property, you should look at any improvements or maintenance that should take place. The better your property is presented, the easier it will be to rent and the more likely it will be to attract better quality tenants.

Particular attention should be given to:

- Well presented and tidy property and surrounds including any gardens
- Minor repairs
- Cleanliness
- Carpets professionally cleaned in the office and any necessary re-painting completed
- Clearly marked car spaces

Marketing your property

Marketing your property for tenancy is something that needs consideration. Highlighting your property amongst the myriad of other properties being advertised is a difficult task.

The rent being asked, location, and attributes of the property are all aspects that prospective tenants will take into account when considering a property to be leased. A real estate office regularly attracts many commercial lease inquiries from prospective tenants. A real estate agent will consult their database to establish whether your property is suitable for a prospective tenant looking for a particular kind of property. In addition, their expertise in presenting advertisements in many cases can make the process far more effective than a landlord could achieve themselves.



The tenant

The next step is to lease the property.

Selecting a suitable tenant for your property is extremely important. As such, you need to select someone who you believe will look after your investment and be in a position to pay the rent. Remember, you will use money from rent to offset your investment loan. Privacy legislation may prevent you from gaining credit checks, however real estate agents have processes in place that assist in tenant selection, including reference checks through agencies established for this purpose, as well as gaining thorough business and management details. They may have a list of prospective tenants waiting for particular types of properties.

Other duties that a landlord may have to perform:

These additional duties and responsibilities are required of a landlord or a real estate agent:

- Arrange repairs and maintenance
- Strict arrears control
- Arrange inspections of properties for prospective tenants
- Legislation may require the provision of a trust account for the safe keeping of

the rental bond or lodgement of the bond with an independent authority such as a rental bond board

- Prepare detailed condition / inspection reports
- Arrange rates and other payments
- Prepare applications and arrange for the serving of notices in compliance with relative legislation or tenancy agreements

What does a Property Manager do for you?

Most real estate agents will have a property management department which is solely established for managing investment properties. The level of service will vary and depends on the structure of the office, the real estate company's approach to property management and customer service.

Primarily, your real estate property management services will include:

- Negotiation of an appropriate lease
- Organise the advertising for the property for rent
- Showing prospective tenants through the property

- Receipt of applications and screening of appropriate tenants
- Optional checking with Landlord on screening new tenants
- Completion of all relevant documents
- Instruction to prepare leases to solicitors
- Receipt of rent monies
- Follow up on any arrears in rental payments
- Organisation of repairs / maintenance
- Provide the landlord with regular payments and statements
- Payment of accounts
- Conduct initial, final and routine inspections of property
- Bond collection or bank guarantees and the first months rent in advance prior to tenant moving into the property
- Investment of Bond in accordance with the lease
- Provide Insurance
- Personal service from trained and local property management team



Legislation

Each state has legislation governing commercial tenancies and it is vital that whoever is managing your property fully understands the requirements and the obligations of landlords and tenants.

Selecting an appropriate real estate agent to manage your property

Making sure you have the right real estate company managing your investment is vitally important. A good real estate company saves you time and takes the hassle out of owning an investment property.

Here is a checklist of some areas you should consider when selecting a real estate company to manage your property:

- Does the company have property managers solely designated to that task?
- How will they communicate with you and how often?
- Do they have a good knowledge of the local commercial and industrial rental market?
- How many properties do they manage?
- Do they have property management systems in place?
- What is their property manager's knowledge of the appropriate legislation?
- Do the property management staff attend regular training?
- Do they have the support of a larger network?
- What is their approach to selecting tenants?
- Do they have systems for following up arrears?
- What systems do they have for collecting rent and reporting to the landlord?
- Can they arrange insurance and payments of all outgoing?



Budget for commercial property investment:

This form will help you estimate your income against your expenditure on your investment property.

Income

Rental Income per annum: \$ _____

Expenditure:

Advertising: \$ _____

Agency Fees: \$ _____

Letting fees: \$ _____

Maintenance/repairs: \$ _____

Loan Repayments: \$ _____

Insurance: \$ _____

Rates and Taxes: \$ _____

Depreciation (if applicable) \$ _____

Body Corporate fees (if applicable) \$ _____

Other \$ _____

Balance \$ _____

In many cases, commercial, industrial and retail leases are net leases. Net leases allow the investor to pass on most property costs to the tenant. This form of lease protects the investor from increasing costs during the term of the lease thus ensuring the yield on the investment is secure.

Your First National Real Estate Commercial agent would be happy to explain the differences between both net and gross leases.

Agreements between landlords and tenants

A lease/tenancy agreement will be prepared which specifies the rights and obligations of the landlord, agent and tenant. This is a legally binding document enforceable under the relevant state legislation. It is open to interpretation and change and therefore it is vitally important to have a good working knowledge of the Act. Leases can be of varying lengths.

A lease has standard and special conditions as required, and will include the following:

- Rental payments
- Length of the lease
- Requirements of the landlord, clearly stated with expectations and obligations of the tenant
- Notice of vacation that must be given either by the landlord or tenant
- Security bonds or bank guarantees
- Special conditions as presented by the landlord/agent and agreed to by the tenant
- Rent reviews

Agreements between landlords and real estate agents

A landlord will be required to complete a management agreement which engages the agent to manage the property on their behalf. The agreement documents all aspects of management and outlines performance and responsibility by the agent. Agreements may be altered or updated as circumstances change.

Included in the agreement will be:

- agency fees
- regularity and reporting of inspections
- details of payment to landlord
- level of expenditure and process in relation to maintenance / repairs
- notice required for cancellation of agreement

Your Guarantee of Service

A progressive real estate agent will offer a guarantee of service as an important part of their genuine commitment to meeting the needs of the client. First National Real Estate was one of the first networks to introduce a guarantee of service for its property management operations.

What your First National Real Estate Property Manager can do for you

First National Real Estate offices offer a complete commercial property management service for property investors.

As one of Australasia's largest and most successful real estate networks, the marketing services, systems and professional development are at the leading edge of the industry. First National Property Managers are well known for attention to detail.

For the care of your valuable asset, First National Property Managers prepare a written inspection report at the commencement of each tenancy and ensure a rental bond is lodged.

An inspection of the property when a tenant vacates is a standard procedure within First National and bonds will only be released if the condition is satisfactory.

Inspections are conducted during the tenancy and important repairs and maintenance will be arranged, with your approval. Financial transactions are conducted with efficiency and receipts issued for all monies received on your

behalf. You are accounted to regularly and monies are paid by cheque or deposited in an institution of your choice.

Your First National Real Estate Property Manager has local experience and establishes the rental value by comparing your property and similar properties currently let. By maintaining your asset in good repair and ensuring it is well presented, you will maximise rent, reduce vacancy and attract a high standard of tenant. Vacant properties cost you money and are a security risk.

First National Real Estate offers expertise in commercial property investment and can assist in building your portfolio as a secure means of investment for your future.

First National Property Management Services cover Residential, Commercial and Industrial property. With offices throughout Australasia and associated links with overseas networks including Prudential Referral Services International, First National Real Estate can offer services anywhere and attract tenants from far and wide





Terms relating to property investment and management

Lease/tenancy agreement is an agreement for possession, not ownership, of a property for a set period.

Lessee/tenant is one who leases/rents a property from a lessor/owner

Tenancy Agreement document sets out details of the property to be rented and the terms and conditions agreed to between landlord and the tenant.

Landlord is the owner of property being rented

Negative Gearing is where the costs associated with your property investment exceed the income received over the tax year. This loss may be used to offset other income in that year's tax return.

Net Yield is the income on your property less certain expenses such as rates, insurance, maintenance and body corporate levies.

Depreciation is a non cash allowance that you may be able to claim on your tax which reflects the limited life of an asset.

Capital Gains Tax is the tax based on the difference between the purchase and selling price, less inflation, applied upon the sale of an investment property.



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