

# **AFFORDABLE** **COMMERCIAL PROPERTY**

*Discover How To*  
**DOUBLE Your**  
**NET Return**

**Chris Lang CEO**  
**Commercial Property Made Easy**



You too, can ...

# Actually Afford Commercial Property



**Natalia Sampson**

What you are about to read is the transcript of a conversation Natalia had with Mary ... who was seeking some guidance about how she could make the simple transition from residential into Commercial property.

Hopefully, by reading this, you will gain the necessary understanding and confidence ... to be able take full advantage of attractive NET returns that are often **double** what you can achieve, as a residential investor.

I trust you'll enjoy it ...

A handwritten signature in black ink, appearing to read 'Natalia'. The signature is fluid and cursive, with a long horizontal stroke at the end.

# Transcript of the Complete Interview

**Natalia:** Thank you Mary for agreeing to meet with me today. Based on our telephone call, I believe you've got a few further questions for me?

**Mary:** Yes, Yes I do, thanks Natalia.

As you've probably gathered, I am pretty new to commercial property, so perhaps you could start by explaining why you feel "commercial property is a better investment over residential".

**Natalia:** That is a good question, thanks Mary.

It's often asked by traditional residential investors, when they are considering commercial property for the first time. What you discover is there are many reasons that are quite compelling. Probably the main reason is the longer leases you enjoy with commercial property.

Quite often, you'll find that residential tenancies will be on a month-by-month basis; maybe 6 months perhaps even for a year, if you are lucky. Whereas commercial properties will tend to lease for between 3 and 5 years, and often for longer.

That means you will have, fewer tenancy changes; and a far more predictable income stream.

**Mary:** Ok, ok ... so, what about the aspect of security?

**Natalia:** I guess what people have to understand is that when residential tenants want to exit half-way through a lease, they simply need to find a suitable substitute tenant; and then transfer the lease across to that person. From then on, the new tenant becomes responsible for the rental during the remainder of the lease term.

Commercial tenants are running a business from your property; and whenever they sell their business, they require your approval to assign the lease.

However, here's the difference: If they (the new commercial tenant) defaults in paying their rental, you also have recourse to the previous tenant as well – because commercial leases are a business contract, enforceable by law.

**Mary:** Ok. I've heard commercial tenants actually pay the outgoings for you. Is that correct?

**Natalia:** That is correct, Mary. Typically residential properties will provide you with a 5% gross rental return.

From this you need to pay rates and taxes, insurance, maintenance and so on ... leaving you with about a 3.5% net return, at the end of the year.

Depending on what and where they are, commercial properties would generate a 6% to 8% rental return.

However, commercial tenants are also required to pay the various buildings outgoings on top of their rental – making it a NET rental return to you. It's a 'key' difference.

**Mary:** Yes, and do you find that commercial tenants actually look after your property a lot better?

**Natalia:** As you know, if a toilet stops working in an apartment, the tenant asks you to send around a plumber. Whereas commercial tenants quickly attend to it, and often pay to fix the problem themselves – so as not to disrupt their business.

The overall appearance of the property becomes a reflection on them; and as such, the property is kept in really good condition at their expense.

Therefore whether the lease requires it or not, most commercial tenants will regularly repair and repaint the property, to maintain a good corporate image.

**Mary:** And can you please tell me about “payment certainty” – as far as commercial tenants are concerned?

**Natalia:** Nearly most residential properties are rented by individuals. Therefore, the rental is generally paid in cash or by personal cheque; and this can often vary in its timing.

Because they are running a business, commercial tenants consider rent as simply another regular expense each month. And generally, this gets set up as an automatic bank transfer and can be specified as such in the lease.

**Mary:** So overall, you see real benefits from investing in commercial property ... rather than just trying to play it safe with residential property.

**Natalia:** There are compelling benefits Mary. As a residential investor, you soon find yourself having to deal with the different personalities of individual people. However, as a commercial investor, you tend to enjoy more predictable, long-term relationship with your tenants, based upon a proper commercial footing.

Doesn't that sound like a far better arrangement to you?

**Mary:** Yes, definitely.

**Natalia:** And one final thing: An office will provide you with more than double the depreciation benefits you'll gain from owning an apartment. That means you enjoy a major non-cash deduction – which will significantly reduce your taxable income.

[Here's a further article](#) to help give you an even better understanding.