



A journey of a thousand mile starts with just one step!

Eclass 1 – Information Memorandums - The insight to your commercial property...

Hi and welcome, in this Eclass we are going to give you the ins and outs of what an IM is and how it can help you to select the right commercial property for you. We are going to give you all the tips on the jargons used in the commercial property industry and also screen shots of what IMs look like (just in case you have never seen one)

BUT, before we start here is a quick overview of what you will be learning in the few months...

1. How to work out the property yields and compare different commercial properties so you know which best suits your commercial property goal
2. How to maximise your return on investments – ways to increase your rent, reduce your outgoings and create more rentable areas
3. How to increase your portfolio and work out an exit strategy as to when best to keep and when best to sell your commercial property for maximum gain!

Let's take our first step together now...

What is an Information Memorandum (IM)?

An information memorandum is the booklet that commercial real estate agents often prepare for each commercial property before a sale (but not all properties will have one). It is the brochure they give prospective buyers to read which gives an overview of the property, the area the property is located, and information about the current tenants.

How can an IM help you?

An IM is given out to help you work out if the property on offer is the type of property you are interested in purchasing. It should have all of the essential information (other than the contract of sale) for you to gain an overview of the property type, some background information and tenant information. It is a document created by the real

estate agent to boost the profile of the property. It is usually about 20+ pages long and will often include a number of photos of the property.

An IM can help you gain more detailed information relating to the property you are after without you committing to anything (and without even visiting the property). It is the first document you would look at and from there you would decide if you want to move forward with finding out more details about the property and inspecting the property. It is not the definitive document on the property but it is a very useful start of your journey to understanding the property you wish to purchase.

Usually you would ask for 3-5 different IMs on the properties you are interested in and read through them and then compare and analyse them against each other (something we will teach you in later Eclasses)

What type of information will you find in an IM?

In a typical IM you should expect to find the following information about the property you have enquired about:

1. **Property Overview** – including location, suburb and history of the property plus size of property and additional features such as parking lots, outdoor areas and perhaps the title details of the property
2. **Suburb Overview** – including the surround areas, other landmarks or buildings and demographic overview
3. **Tenant information** – whether the property is tenanted or is being sold with vacant possession. If tenanted the type of tenant, how long they have been there and the rent they are paying
4. **Outgoings** – Fees such as strata levies, council rates, water rates, land tax, etc
5. **Type of Sale** – How is the property sold – private treaty, EOI or by Auction
6. **Agent information** – The sales agent's company and contact details
7. **Photos of the property** – photos of the inside of the property, the outside and surrounding area if it is part of a CBD hub
8. **Lease term** – the term of the lease, how long the tenant has been there, if there are rent increases in the lease

What is not in an IM?

An IM does not contain the following information:

1. Yields for varying sale prices (*we will teach you how to work this out later Eclass8*)
2. Whether the property is under management – by a managing agent
3. Additional outgoings – for maintenance contracts, common area cleaning and other misc. costs (*we will teach you to ask for these in later Eclass 6*)
4. The Lease itself – depending upon which state or territory the property is located in, a copy of the lease is usually included in the contract of sale so it is not part of the IM but you will need a copy of the lease to check detailed information regarding who pays for the outgoings and whether there is an option coming up or a rent review (*all the things we will teach you to look for in Eclass 4*)
5. Additional costs for holding the property – these include insurance, fire safety inspections, etc.
6. Strata Report - if you are buying an office or retail premise there may be strata. You would need to obtain a copy of the strata report and talk to the strata manager to see if there are potential issues with the building that you may need to pay special levies for within the next few years (*we cover this in detail in Eclass 17*)

Just to get your started here are some screen shots of what an IM looks like and a list of terms that you will need to get familiar with.

TIP: All serious vendors will have an IM done up for their property. If the agent says they do not have an IM then you need to serious wonder if the vendor really wants to sell their property. The only time there may not be an IM available would be for some mix tenancies do not IMs because it is zoned residential therefore the agent do not have to produce an IM.

52 Bridge Street Muswellbrook NSW

Information Memorandum



**burgess
rawson**

99/265 Sandy Point Road Salamander Bay (Port Stephens) NSW

Information Memorandum



Investment Features

- Outstanding fully leased retail investment comprising three separate tenancies
- Unique location adjoining the popular tourist destination "Pacific Blue Resort"
- Good tenancy mix to long term tenants (Businesses relevant to adjoining hotel)
- Strategic corner position opposite KFC, Harvey Norman and close to Salamander Bay Shopping Centre
- Diversified income streams
- Tenants pay majority of outgoings, as per lease
- Potential for future strata subdivision
- Net Income: \$84,861 pa + GST



An IM usually has a professional photo of the commercial property at the front followed by agent details, building address and the type of sale it will be

Common Terms in Commercial Property

Terms	Meaning
IM	Information Memorandum – A report that gives an overview of a commercial property
Yield	The return you get based on the purchase price of your property – usually expressed in % (percentage)
ROI	Return on investment; the return you get with your money.
Outgoings	What you need to pay as an expense for maintaining your commercial property – things like strata, electricity or cleaning
Strata	Where the commercial premise is managed through a company who will look after all the maintenance of the building – you will need to pay quarterly fees but it means you will have no other outgoings
Mix tenancies	A commercial premise that has a mixture of tenants or can have both residential and commercial as part of the building. For example a restaurant with an apartment upstairs
Mezzanine	Internally second floor. Some warehousing units have a mezzanine floor so they can have office space and/or elevated storage space
Depreciation	Decrease in value of fixtures due to wear and tear. This can help with your tax reduction. You will need to obtain a professional report
Valuation	Estimation of the worth of an asset
LVR	Loan to Valuation Ratio – The amount you are borrowing as percentage to what your asset is worth
Freestanding	The property is on Torrens title and is not under strata

Warehousing	Type of commercial property mostly used for storage or for workshops
Retail	Type of commercial property mostly referred to as shopfront premises such as on major shopping strips or shopping centres
Regional	Out of the major CBD of major cities but regional cities can be a good hub for high yielding commercial property
Rural	More remote then regional and mostly for agriculture businesses
Managing Agent	An agent who just manages your commercial property investment but they may not do leasing if you need a new tenant. When you need a new tenant they often contact several leasing agents to help you find a tenant fast
Sales Agent	An agent that just sells commercial properties.
Leasing Agent	An agent that helps you to find a tenant for your commercial property. They usually charge you a success fee when they are successful
Private Treaty	Sale of the property is done through private negotiations
Expressions of Interest	There is a deadline and all interested purchasers need to fill in a form stating how much they are willing to pay for the property. The sales agent will then negotiate with the top 2-3 bidders after the expressions are closed off.
Auction	A public sale that is binding that is held on a particular date and time
Contract	The sales contract is usually a standard sales contract used for residential with some slight variations in terms
Settlement	When your property changes hands from the vendor to the purchaser
Lease	A commercial lease can be up to 25 years with different options so it will not be a standard real estate institute lease, it will be one drawn up by a solicitor so the terms in each lease can vary significantly
Reports	There are some reports such as fire safety, strata, asbestos reports you may need to get before purchasing your property
CPI	Consumer Price Index – this is a percentage produced by the bureau of statistic and we use it to calculate rent increases
Rent Increase	In all commercial leases there is specification for rent increase on a yearly basis. At the minimum it is CPI but usually it is 3 or 4% each year.

Exercise for the week

To start your commercial property investment journey it is essential you understand what an IM is. So in order for us to proceed to the next class you will need to do some research on a commercial property sales website such as www.realcommercial.com.au and find 3 properties you would like or think you would like to purchase. Depending on your budget they may be as low as \$150k or as high as 2 or 3 Million dollars but to get a comparative view we would like you to find 3 properties that are around or below the \$500k mark.

So please go to www.realcommercial.com.au (or other property sales website) and look for 3 different types of properties – one for retail (shopfront/café) property, one for warehousing (wholesale) and one for commercial (office suites). All these 3 properties need to be around \$500k or below in sales price

They can be located anywhere in Australia but try to find them in a local area to you or in an area you are thinking of buying in.

Put in an enquiry through the property sales website and request a copy of each Information memorandum (IM) for the three properties. If you do not want the real estate agent to contact you by phone then just provide your email address. While you are there you can also ask for the lease of the properties you have found (*we will use that later in Eclass 4*)

In a day or two you should get the IMs back by email. You should read through those IMs and make notes on any additional questions you would like to know about the property.

In our next Eclass we will go through couple of examples of an IM and take you through how to read in between the lines and also what additional information you should ask for.