

Pitfalls for unwary investors

THE commercial property market has long been the chosen avenue for the more sophisticated investor.

Primarily, these investors have a good knowledge and experience of the residential investment market and have switched their focus to the commercial sector.

The rewards can be outstanding in the commercial property market, but, like most things there are pitfalls for the unwary investor.

Mark Hay Realty Group's principal, Mark Hay, warns investors to look for:

■ **Economic cycles.** Commercial property is closely tied to the economy. If business is doing well and interest rates are low, then existing businesses will tend to expand and new businesses will open up. Increased retail spending and consumer spending will attract more activity and businesses leasing and producing more commercial properties.

Alternately, in times of economic downturns and interest rate rises, businesses tend to foreclose, downsize or close and buildings can lie vacant for a long time.

■ **Vacancies.** The sale price of commercial property is much larger and investors must be able to support interest payments and outgoings during times of vacancies.

Such times can be prolonged and investors must be able to support the property in the event of unplanned vacancies and not be forced to sell at such times.

■ **Leases.** Commercial leases can be verbose, lengthy documents drawn up by solicitors and protected by caveats held against the properties in favour of the lessees.

Before investors buy a property, they should have the lease inspected thoroughly by their solicitor, who will point out all major points that may impact on the owner.

These include the term of lease, optional



There are great rewards for commercial investors, but there are also some common traps for the unwary.

periods, methods of rental review, who pays outgoings, defaults and redevelopment clauses.

■ **Strength of tenancy.** Before buying a commercial property, a full investigation should be made of the tenant's history of payments to ensure personal guarantees are in place. Ask questions about how the present business has been faring? Is the rent paid, a fair market rent? What is the outlook and the market sector for the business and the region in which the business operates?

Often, the price of a commercial property

is based on the rate of return or capitalisation rate so that adequate research should show that the property's value is in line with the lease.

■ **Specific usage.** Many commercial properties are limited in their uses and if the property becomes vacant, owners could be limited in that use.

If the property is set up or zoned for drycleaning or smash repairs, you would be only able to attract tenants of a similar industry without applying for zoning changes or a major refit of the premises.

Commercial property will always outperform most residential investments and is a good vehicle for generous cash returns, especially for those considering retirement.

There are pitfalls that can negate that benefit if the appropriate research and professional help is not done to ensure that all factors favour the investor.

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