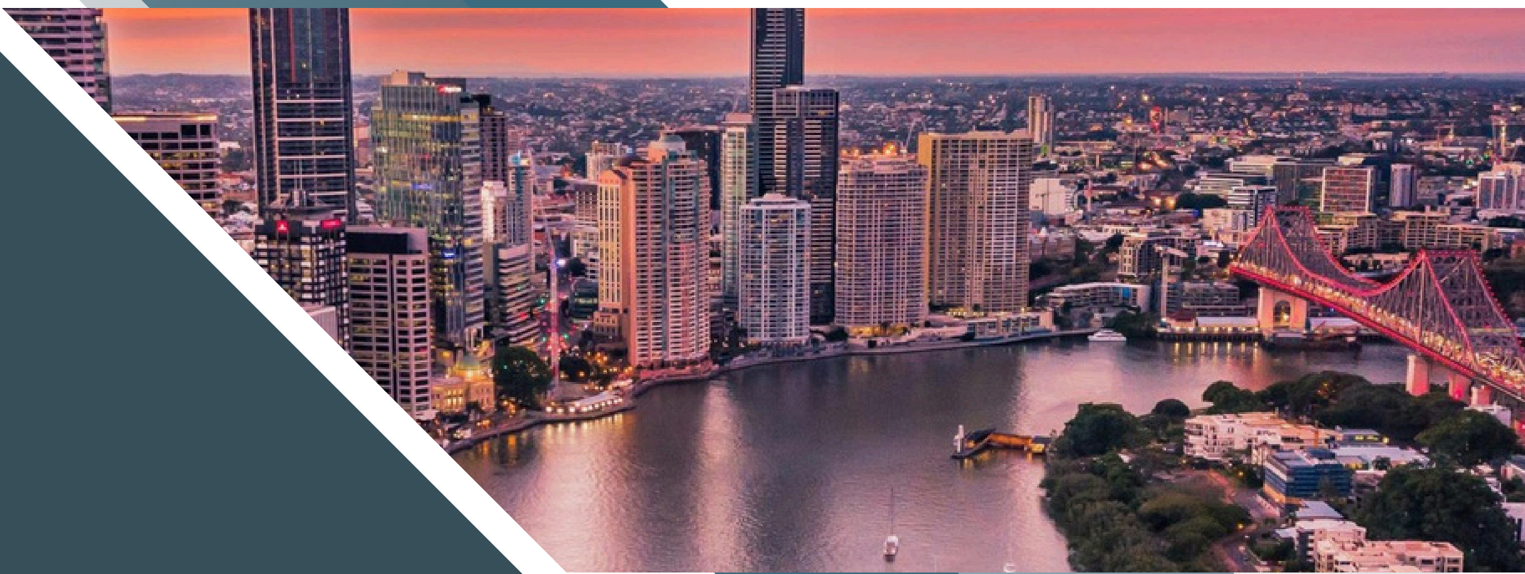
EXPERT GUIDE FOR

COMMERCIAL PROPERTY INVESTMENT



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Abstract

Commercial property investment in Brisbane offers significant growth potential due to the city's expanding economy, strong infrastructure, and strategic location. As a major hub in Queensland, Brisbane attracts businesses from various sectors, increasing demand for office spaces, retail centers, and industrial properties. Investors can benefit from lower entry costs compared to Sydney and Melbourne, while still enjoying high returns on investment. The city's ongoing urban development projects also present new opportunities for capital growth. With a diverse tenant base and a stable rental market, Brisbane is an ideal location for both seasoned and first-time commercial property investors.

1. Introduction

Investing in commercial property in Brisbane offers exciting opportunities for both experienced and new investors. As one of Australia's fastest-growing cities, Brisbane boasts a dynamic business environment, supported by ongoing infrastructure development and a thriving economy. Whether you're looking for office spaces, retail outlets, or industrial facilities, the city's diverse property market provides numerous investment options with potential for high returns. This expert guide aims to equip you with valuable insights, practical tips, and the latest market trends, helping you make informed decisions and maximize your commercial property investments in Brisbane.

2. Why You Should Consider Commercial Real Estate as Your Next Investment

This article highlights the benefits of investing in commercial real estate in Brisbane while also addressing the associated risks you should consider.

Key Takeaways

- Commercial real estate in Brisbane offers passive income, tax advantages and steady cash flow, making it a valuable investment option.
- Investing in commercial properties can diversify your portfolio and serve as a hedge against inflation, offering stability in uncertain economic times.
- However, commercial real estate requires significant time and capital investment, as managing properties can be costly and requires outside help. So, it's important to weight the risks and rewards carefully.

Real estate is one of the biggest industries in today's world. From buying property as an investment to buying your own home, real estate impacts every person's life in one way or another. Although it's a beast of an industry, you do not necessarily have to work in real estate to invest in it. In fact, many people buy properties simply to make a passive income with no intention of making it their full-time job.

Here are some reasons why commercial real estate could be a great investment for you.

Passive income

By investing in a property in Brisbane, you are going to be able to make a passive income — a check you don't have to actively work for. Depending on the property you buy, you can rent out the space to tenants and get paid each month that they occupy the building. In turn, the income can be recycled to pay for the property and its expenses or be used to invest in other properties without having to touch other funds. This is great because this is monthly income that you do not have to actively work for.

Tax advantages

By investing in real estate, there are many deductions and breaks that can actually help when it comes to paying your taxes. Also, any money you make on the sale of the property will be seen as capital gains and not an income, therefore lowering the amount of taxes you would have to pay on that money.

Cash flow

As you rent out the property and the tenants pay their rent, you will create a steady cash flow for yourself and increase your own income. As the mortgage gets paid, this will also help build your equity, which can help you invest in more properties and build up overall wealth.

Diversification

When investing money, it is always good to invest in different types of assets to ensure you have stable and reliable returns. Commercial real estate can diversify a portfolio — and in case of a market crash, properties remain unaffected, whereas stocks and bonds plummet. It's also a tangible asset that you can touch and feel, unlike other forms of investments. Tangible assets can help minimize the total risk in investments and help you build a profitable portfolio.

Leverage

Most times, buying a piece of real estate requires an initial cash investment. That investment can gain a very high return that can completely cover the debts of the property. For example, if you pay a down payment of 20% and the other 80% is debt, the property only needs to appreciate 20% for the invested equity to be 100%. However, this comes with the risk that if the property does not become profitable, it may have to go into foreclosure if the monthly payments cannot be made.

Appreciation

Real estate investments offer a lot of potential growth and appreciation that you may not have in more classic avenues of investing. For example, an investor can choose to buy and develop a property in an area they believe is up-and-coming. In that case, as the popularity of the neighborhood increases, the value of their property significantly rises and can lead to great capital appreciation.

Inflation hedge

As the economy grows and inflation rises and falls, commercial real estate doesn't feel the long-term impacts. Luckily, rents can be adjusted accordingly to the inflation rate and offset the impact. This results in strong rent growth and appreciation for your property, despite any worsening conditions in the economy. With other investments like stocks and bonds, inflation almost always has a negative impact.

On the flip side…

Commercial real estate, like any investment, has downsides as well.

For starters, it's a time commitment. Investors need to put time into managing and taking care of the property and its tenants. All of the building concerns and problems fall into the lap of the owner, so that aspect needs to be taken into consideration.

This leads to another downside — managing and taking care of the building usually requires outside help, like property management companies. These companies are not cheap and can be costly. However, this is really the only way to properly run the building and avoid running into issues.

This leads to the need for cash. Unlike residential real estate, commercial properties need a lot more capital for the initial investment and then cash that needs to be put into the property to maintain it. This makes commercial real estate investing unappealing since there are a lot of costs to carry the property, and it can take time for the revenue to outweigh the costs.

At the end of the day, every investment comes with risks. No investment is guaranteed. However, some may be a little bit more secure than others. Commercial real estate is a great idea if you're someone looking to diversify your portfolio and find another way to increase your wealth. Although it may be daunting, and the initial investments can be scary, the returns can be very high and worth it!

3. City Vs. Suburbs: Where Is The Future of Commercial Property?

Commercial property has always been a promising investment opportunity in Australia. It delivers way better returns than residential and is more secure than stocks. The pandemic has made many investors consider this option because of its rewarding nature. High rental yield and capital appreciation make buying commercial real estate in Brisbane a viable proposition for even first-time investors. The affordability of suburbs has made many people jump on the bandwagon.

It has increased the prices of properties in the suburbs, further propelled by population rise. It has made many seasoned investors diversify their portfolios and buy assets in regional areas. However, this does not mean that properties in the city are any less popular. The demand for CBD structures is at its peak.

Let us try to understand the city vs. Suburbs debate by identifying where is the future of commercial property. It will help you invest in the best location for maximum gains.

Advantages of Buying Commercial Property in Cities

The capital cities of Australia are the hotspots for buying commercial real estate. Sydney and Melbourne have always been in the spotlight, but Brisbane and Perth have also become popular over the years.

1. Infrastructure and Investment

The Australian cities are growing at a fast pace. The population boom is expected to impact Sydney, Melbourne, Brisbane and Perth significantly because these cities will accommodate more numbers than others. Consequently, the demand for offices, retail spaces and industrial properties will increase in these locations.

It will bring more investment into the cities through infrastructure development. The urban development programs are dedicated to making this possible for every state. It will offer the working population better transportation, connectivity and a high standard of living. Thus, buying commercial properties in cities is a good idea for those who can afford them.

2. Easy To Lease Properties and Tenant Mix

It is easier to lease commercial properties in cities than in suburbs because of the huge precincts and districts buzzing with activity. They have a large population of big and small businesses vying for the best workplace to showcase their credibility and stature in the marketplace. Since the demand is quite high and supply is limited in cities, prices and vacancy rates are high.

The wide variety of city tenants helps property owners find the right lessee in a shorter period. It reduces the expense of maintaining a property during a vacancy period and ensures continuous income. Thus, buying commercial real estate Brisbane can prove a low-risk investment than purchasing a property in Fortitude Valley.

3. Financing for Commercial Property Is Easier

It is easier for buyers to get a loan for a higher sum when buying commercial assets located in city CBDs. Banks usually offer loans for up to 70% of the price of the property in cities because they will get higher returns. Conversely, the loan amount for suburban real estate comes down to 50% of the price if it is located in a town with a small population.

City-based commercial properties have the benefits of experiencing high visibility and foot traffic, which ensure higher profits for tenants. Thus, the rent is high and can be paid by the lessee without hassles. Also, these buildings are well-connected, which helps to recruit employees and distribute goods and materials easily. These advantages make it acquire funds quickly. However, city properties are expensive and need a huge loan. It can be reduced by investing in an undervalued property.

Advantages of Buying Commercial Property in Suburbs

Buying commercial property in the suburbs has become popular among investors after the pandemic when a lot of families and businesses moved to these parts for safety.

1. Affordability and Development Opportunity

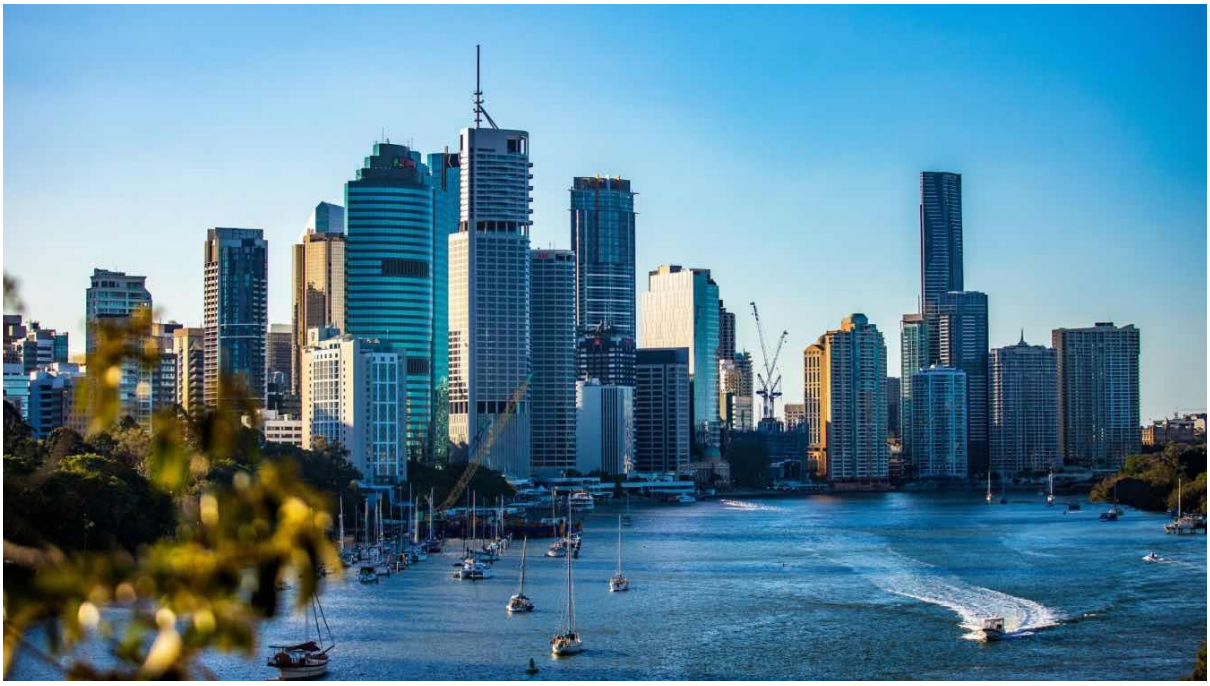
One of the biggest advantages of owning a suburban property is that it is more affordable than buying commercial real estate in Brisbane or any other capital city. However, the fast growth of these adjoining areas of cities has led to a rise in house prices and commercial property. Still, the suburbs are more affordable and have more space.

Tenants who wish to expand cost-effectively can lease these buildings. These regions have many developmental lands available for lease and sale. It allows investors to build new structures that can be leased to quality tenants for considerable income.

2. More Industrial Property Available

Industrial properties include warehouses, which are in high demand after the e-commerce boom. Most businesses have started selling products online, leading to an increased need for storage spaces. Since cities do not have such expansive spaces available, most of the warehouses are located in the suburbs. Those that are close to the CBDs are the most highly-priced.

The most popular commercial real estate Brisbane includes these assets in Southside, Northside, Trade Coast, etc. Similarly, Sydney and Melbourne suburbs top the list when it comes to looking for an ideal industrial space for investment. It is vital to choose a region that is well-connected to the city for ease of distribution and has ample storage capabilities.



3. Lease to Community-Centric Businesses

Many small businesses are planning to move into the suburbs for various reasons, including sustainability and community development. These features have become prominent for gaining credibility and creating a positive image in the marketplace. The suburbs have close-knit communities and a laidback lifestyle compared to cities.

These regions have more green spaces and beautiful landscapes, making them ideal for children, retirees and young families. Thus, businesses that want to build a community-centric entity can take advantage of these locations and develop a high-performing business. Investors can lease to businesses that have their target audience in the suburbs.

Where Is The Future of Commercial Property?

The comparison of advantages offered by city and suburban properties showcases their strengths. However, the growth depends on the demographics, economic development and infrastructure of the location. Property buyers will be willing to put their money in geographic territories that can bring the desired return through rental income and capital gains.

Although cities score higher than suburbs, they will be saturated with existing structures in a few years. Thus, suburbs will be the next best option for buyers who are already looking for affordable opportunities in these regions.

Buying commercial real estate can become challenging when you are unaware of the location. A wrong choice can make you spend more than intended and get caught in the web of ongoing debt. So, thoroughly research the geographical area and its prospects before signing the deal.

4. What Is The Best Type Of Commercial Property To Invest In?

Have you ever walked through a major city and counted all the different commercial property types? There are gas stations, hotels, strip malls, apartment buildings, industrial buildings, municipal buildings, office buildings, funeral homes, churches, synagogues, cemeteries and more. Yes, cemeteries! Did you know that grave plots are sold by the inch? They are commercial real estate too. Commercial investment properties in Brisbane range in size from a small, single-story, 750-square-foot office building to the Sears Tower in Chicago that is 4.5 million square feet. There is no other investment that I know of that gives you four types of income over time: rental income, rental increases, appreciation and saving on your taxes with depreciation.

Which Commercial Properties Make The Best Investments?

Do you know what flex space is? It is just about the hottest, most in-demand commercial property type right now — and no, it is not space made for a yoga studio. It is a light industrial complex where each unit has a showroom on one side and an office on the other. Flex industrial spaces are some of the lowest-risk investment properties, and they stay full. Small businesses that occupy them almost always pay the rent, as it is affordable. These entrepreneurs have pride in their operations and keep their units clean and tidy.

Apartment buildings, also know has multifamily, also carry some of the lowest risk. As the Brisbane. population has grown and home prices have increased, renting is the only option for many young people. Likewise, seniors often do not want the responsibility of maintaining a home and are becoming more attracted to renting. Multifamily vacancy nationally today is unusually low, at about 5%. The drawback is that multifamily is one of the most difficult commercial property types to manage. Renters in high-end complexes often have unrealistic expectations for maintenance and service. If someone's toilet breaks on a Saturday and it is not repaired until the following Monday, the apartment complex will often get a bad review online. On Class C apartment complexes in working-class neighborhoods, property owners may have headaches with rent collections, domestic disturbances, eviction and property damage. It often takes a very strict, hands-on approach to manage these effectively.

Self-storage, which performs well during good and bad economic times, is an outstanding commercial property investment. What an easy business to run: no toilets to fix, walls to paint or carpets to replace. When one tenant moves out, all you do is sweep it out to make it ready for the next one. The downside is that a new self-storage complex could be built nearby and steal your tenants or force you to lower your rents

And let's not forget mobile home parks. As long as most of the tenants own their homes, these make for a great investment. With no buildings to repair, most of the upkeep is landscaping and light maintenance. Because people rent space for their homes, they take care of the premises and just about always pay the rent on time.

What Commercial Properties Are Not As Desirable To Invest In?

Single-tenant, single-use buildings like an auto dealership are the highest-risk commercial property investment. If the dealership goes out, you have 100% vacancy. And what other type of tenant could you find to occupy that space? In Albuquerque, New Mexico, I know of an old car dealership that has been turned into a restaurant, but this is unusual.

On the other hand, a single-credit tenant property with an AA credit rating has virtually no risk of failure. But these commercial property types have the lowest cap rates and are the most expensive. Even a four-unit commercial building is risky. If one tenant moves out, you could be facing 25% vacancy or more. The result could be the property running at a loss after loan payments. It is best to invest in an office or retail complex that has eight or more diverse tenants with some national names mixed in. Retail malls that are based on apparel anchor tenants are on the decline nationally because of the high demand for online sales. However, strip malls that have a balanced tenant mix between popular chains like dollar stores, restaurants and service business are doing well.

New Trends In Commercial Investment Properties

Here are a few newbie commercial property types that are winners: Did you know that micro-apartments command the second-highest rent per square foot of all multifamily properties? They are 240- to 500-square-foot urban dwellings that rent from an average of $1,200 to $3,500 per month, depending on location. Millennials love them because they are luxurious, and within easy walking distance of trendy boutique shops and fabulous eateries — perfect for a population not fixated on homebuying. Only student housing rented by the bed rents for more per square foot.

Co-working space has become popular in large metros like Brisbane. These often offer a choice of configurations, including large rooms with tables, open spaces filled with individually assigned desks or cubicles, and sectioned-off rooms that mimic traditional offices. Many remote and freelance workers find these spaces attractive for regular or periodic work. Fees range from $75 to $400 per month. This property type garners the highest price per square foot of all office properties.

For those who are retired and want absolutely no headache, a triple net lease credit tenant property cannot be beat. They have national tenants with good credit ratings willing to pay the taxes and insurance and fix everything. Apartments are low-risk and a great way to get started, but if you are not the nagging type, this might not be the right property for you. Then think about self-storage, one of the easiest commercial property types to run with almost no maintenance. And it doesn’t get much better than investing in a flex industrial complex — that is, if you can find one for sale. So, how should a first-time commercial property investor choose a property type? Go with the option that fits you and your lifestyle.

5. What Is Commercial Property Insurance?

Commercial property insurance is a kind of insurance policy that covers the partial or full cost of repairing or replacing business-owned buildings, equipment, and other property that’s been damaged or destroyed by a fire, windstorm, or other covered peril.

Definition and Examples of Commercial Property Insurance

Commercial property insurance is a type of insurance policy that covers loss or damage to physical assets owned by a business, such as buildings, equipment, and office furniture. The insurance covers damage to insured property by a cause of loss covered by the policy. It helps protect the financial integrity of a business so it can continue to operate after a physical loss.

Alternate names: business property insurance, business hazard insurance

An example of commercial property insurance is a business owner’s policy (BOP), a package policy designed for small businesses. A BOP includes commercial property and general liability coverages. The property section covers buildings, machinery, and other business personal property located at the business’s premises described in the policy declarations.

How Commercial Property Insurance Works

Commercial property insurance covers property your business owns and uses in its operations. Most policies cover categories of property rather than specific items. For example, a business owner’s policy covers two broad classes of property: buildings and business personal property. Property your business owns is usually covered if it meets the policy’s definition of “buildings” or “business personal property.”

Most commercial property policies (including a BOP) are intended to cover property situated at your business premises. Accordingly, they generally afford little or no coverage for items at offsite locations, such a job site. Many policies automatically include replacement-cost coverage for most (but not all) insured property. When property insured for its replacement cost is lost, damaged, or stolen, the insurer typically pays the cost of repairing or replacing it. Property that isn’t eligible for replacement-cost coverage is usually valued according to its actual cash value.

Business property insurance can be beneficial whether you own or lease your business location. If you own the building, a property policy will likely protect you from financial losses that result from damage or destruction of the building or its contents. If you lease your business premises and your landlord has insured the building, a property policy will cover losses you incur due to physical damage to furniture, equipment, and other property your business owns or, in some cases, rents.

Commercial landlords are usually (but not always) responsible for purchasing property insurance on the building. If you lease your business premises, read your lease carefully so you understand your insurance obligations.2

Types of Commercial Property Insurance

While commercial property insurance is a fairly broad category, most property policies fit one or more of the following four categories.

Direct Damage

Direct damage insurance is what most people think of when they hear the words “property insurance.” It covers the cost to repair or replace buildings, office furnishings, equipment, and other business-owned property that’s been physically damaged or destroyed by an insured peril. Direct damage insurance is typically included in BOPs and commercial package policies.

Time Element

Time element insurance covers the loss of use of physical property that’s been damaged by a fire or other covered peril. Two examples of time element insurance are business interruption (also called business income) and extra expense coverages.

Business interruption insurance covers income a business loses as a result of its operations being shut down due to damage. Extra expense insurance covers additional expenses (over and above normal expenses) a business incurs to keep its operations running or to minimize a shutdown after a physical loss.

Both business interruption and extra expense coverages apply during the “period of restoration,” which begins when physical loss occurs and ends when the damaged property is repaired or replaced.3

Inland Marine

Inland marine insurance is designed to cover property that moves from place to place over land. It covers equipment, cargo, and other movable items wherever they’re located, including while they’re in transit. Inland marine insurance differs from ocean marine insurance, which covers goods transported over the water.

Inland marine policies are used to insure a wide range of property, including construction machinery, computer equipment, and cameras. Unless they remain on the business premises, such items aren't typically covered by standard commercial property or business owners' policies.4

Crime Insurance

Crime insurance protects businesses from financial losses caused by the criminal acts of others. A variety of crime coverages are available. For instance, employee theft insurance covers the value of money or property stolen by a dishonest employee. Computer fraud and funds transfer fraud insurance covers financial losses you sustain, for example, when you or an employee transfer money in response to a fake email and other scam inflicted on you via a computer. Crime coverages are typically coverages you have to add to your commercial property policy.

6. Steps to a Hot Commercial Real Estate Deal

Ask any real estate professional about the benefits of investing in commercial property, and you'll likely trigger a monologue on how such properties are a better deal than residential real estate. Commercial property owners love the additional cash flow, the beneficial economies of scale, the relatively open playing field, the abundant market for good, affordable property managers, and the chance for a potentially bigger payoff from commercial real estate.

But how do you evaluate the best properties? And what separates the great deals from the duds?

1. Learn What the Insiders Know

To be a player in commercial real estate, learn to think like a professional. For example, know that commercial property is valued differently than residential property. Income on commercial real estate is directly related to its usable square footage. That's not the case with individual homes. You'll also see a bigger cash flow with commercial property. The math is simple: you'll earn more income on multifamily dwellings, for instance, than on a single-family home. Know also that commercial property leases are longer than on single-family residences. That paves the way for greater cash flow. Lastly, if you're in a tighter credit environment, make sure to come knocking with cash in hand. Commercial property lenders like to see at least 30% down before they'll give a loan the green light.

2. Map Out a Plan of Action

Setting parameters is a top priority in a commercial real estate deal. For example, ask yourself how much can you afford to pay and then shop around for mortgages to get a sense of how much you will pay over the life of the mortgage. Using tools like mortgage calculators can help you develop good estimates of the total cost of your home.

Other key questions to ask yourself include: How much do you expect to make on the deal? Who are the key players? How many tenants are already on board and paying rent? How much rental space do you need to fill?

3. Learn to Recognize a Good Deal

The top real estate pros know a good deal when they see one. What's their secret? First, they have an exit strategy: The best deals are the ones you know you can walk away from. It helps to have a sharp, landowner's eye—always be looking for damage that requires repairs, know how to assess risk, and make sure to break out the calculator to ensure that the property meets your financial goals.

4. Get Familiar With Key Commercial Real Estate Metrics

The common key metrics to use when assessing real estate include:

Net Operating Income (NOI): The NOI of a commercial real estate property is calculated by evaluating the property's first-year gross operating income and then subtracting the operating expenses for the first year. You want to have positive NOI.

Cap Rate: A real estate property's "cap"–or capitalization—rate is used to calculate the value of income-producing properties. For example, an apartment complex of five units or more, commercial office buildings, and smaller strip malls are all good candidates for a cap rate determination. Cap rates are used to estimate the net present value of future profits or cash flow; the process is also called capitalization of earnings.

Cash on Cash: Commercial real estate investors who rely on financing to purchase their properties often adhere to the cash-on-cash formula to compare the first-year performance of competing properties. Cash-on-cash takes the fact that the investor in question doesn't require 100% cash to buy the property into account, but also accounts for the fact that the investor will not keep all of the NOI because they must use some of it to make mortgage payments. To uncover cash on cash, real estate investors must determine the amount required to invest to purchase the property or their initial investment.

5. Look for Motivated Sellers

Like any business, customers drive real estate. Your job is to find them—specifically those who are ready and eager to sell below market value. The fact is that nothing happens or even matters in real estate until you find a deal, which is usually accompanied by a motivated seller. This is someone with a pressing reason to sell below market value. If your seller isn't motivated, they won't be as willing to negotiate.

6. Discover the Fine Art of Neighborhood "Farming"

An excellent way to evaluate a commercial property is to study the neighborhood it's located in by going to open houses, talking to other neighborhood owners, and looking for vacancies.

7. Use a "Three-Pronged" Approach to Evaluate Properties

Be adaptable when searching for great deals. Use the internet, read the classified ads, and hire bird dogs to find you the best properties. Real estate bird dogs can help you find valuable investment leads in exchange for a referral fee.

By and large, finding and evaluating commercial properties is not just about farming neighborhoods, getting a great price, or sending out smoke signals to bring sellers to you. At the heart of taking action is basic human communication. It's about building relationships and rapport with property owners, so they feel comfortable talking about the good deals –and doing business with you.

7. Conclusion

In conclusion, commercial property investment in Brisbane presents a promising opportunity for those looking to diversify their portfolios and capitalize on the city's growth. With its robust economy, diverse tenant market, and ongoing infrastructure developments, Brisbane stands out as a prime location for investors. By understanding market trends, conducting thorough research, and leveraging expert advice, you can navigate the complexities of commercial real estate and make informed decisions.

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