

## COVER STORY

# Rewards are worth the risk

NATHAN MAWBY

DESPITE offering some of the highest yields, commercial real estate is often overlooked by mum and dad investors who stick to more familiar residential real estate.

Private investors own as much as 60 per cent of commercial properties valued up to \$3 million in Australia. These range from industrial sheds to strata offices and retail shops, according to Tony Crabb, national head of research at Savills.

"Mum and dad investors almost dominate that sphere," Mr Crabb said.

"It would be in the order of about 40 per cent owner occupiers and 60 per cent private investors."

He said their motivation is the potential to see a yield of between 7 and 8 per cent — potentially double that seen on residential property.

Mr Crabb said there had been impressive capital gains for those who bought in 2009 (a high risk period after the global financial crisis), but these were not typical unless you invested long term.

The market was now more



## Business call yields results

WHEN Anthony Panozzo's drainage and civil contractor business got too big to operate from home, he figured it was time to invest in commercial office space.

Mr Panozzo (pictured) didn't want to rent, so he bought a suite in Queens Rd, Melbourne. After dipping his feet he went on to buy a second property, a storage site in Yarraville, achieving steady rental returns.

But he suggested getting help before diving in.

"It's more important to get the lawyers in for a commercial purchase," he said. "And watch the body corporate fees, air-conditioning and lifts are ones to look at," he said.

stable and the risk far lower.

Realestate.com.au sales and operations general manager Arthur Charlaftis said there was plenty of opportunity to invest in commercial property now, a peak listing period,

"The volume of commercial properties on our site normally peaks around May," Mr Charlaftis said. "October also sees more properties available before the rush of Christmas."

But commercial property

was very different to residential property, Mr Crabb said.

Laws governing commercial property were different, as were state and local government regulations. Lease terms could be up to 20 years.

"And they are different building structures and so the requirements of the landlord to maintain them and the cost of that is very, very different," Mr Crabb said.

Also, commercial properties were not typically negatively geared, with most banks prepared to lend only 60 per cent of the value, Mr Crabb said.

While prices could go beyond the tens of millions of dollars, there were much more affordable opportunities, he said.

A small industrial unit or shed could cost about \$500,000, strata offices could be found for \$300,000 in the suburbs through to \$1 million-plus in the CBD, and retail shops started about \$300,000 to \$400,000 for a milk bar-type property and went to multi-million-dollar shop fronts in town.

If that sounds complicated, you can invest in a syndicate or trust.

"Syndicates would put them (investors) all together and buy a \$20 million property," Mr Crabb said.

"Syndicates and managed funds are also being used as a cheaper way in and to help people spread their money."

## WATCHING COMMERCIALS

Realestate asked property professor **PETER KOULIZOS** what buyers should know about commercial property.

MOST property investors focus on residential property but some also invest in commercial property.

There are three common forms: retail, office and industrial.

Location is critical to commercial property. It is imperative the property is located where most people are driving or walking past, especially for retail.

The second most important factor is to read the lease. This can be lengthy but will tell you what rent is to be paid, when it will increase, by how much and who pays council rates, insurance and repairs.

One of the greatest advantages of commercial property is a generally much higher rental return than that of residential property. Industrial generally has the greatest return, then offices and retail.

But there are risks, such as a potentially higher vacancy rate.

Purpose-built properties can take a long time to retenant. It is not uncommon for industrial property to be vacant for years.

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