



Eclass 2 – IM – doorway to your first commercial property!

Understand the property you have chosen through reading the IM

By now you would have obtained three IMs for the three different types of properties in the commercial property investment arena. We will go through each of the three property types in the Eclasses to come but today we are going to read through and dissect a couple of different IMs together so you know what to look for in the IMs you have obtained.

Now depending upon which state or territory you live in, and which company produces them, you may find that their appearance may vary. We look over two entirely different IMs in our Eclass today.

The first IM we will be looking at is the COATES HIRE IM (Coates). This is in the PDFs that are attached with this email. This IM is produced by one of the top commercial real estate firms in Sydney called Burgess Rawson. They typically sell a large proportion of their stock through Auction and they are a professional firm dealing with commercial properties in the higher end of the market. This particular property offered in the IM actually comprises two properties that are owned by the same owner/company but sold separately so there is separate information about each property in the IM. You can also see that this IM is very glossy, very professional and very detailed. It is very easy for a potential purchaser to read and understand what is on offer. The properties advertised in this IM range around a minimum of \$500k each.

The second IM, the Ipswich one (Café), is from a small suburban real estate firm who does both commercial and residential sales. The IM has a lot of information but it is not organised neatly; rather you have to read through all the documents to understand it. So you may need a highlighter to highlight all the nuggets of information from this IM. The property we are looking at in the Café IM is also priced for sale for around \$180k which is a significant lower than the Coates property. The Café property is also located in Ipswich which is a town in Queensland so their IMs look a little different.

At the end of the day no matter what your IM looks like this eclass is about how to read and get all the nuggets of information out of them so you can make a decision to go forward or not with your investment.

www.commercialpropertyjourney.com.au

Commercial Property Cash Flow Program
www.commercialpropertycashflow.com.au

LET'S GET STARTED!!!

COATES IM explained -

As you can see in this IM there are two properties for sale. The sale is by way of an Auction and the properties are being sold separately.

We know from the front of the IM that the tenant is the national Coates Equipment Hire business.

We also know from this IM that the lease and Sales Contract are not included in this IM. This is something you should ask for as the next step in finding out more about this property.

The next page tells you a little more about the features of the lease and the tenant. As it is a national tenant all their leases are likely to be roughly the same, so they will usually have the same length of lease with the same options plus the conditions (as to whether they pay outgoings) in the lease.

We can see on Page3 of the Coates IM that the lease is a long term lease of 12 years with fixed increases built in. (we will discuss lease terms in detail in eclass 5)

Going through the rest of the IM you can see that there is a little introduction to the area each of the properties is located in. This is only brief so you should still do your own independent research as to the suburb profile you are buying into. Especially if you are buying in an area you are not familiar with.

The next thing on the IM is the Site Particulars and the Property Description. The Site Particulars are important as you need to match that up with the site diagram in the sales contract to make sure the land you are buying is the same size and zoning as state in the IM. (there has been many misprints in IM regarding size and zoning so worthwhile to double check). Your solicitor or conveyancer should also be checking this if you decide to purchase the property. You should read through the Property Description and use it as a guide when you do the inspection of the property. In this case all the tenants are in one property so it is easy for you to see everything when you do your inspection.. Some properties on the market contain different tenancies which you will need to locate on your inspection. For example they may lease out front part of the building for signage use and have a mobile tower at the back of the property. It is worthwhile to check all these out when you do your property inspection.

On page 8 you will find the Lease details for the property. These details are especially important because when we come to do the calculations to analyse the property we will be using these figures to work out the yields (this is covered in detail in Eclass 8)

You also need to make sure that the lease details in the IM actually match up with the copy of the actual lease in the contract (again there can be misprints and the signed lease will be the document that applies, not the IM)

Notice that amongst the lease details there is a section regarding insurance; this is the insurance the tenant takes out. You also have to take out insurance on the building for cases like natural disaster damage and fire damage (this is covered in detail in Eclass 16)

It is important to note that the rental return is “Net” and not “Gross”. Different IMs advertise different rates of return so you need to pay attention to whether or not it is net or gross

On page 11 of the Coates IM there is some information regarding the Tenant Profile. This is a good background to get you started with your research. If the property you are looking at has a smaller less well known tenant you will need to ask more questions about the tenant when you see the agent (we will cover this in Eclass 5). While the information here is informative, it is only a start for you to do additional research into the tenant. As Coates is a national chain you can use the internet to find all sorts of financial information about the company. This helps you to determine the tenant’s viability in paying their rent and exercising their lease options.

Pages 12 – 14 is general information about the real estate agent and the where the sale takes place (if it is by way of an auction).

From page 14 onwards there are additional attachments which include a site diagram. These are taken straight out of the contract so you can verify the land and property size.

Below is a summary of what the IM has revealed about the Coates Property: (we will use the first property in the IM in Muswellbrook)

| | |
|-------------------|--|
| Property Location | 22 Wallarah Road, Muswellbrook NSW |
| Tenant | Coates Equipment Hire |
| Land Size | 4,756sqm |
| Property Size | 523sqm |
| Property Includes | Office, Warehouse, Mezzanine Floor, Toilet Amenities and Air Conditioning in office area |
| Zoning | IN1 – General Industrial Under Muswellbrook shire Council Local Environmental Plan 1985 |
| Lease Term: | 12 Years |
| Rent | \$46,780 pa + GST |
| Lease Details | Started on 29 April 2009 – Expiry 28 April 2021 |
| Options Available | 5x5 years |

| | |
|----------------|--|
| Outgoings | Lessee pays all outgoings |
| Insurance | Lessee needs to insure for public liability, loss and destruction to premise and plate glass |
| Method of Sale | Auction |
| Agent | Burgess Rawson |

CAFÉ IM explained -

The second IM we are going to go through is a small café premise in Ipswich (in Queensland) prepared by Ray White. They are a local real estate firm that sells both residential and commercial real estate. The reason we are going through two IMs today is that it is important for you to be able to get out of each IM the information you need to make a decision to proceed forward or not with any particular property. As this IM is very different to our last one we are going to see whether or not we can get out the same information.

Let's get started!

This IM starts with a profile of the area the property is in which is Ipswich which is one of Queensland's oldest provincial cities. Again while the information here is detailed it is still worthwhile for you to do more thorough research into the Ipswich area which includes how the township is progressing financially, changes in demographics, government funding/initiatives to the area and any recent building activities and business funding into the area. This will help you to determine how the area will grow in the next 10 to 15 years or more.

Page 4 of the Café IM starts the overview on the property. While it states that it is a freehold property you need to pay attention to the table below and see that it is actually a property held under a strata. This is something you need to ask the agent in more detail (we will go through strata properties in detail in eclass 17)

The table on page 5 provides a good overview of all the essential elements of the property including rent, lease terms and tenant details. It does not however include details about whether or not there are rent increases, nor does it have full information on the tenant's profile. Bear in mind the tenant is a small local supplier so there may not be much more information you can find on them except to look up their website and also ask the agent about them.

From page 7 of the café IM is where it starts to differ from the Coates IM that we looked at earlier. As you might have noticed already, the IM for the Café is not as glossy or professional as the one from Coates. This is because of the agent that produces them and also the price of the premise. There are no real standards for IMs except that the information it needs to contain so it can be as flash as the vendor wants it to be. It also depends on the market that the vendor and their agent are

targeting. With Burgess Rawson they have a large database and they frequently sell properties in the millions so a vendor who has a million dollar property to sell will spend more on marketing than a smaller vendor who has a property under \$200k.

From Page 7 you will see a title search – this is usually included in the contract of sale but each state and territory is different and the agent has decided to include it here. We can see from the title search that the property might have gone on the market around July 2015. That it is owned as part of a trust and that there are no borrowings on the property.

Pages 8 and 9 show a copy of the rates so some of the outgoings that you can recover from the tenant. (we will cover outgoings in detail in eclass 6)

Pages 10 and 11 contain the strata report showing the strata levies for each of the lots owned by the current owner. We can see that the current owner also owns lot 9 and lot 10

Pages 12 and 13 shows the easements on the title

Pages 14 -19 are all title documents that are only applicable if you choose to go ahead and purchase the property in which case your solicitor or conveyancer will need to verify them.

Pages 20 - 22 give you the site diagram of the whole building and where the premise (lot 1) is located.

Pages 23 and 24 contain a copy of the certificate of currency taken out for the building by the strata company.

Pages 24 - 26 show the lease for the current tenant in lot 1. We can see that the tenant signed for a 1 year lease with three 3 year options to follow. The rent review is also CPI and the tenant pays all of the outgoings.

Although the information for the Café IM is not as well presented as the Coates IM the essential summary of the what is in the IM is on the next page.

| | |
|-------------------|---|
| Property Location | Unit 1, 86 Brisbane St, Ipswich |
| Tenant | Café – Kyle Russell Greene |
| Land Size | Not Applicable |
| Property Size | 46sqm |
| Property Includes | Fitted out coffee shop with rear kitchen and toilet facilities, rear access and 2 allocated car parks |
| Zoning | Commercial |
| Lease Term: | 1 year |
| Rent | \$14,950 |

| | |
|-------------------|--|
| Lease Details | Started 16 March 2015 – Expires 28 February 2016 |
| Options Available | 3x3x3 years |
| Outgoings | Lessee pays all of the outgoings |
| Insurance | Strata has own insurance but need to verify tenant insurance |
| Method of Sale | Private Treaty \$179k |
| Agent | Ray White Commercial Sales Ipswich CBD |

Comparisons

You can see from the two different IMs that the information contained in them are essentially the same. The way the IMs are put together, and the documents included in them, are primarily different because of the conveyance process in each state and territory differs. NSW has a much more complex conveyance process and a larger contract of sale with additional requirements for disclosure compared to QLD. Therefore more things that you would commonly find in the sales contract for NSW are included in the Café IM. It is worthwhile to look at different IMs from different states and territories so that you become familiar with their layout so you can easily find the information you are looking for.

Now that you understand how to dissect an IM below is a short exercise to help you get the practical application of everything we have taught you in this lesson!

Exercise

In the last lesson you were asked go to www.realcommercial.com.au (or a similar website) and search for 3 different types of properties (Retail, Office and Warehouse) under or around \$500k. Then request IMs for these properties. If you have done that then you should have received those IMs by now. If you haven't done that yet you need to do that now or use the Singleton Property in the Coates IM attached to this eclass to help you with the following activity.

1. Read through the IMs that you have collected
2. Create a simple table, or use the table given to you below, to fill in the essential information about each property

| PROPERTY SUMMARY TABLE | |
|------------------------|--|
| Property Location | |
| Tenant | |
| Land Size | |
| Property Size | |
| Property Includes | |
| Zoning | |
| Lease Term: | |
| Rent | |
| Lease Details | |
| Options Available | |
| Outgoings | |
| Insurance | |
| Method of Sale | |
| Agent | |

3. After you have filled in the table above for all three properties you can now compare the properties against each other and see if all the IMs you have received have given you the same information. If not, then you may need to make a note to email the sales agent about the information you are missing. If there are items like zoning that are missing it may not be important if it is a retail/Café or office but it may be of importance for warehousing in case you want to add more buildings on the land in the future.

By the time you have completed the above 3 activities you will start to gain a basic understanding of different types of properties. In the following Eclasses we will teach you what those different things mean so that you can put the puzzle together to make an informed decision on purchasing your first commercial property.

In our next Eclass we will be going through the different types of properties, what they are and their pros and cons for investment. Next week's Eclass should give you a better understanding of what type of commercial property suits you.

Until next time happy hunting!