



YOUR COMMERCIAL REAL ESTATE COACH

INTRODUCTORY GUIDE TO  
COMMERCIAL REAL ESTATE INVESTING





# COACH

Coach: A dedicated person who sees hidden potential and maximises performance by encouraging, developing and believing.



# CC COACH YOUR COMMERCIAL PROPERTY COACH

No doubt you've heard about commercial real estate (CRE), but have you ever considered investing?

Whether you're new to real estate investing or have dabbled in residential real estate, getting an understanding of commercial real estate can expand your investment horizons.

But before you begin, it's important to have some foundational knowledge before you get started – that's why you need CC COACH.

In just 5 weeks you'll learn the fundamentals of commercial real estate investing, including different real estate product types, key real estate return metrics, property valuation strategies, tax implications, trends and more.

CC COACH will make the complicated uncomplicated, so you can navigate the world of commercial real estate and feel prepared to take the first leap into buying your first commercial property.

## WHAT YOU WILL LEARN

Learn the basic fundamentals of CRE so you have the confidence to speak knowledgeably and engage in conversations.

- Understand key financial concepts and the investment process for CRE
- Explore, review and analyse the three primary commercial property types; office, retail and industrial
- Understand and apply investment metrics and key analysis techniques to CRE
- Learn how to use debt and equity to acquire properties and earn returns on your initial investment
- Learn how to calculate and analyse CRE investment returns using the capitalisation rate, band of investment recognise and summarise the risks inherent in CRE investment
- Understand the emerging trends that will shape the future of commercial real estate

## WHO YOU WILL LEARN WITH

Your coach, Dane Crawford, is the CEO, Partner and Licensee in Charge of Newcastle's premier commercial real estate agency, Commercial Collective. Dane, along with his Partner, Byrne Tran has worked on many commercial real estate properties deals across a number of asset types in multiple markets.

They've helped many clients with locating, evaluating, and structuring investment opportunities including multi-million dollar commercial property acquisitions and exchanges.

Collectively, through their experience working with real estate private investors, private equity funds, development groups, and working within corporate real estate divisions, Dane, and Byrne have secured commercial real estate deals over \$5 billion dollars in value.





# WHO IS THIS COURSE FOR?

- Anyone seeking to learn and build a solid foundational knowledge in commercial real estate
- Investors who want to better understand commercial real estate before investing
- Investors who want to grow their wealth and create passive income
- Investors wanting an alternative to traditional residential real estate
- Professionals looking to explore commercial real estate as a potential career path

## WHAT YOU WILL GET



**5 week, step by step program**



**On-demand videos**



**5 downloadable resources**



**Lifetime access on mobile and TV**



**Certificate of completion**



**30 minute consultation with Dane Crawford**

# WHAT IS COMMERCIAL PROPERTY

Commercial property, also called commercial real estate is any non-residential property specifically used for business activities or income-generating purposes. The designation of a property as a commercial property has implications for how it is financed, how it is taxed, and how laws are applied to it. You can invest as an individual, through a self-managed super fund (SMSF) or through other entities such as companies or trusts.

Common commercial property types include:

### **INDUSTRIAL AND LOGISTICS:**

Warehouses, manufacturing sites, logistics and distribution centres.

### **OFFICE:**

Tenants maybe private businesses, Government agencies or large listed entities.

### **SOCIAL INFRASTRUCTURE:**

Social and community services like early learning centres and healthcare assets.

### **RETAIL:**

Bricks and mortar stores, shopping centres and retail centres.



「2」

## BENEFITS TO INVESTING IN COMMERCIAL REAL ESTATE

Are you looking to expand on your real estate investment portfolio, or want to start your own business and look at buying instead of leasing? Below are a list of the pros and cons to consider when you're fresh to the commercial real estate market.

- » **Strong and reliable returns:** Commercial investments generally provide a higher return on investment with a combination of capital gain and stable income.
- » **Less risk for your investment:** Compared to investing in shares, commercial real estate is less volatile and less likely to experience loss.
- » **Tax Benefits:** There are generous tax benefits that come with commercial properties with substantial depreciation allowances.
- » **Control:** As the owner of a commercial property, you have a significant degree of control over the investment. You can choose to add value to improve your return through property renovations, upgrades, change to the intended use or review the types of tenants you wish to attract.
- » **Longer lease periods:** Leases for a commercial property are generally much longer than residential and can be anywhere between three-ten years, providing you with a reliable income stream once you find your tenant. It also means less changes for tenants so you're not searching for a tenant every year.
- » **Less ongoing costs:** Lease agreements for commercial properties often allocate property outgoing costs such as council rates and water use to the tenant.
- » **Greater range of options:** Commercial properties can vary greatly in terms of cost/size etc so it's easier to work with a wide range of budgets.

「3」

## HOW TO BUY A COMMERCIAL PROPERTY

Commercial properties are sold through three different methods of sale - Expressions of Interest (EOI), Auction or Private Treaty. Below is a brief overview on how each method works for those getting started in the commercial market.

### EOI

This method allows the buyer to dictate their preferred purchasing terms with the seller and decide if they are acceptable or negotiate a middle ground.

### AUCTION

Held in the same manner as a residential property, they are usually conducted in an open public setting with all bidders aware of one another and their offers. Purchasing terms are generally dictated by the seller, though the seller may offer flexibility in regards to bidding and terms (which should be announced prior to the auction commencing). With all bids being legally binding, the highest bidder is required to enter into a contract immediately should the property reach the reserve price.

### PRIVATE TREATY

Similar to a residential sale, this method means the seller selects their price point and prospective buyers negotiate directly with an agent to reach an agreed amount.



4

# HOW TO ATTRACT THE RIGHT KIND OF TENANT FOR YOUR PROPERTY

**1. DECIDE ON YOUR IDEAL TENANT CRITERIA**  
Prior to listing, it's important to have a clear idea of the kind of tenant you are looking for. This may help you and your property agent when writing the listing copy.

**3. DON'T SKIMP ON PROFESSIONAL PHOTOGRAPHY**  
Some would argue that imagery is even more important than the words themselves at capturing and maintaining the attention of those looking. Quality photography helps prospective tenants see the potential the property can offer their business.

**5. THOROUGHLY SCREEN YOUR TENANTS**  
This should be something that your property management team should take care of, looking into rental history, company identity, required use and their budget (including rent and ongoing costs).

**7. KNOW ALL AREA AMENITIES**  
It's a good idea to be prepared for questions regarding local amenities such as public transport and cafés. This helps potential tenants envision setting their business up from this location and shows you're considering the property from a larger perspective.

**2. WRITE A COMPELLING LISTING**  
A well written and compelling listing can go a long way in capturing the attention of quality tenants.  
  
Your property agent should cover this but make sure you also approve it.

**4. REGULAR MAINTENANCE IS KEY**  
Staying on top of maintenance and repairs means that your property will be in good shape to be listed immediately after becoming vacant. A well maintained property is also a good indicator of a good landlord.

**6. CONSIDER INCENTIVES**  
To attract quality tenants, you might want to consider offering incentives such as contributions towards fitouts or rent free periods for longer leases.

**8. BE FLEXIBLE**  
Communication and flexibility go hand in hand. If you have superb communication skills but can't be flexible about meeting potential tenants, don't be surprised if they lose interest.





「5」

## LEGAL TIPS FOR PURCHASING COMMERCIAL REAL ESTATE

When it comes to purchasing commercial real estate, it's vital that you and your legal advisors review all details and nuances that make up the future transaction to ensure there's no unexpected surprises. Here are a few tips to ensure you're covered.



### IDENTIFY THE SECTOR

It's important to identify the sector which you are purchasing: industrial, retail, office etc. as each will have its own set of regulations to adhere to, plus determine future use.



### CONSIDER THE BUILDING AND SURROUNDS

Considering any environmental liabilities and the health of the structures on the property is vital. Engaging with a structural engineer can help review the structural integrity of your asset.



### TAKE STOCK

Evaluating a property's financial records such as profit and loss statements can help you understand the financial state of the property. Thoroughly review any leases to ensure you understand the responsibilities of each stakeholder.



### ESTABLISH YOUR FINANCING

Identifying options for your source of financing well ahead of time will help you avoid any delays during the process, and less chance of missed opportunities.





「6」

## TRENDS TO WATCH OUT FOR THIS YEAR

### UPCOMING CITIES



Be prepared for a shift in what makes a city attractive in the future. Companies can sometimes look for areas with talent clusters or less competition when compared to oversaturated markets such as major cities.

Renowned university cities (such as Newcastle) are investing big in city development projects to attract and retain talent and new business.

With any upcoming city, there is often a lot of new blood in town with new ideas or creative ways to do business. Unused buildings are being turned into creative shared office spaces, which could be a pathway for your vacant property (with the correct permits).

### CHANGE IN BUYING HABITS



There has been a certain downturn for the traditional brick and mortar retail stores due to a combination of economic factors such as online shopping, but also the social implications of COVID-19.

With grassroots campaigns focused on bringing customers back to shopping in store, as well as spending money with local businesses over large corporations; consumer behaviour is beginning to swing back in retail's favour.

### DEMOGRAPHICS



Perhaps one of the most important players in trends for commercial real estate is the demographics. Millennials (born between 1981-1996) are the largest and generally said to be the most progressive, idealistic and tolerant generation yet. Flexibility, work-life balance, and workplace amenities are the key to attracting this increasingly important demographic.

### DISTRIBUTION CENTRES



Distribution centres have become popular with the rise of e-commerce websites creating greater demand for storage and freight.



# HOW TO INCREASE THE VALUE OF YOUR COMMERCIAL PROPERTY

- 1. INCREASE YOUR RENT**

Regularly review your rental properties and increase any below market rents when leases expire. You can of course reasonably increase rent over time for existing tenants; however, when looking to lease out a vacant property - it allows you to step your rental amounts up without the incremental increases. To keep on top of the going rental rates in your area, search online or contact your property advisor to ask for advice.

\* Remember that you may not see any incentives they have been offered by simply searching. It is recommended that you speak to the agent also.
- 2. MAKE IMPROVEMENTS TO YOUR PROPERTY**

Cosmetic and functionality upgrades and renovations can make a big difference to increasing the amount of rent you can charge. Even a simple makeover of the front exterior of the property and some landscaping can improve the street appeal. This can do wonders for rent and attract the right kind of tenant.
- 3. CONTACT THE LOCAL COUNCIL FOR REZONING AND CHANGE OF USE**

Rezoning or changing the use of a property can significantly affect the value of a property. Contact your local council to discuss the requirements for a planning proposal or planning permit application. Changing an industrial space into retail use (for example) could dramatically improve your return and provide better tenant opportunities in areas with little retail spaces.
- 4. DIVIDE YOUR PROPERTY**

Dividing your property into smaller portions can be more profitable per acre or square meter and means that you can diversify a single property with various tenants, leaving you far less likely to be left with no income should a tenant vacate. It is important to check that there is demand for smaller-sized properties before heading down this path.
- 5. NEGOTIATE EXISTING LEASES**

Long leases such as a five or ten year lease, with regular reviews and rent increases are worth more to investors and will help drive up the value should you decide to sell. If you are selling, renegotiate or extend any existing tenant leases to maximise the value of your property.
- 6. MINIMISE YOUR OUTGOINGS**

The easiest way to increase the value of your commercial investment property is to minimise its expenses otherwise known as outgoings. Typically the value of a commercial investment asset will be determined by the net income being generated. Achieving small savings by improving the asset's efficiency, e.g., replacing the lights or renegotiating the insurances and service agreements with contractor's, can dramatically increase your property's worth.



「8」

# HOW TO KEEP YOUR PORTFOLIO LOOKING HEALTHY

Ensuring your investment portfolio stays robust and thriving means keeping your finger on the pulse of the market, staying up to date with trends and creative thinking. Here are four pieces of simple advice to get you heading in the right direction.



## DIVERSIFY YOUR PORTFOLIO

To help spread out the risk of your investment, it's wise to consider diversifying your investment portfolio in an ever changing economy. Commercial investments can be office space, retail, industrial, healthcare as well as many other specialities.



## WATCH THE MARKET

It's smart to carefully observe the market for highs and lows based on social and economic factors. Being patient and waiting to find a good deal may help to facilitate capital growth, plus nab you a bargain.



## THINK OUTSIDE THE TENANT BOX

Thinking outside the box when it comes to tenants and uses for your space (uses that are allowed within your permitted use for the premises) can be a clever strategy to ensure that your properties are capturing tenants who can offer strong rental yields and long leases.



## INVEST YOUR MONEY SENSIBLY

Make sure you've done your homework! Although commercial real estate can provide excellent returns, it's important that any investment you embark on is well-researched, considered and within your budget.





「9」

# HOW TO NEGOTIATE A BETTER COMMERCIAL LEASE

Entering into a commercial lease is a commitment, so it's vital that the property and lease terms are suitable and reasonable for you and your own intentions.

## » RENT

Commercial leases are usually negotiated on a per-square-metre basis. Landlords will sometimes offer incentives such as free rent periods or an offer to contribute to a new fit out. Landlords will consider aspects such as the lease term, or agreed rent reviews when determining what margins they can work within.

## » LEASE TERM

Make sure the offered lease term suits you and your intended use for the space. If your company is rapidly expanding and may outgrow the space within 3-5 years, it would be unwise to sign on for a 10 year lease.

## » RENT REVIEW

Commercial leases will contain rent reviews, very few landlords will agree to a fixed rent over a long-term basis.

Rent reviews come in different forms, and increases should be factored into your budget.

- Consumer Price Index increase;
- Fixed percentage increase (for example, 3.5% each year); or
- Market review.

## » FITOUT

When looking at a commercial space, make sure you're considering if it requires a new fit out. If so, you should obtain a rough cost or quote from a builder and factor it into your budget before deciding if this space is really suitable for your needs.

Before entering a lease agreement, you should discuss the fit out as different landlords will have different approaches to fitout periods - either fitting out prior to or following the lease commencement and handover.

## » PERMITTED USE OF THE PREMISES

Consider what you will be using the premise for and check the lease as it will need to contain a permitted use. It is in your interest to negotiate a broad permitted use, as this allows for future diversification of your business if needed, or may give you the option for a sub-lease arrangement should you decide to divide the space part way through a long lease.

## » OUTGOINGS

Landlords will often pass on outgoing costs such as council rates or water usage to their tenants, consider negotiating a fixed-fee or cap on the amount and ensure the landlord is transparent, communicating all of these costs prior to entering an agreement.

## » ASSIGNMENT AND SUB-LEASES

In the event you should need to sell your business, or you outgrow the space part way through a long lease, it can be extremely useful to ensure your lease allows you the ability to assign the lease or to sublease part of the premises. There are often conditions attached to this inclusion.

## » ALTERATIONS AND IMPROVEMENTS

The vast majority of commercial leases require tenants to gain the consent of the landlord if they want to make any changes or add improvements to the space. It's wise to include a clause in your lease that allows you to make alterations, drafted on the basis the landlord must give their consent which will not be unreasonably withheld.

## » FIRST RIGHT OF REFUSAL

A first right of refusal clause can be a handy inclusion in a commercial lease, especially so if you feel this property is future proofed for your business and may be something you would like to purchase in future.





10

# BUYING VS LEASING COMMERCIAL PROPERTY

Buying or leasing a new commercial property is an important step, so it's crucial to carefully consider which is the right way for your business.

## BUYING BENEFITS

**Investment:** The biggest benefit to buying your property is that it becomes an asset, which is likely to only increase with value over time. Owning means that this property is an investment and becomes part of your business, not just another expense.

**Control:** Like with owning your own home, owning your commercial property gives you the freedom to do as you see fit with the space, so if you have any creative and innovative ideas which you think is worth taking a risk on, dive right in.

**Simplify:** Balancing books is made easier as loan repayments are a fixed cost that you can factor in each month, so you can easily plan for the future.

## BUYING DRAWBACKS

**Upfront deposit:** Buying a commercial property is a major investment and one that requires a significant deposit, it's a big financial commitment for a small or new business.

**Future growth:** One of the biggest hurdles for businesses finding the right property is that it needs to serve them well now and in future, so consider your needs should the business grow. Owning a property that is too small can hold back expansion or become a burden.

**Ongoing costs:** Costs such as council rates and water use are often passed onto the tenants, and can sometimes be negotiated in lease terms to appear more favourable meaning the landlord or owner will have to shoulder these costs.

## LEASING BENEFITS

**Flexibility:** If you outgrow your space quicker than you originally predicted, the right kind of lease can provide you with the agility to move into a larger space when you need.

**Focus on business growth:** Leasing means that instead of a large portion of your money being tied up, you're able to invest more into the business itself and focus on growth.

## LEASING DRAWBACKS

**Rent increases:** While often still less than repayments on a loan, rent does generally increase over time. As a tenant, you may have little control over the asking rent once your lease ends.

**Landlords can sell:** As with any lease, you may feel like the space is yours, but in reality it's not. A landlord may need to sell, which could mean you're left looking for a new business home.

**Rent money is dead money:** As per the old saying, you are effectively paying off someone else's debt instead of your own.



# TIPS FOR BECOMING A COMMERCIAL LANDLORD

There is a lot to consider as a landlord when it comes to leasing your property to a new tenant. Protecting your interests and creating a mutually beneficial relationship is paramount and requires due diligence and care.



## SCREEN

Thorough screening of tenants helps make sure that the prospective tenant will be able to meet rental obligations and costs, plus that their intended use of the space suits you.



## SECURITY

For added security, you may want to request additional terms such as a guarantor or deposit. Three months' rent upfront is standard, but this could be negotiated if the tenant does not have a guarantor.



## CONSIDER THE LEGALITIES

The Landlord and Tenant Act of 1954 means that a tenancy is not automatically terminated at the end of the lease period, and if the tenant wishes to continue to occupy the property, they will legally be allowed to stay. If you'd prefer that the tenancy finishes once the lease is complete (or at least the option), this needs to be discussed and agreed upon prior to the lease agreement being finalised.



## CONSIDER THE FUTURE

Although it might seem like a good idea, leasing informally to friends, family or trusted tenants (in the interest of saving money), can cause headaches down the line should you need to sell the property part way through a lease. A prospective buyer may be discouraged without a formal lease agreement in place.



## FLEXIBLE LEASE TERMS

With demand for traditional brick and mortar retail on the downturn and the current economic climate, landlords may find it difficult to secure a long term lease. New startups often look for more flexible options with co-working spaces on the rise which equals less people in the market. It's worthwhile being flexible if you find the right tenant.



## INCLUDE A USE CLAUSE

Be sure to consider a prospective tenant's use for the property. Agreeing what the property can be used for protects your property so there won't be any unexpected wear and tear.



## ALLOW A TENANT TO MAKE THE SPACE THEIR OWN

When a tenant establishes a space as their own, they will likely want to add signage and customise a fit out to suit their business. A landlord who is unreasonably resistant may find it difficult to find a quality long term tenant.





YOUR COMMERCIAL REAL ESTATE COACH

02 4077 5858  
10 Newcomen Street,  
Newcastle NSW 2300

coach@commercialcollective.com.au  
**commercialcollective.com.au**

#### DISCLAIMER

This document has been prepared by Commercial Collective and all parties must make their own independent assessment and seek professional advice for their specific circumstances.

None of the Commercial Collective Entities will be liable (whether at law, in equity or otherwise) in any circumstances for any statement made or anything contained in or arising out of the information in this including any errors, misrepresentation or omissions. Commercial Collective disclaims all responsibility for any loss or damage caused by reliance by any person on this document or any representation, warranty or statement made by or on behalf of any of the Commercial Collective Entities.