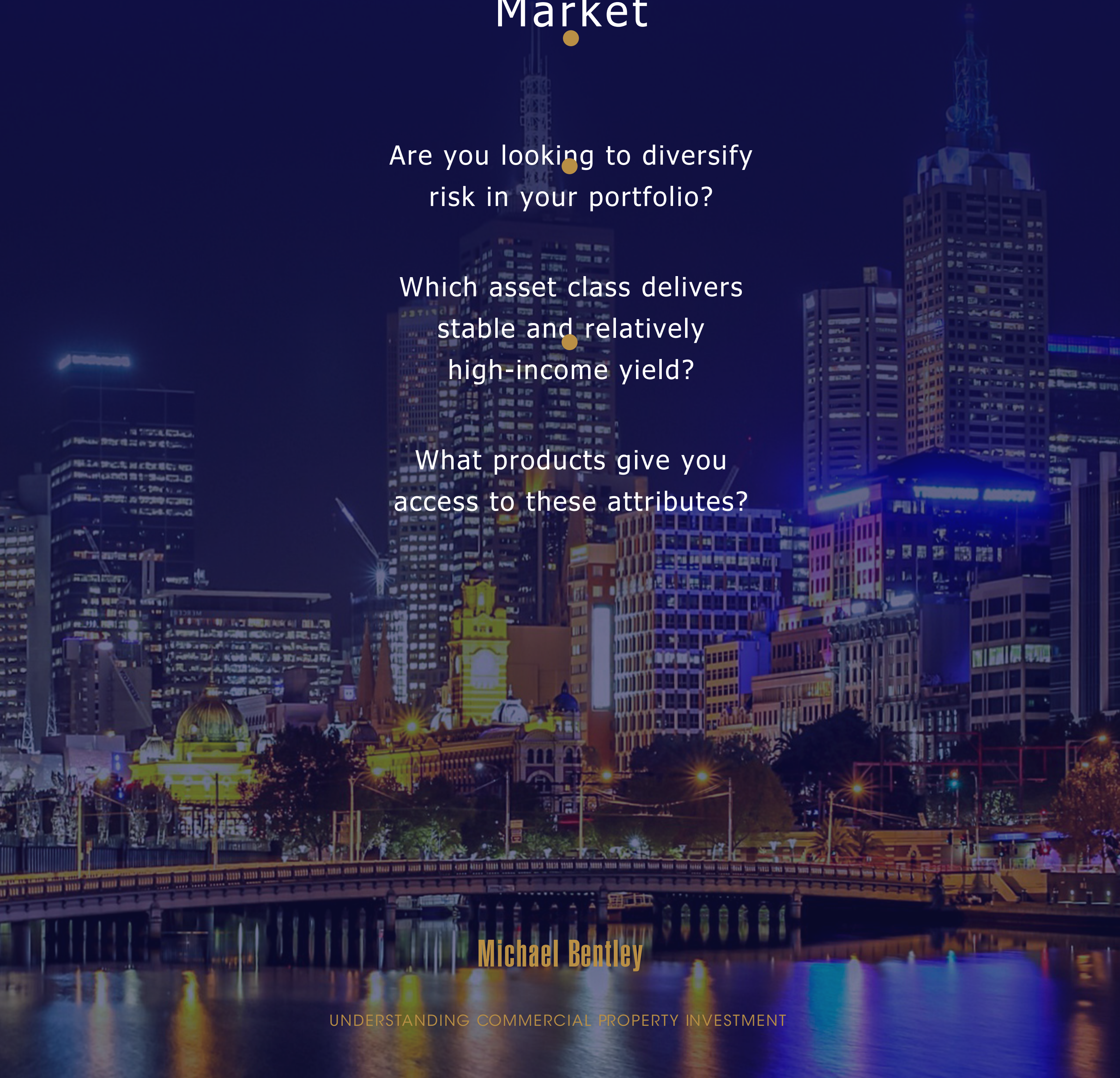
Understanding COMMERCIAL PROPERTY INVESTMENT

A Brief Guide to the Commercial Property Market



Are you looking to diversify risk in your portfolio?

Which asset class delivers stable and relatively high-income yield?

What products give you access to these attributes?

Michael Bentley

FORWARD

Much has been written about residential property investment but the area of non-residential property (commercial property) is relatively unknown to many property investors.

Most investors feel comfortable with investing in residential property as they are familiar with it - whether it is a house or apartment.

However, new and increased taxes and charges, increased government regulation, and lending restrictions have meant many investors have started to look into other types of property investments.

Wealthy property investors remain focused on yield in a pervasively low interest rate environment. As a result, assets such as commercial property are attracting their attention.

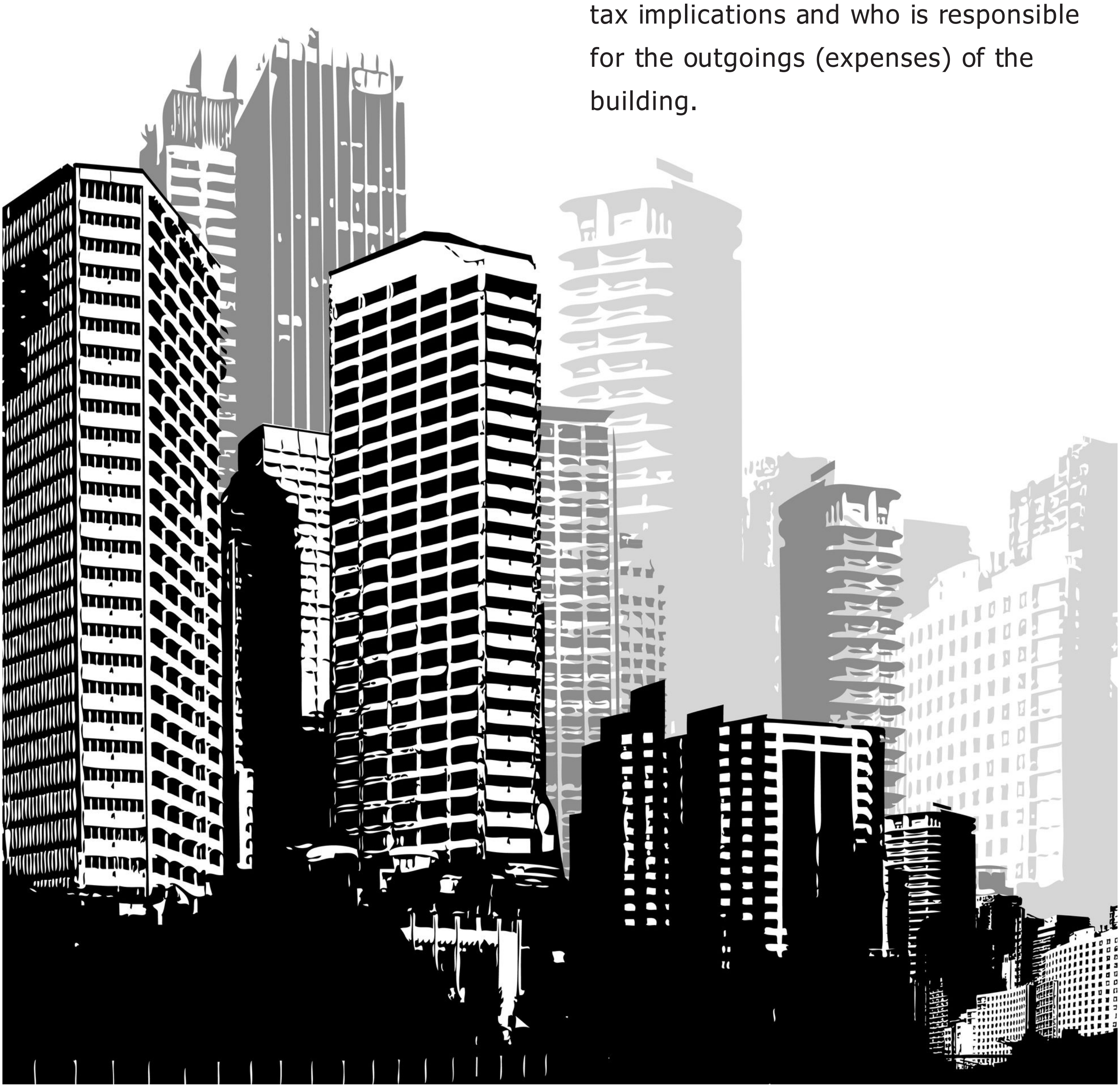
This asset class typically offers a stable, tax-effective net income stream of between 4% and 8% a year. This compares very favourably with the 2% to 3% annual return term deposits are offering at the moment.

> *"Commercial property offers the potential for capital upside and leases are typically inflation linked, so it's an attractive picture overall"*
>
> ***Centuria Capital's head of real estate and funds management, Jason Huljich.***

FORWARD

THE PURPOSE OF THIS REPORT IS TO PROVIDE READERS WITH A BRIEF INSIGHT TO THE WORLD OF COMMERCIAL (NON-RESIDENTIAL) PROPERTY INVESTMENT.

Commercial property is not as well-known as residential. If you do not deal with the day-to-day matters of running a business from a commercial building, most people are unfamiliar with the terms and conditions of commercial leases, tax implications and who is responsible for the outgoings (expenses) of the building.



HERE'S WHAT YOU NEED TO KNOW ABOUT BUYING COMMERCIAL PROPERTY.

Opportunities are rarely available for smaller, individual investors to make commercial investments, as private companies, superannuation funds and institutional property trusts capture most of the market.

Commercial property investment may look like the exclusive preserve of the big fund managers, asset companies, and large investors, but look a little closer and you'll see that there are options for individuals too that may offer substantial investment opportunities.

That's not to say a commercial portfolio is easy.

Nor that it doesn't pose greater risks than its residential equivalent.

And a shortage of commercial opportunities for smaller investors also makes it harder. But it is still well worth consideration.

The price of MOST commercial property puts most private investors out of the market, as buildings are generally only offered in one line,and are often not"broken down'' into smaller parcels in many countries, except perhaps for retail shop.

But commercial property's stable income flow can offer an attractive balance to residential property or other investments, so it is worth looking for.

Faced with the prospect of more moderate returns from their residential property investments going forward, many investors are considering joint ventures,syndication and commercial property investments as an alternative, as well as "Build to Rent" residential investments.

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1. Introduction

The continuing low interest rates, low bank deposit rates, and dropping yields across all asset classes has highlighted the benefits as **diversifying investments.**

Commercial property with its highly attractive returns and **stable and secure cash flow** is appealing to those looking to balance their portfolio.

Commercial property has historically been the domain of institutional and professional investors, with the main exception being small retail shops.

But, prior to the pandemic, commercial property was attracting widespread interest from worldwide investors due to the low yields seen elsewhere.

THERE ARE IN ESSENCE THREE MAIN TYPES OF COMMERCIAL PROPERTY:

Offices, Retail, and Industrial.

2. The Commercial Property Market

There are a number of ways to get into the commercial market.

In general these require more capital as a deposit than for residential real estate, but the fees, costs, charges and government duties can be substantially less, and the yields higher.

Options include:

1. Develop a new building from the ground up. It would be preferable if you can design it for a known end user who needs the office space.

2. Recycle an existing building for office use or refurbish an older office building and bring it up to date.

3. Purchase a section of a larger building that is zoned commercial as office suite on a strata title.

4. Purchase an existing building with tenants on leases.

5. Invest in a syndication or joint venture with established developers. This option avoids the investor having to acquire all the knowledge needed to make a commercial investment, as it is handled by established experts, and the investor can still share in development profits.

2. The Commercial Property Market

CHARACTERISTICS OF OFFICE BUILDINGS

OFFICE BUILDING investments tend to be the domain of large syndicates and institutions or investment trusts, but there is still room for the smaller investor to purchase an office building or to invest in smaller strata spaces.

Office buildings run the full spectrum from large high rise city office buildings in the CBD to small suburban office buildings.

Offices are usually categorized by class to evaluate the building's age, location and quality of finishes. **Three classes of office space are usually defined.**

1. **CLASS A** buildings are the most desirable and have high grade features, facilities and amenities and provide high status to its occupants.

2. **Class B** buildings tend to be older buildings that were often once class A but now lack some of the modern amenities and technological features. They usually lease for lower rents and are attractive to smaller tenants because they are more affordable.

3. **CLASS C** buildings are often older and have not kept up with the trends. There are sometimes opportunities to refurbish older buildings and bring them back to class B or class A.

FEATURES AND AMENITIES

One of the most important features of an office building that is required by tenants is **availability of car parking** or if in the CBD, proximity to transport for both occupants and clients.

Tenants of office buildings also want proximity to banks and restaurants or facilities for lunch or entertainment of clients.

Suburban office buildings should be **located close to transport** such as freeways, or ideally train or tram routes, but preferably not on major highways or arterial roads as access for visitors is often limited to side streets or rear lanes on these buildings.

WHAT MAKES A GOOD OFFICE INVESTMENT?

When evaluating an office building as a potential investment here are some of the things you should look for:

Property Risk -Location

The old adage 'location, location, location' holds true. The siting of a building is crucially important in determining its market value.

A property investment is likely to be held for several years and the attractiveness of its location can change over the holding period, for better or worse. For example, where an urban area is being regenerated, the perception is that the location is likely to improve.

Physical Characteristics

Similarly, the type and use of the building will affect its value. What sort of building is it - i.e. new, old, size, type etc.?

2. The Commercial Property Market

The specifications for new buildings have improved significantly and have made them highly attractive for tenants, compared to older buildings.

The value of a building naturally **depends on the rental income** it can produce for its owner.

1. Is the property inside a block surrounded by other buildings or is it on a corner? Corner locations are preferable as they often give extra views and greater natural light.
2. Is access to the building and parking easy? Does the flow of traffic assist accessibility? Tenants prefer easy and convenient access.
3. Does the building have **visibility from the street and a sense of presence?**
4. Does the building have curb appeal? Is it well landscaped and well maintained? The initial impression a building has may affect a tenant's decision to lease the property. If possible, get a building with **timeless qualities** that will appeal to tenants over the long term. What type of exterior does the building have? Does it have a timeless quality of granite, glass or concrete? How will it look in 10 years' time?The building should look good in 10 years' time when leases expire and you may want to sell or release the building.
5. What type of parking exists? Is it secure and underground?Is it free? What cost is the monthly rate?
6. Is the lobby a modern style or out dated? Is the image of the lobby appropriate to the type of tenants you want in the building.
7. Are the rest room and common tea room facilities modern?
8. What amenities does the building have? Typically larger buildings have a fitness centre, a restaurant or deli, communal conference rooms or small retail outlets. Smaller office buildings typically do not have these amenities but **similar facilities should be located nearby**.

2. The Commercial Property Market

RETAIL

When investing in the retail sector, it is important to consider how the emergence of online shopping is changing the way Australians do their shopping.

At the same time it's important to understand how retailing giants have also now taken over the bulk of the retail market.

With their increased purchasing power, they can afford to open longer hours and have put great pressure on the small retailer.

Also the face of retailing has altered dramatically since the onslaught of the corona virus.

In the past most of the successful retail chains were represented in the retail shopping strips. Now they are mainly in the large shopping centres owned by the listed trusts like Westfield and which have become something of an entertainment mecca for families, and since the virus online shopping has taken over.

The strip shopping centers and corner shops have suffered as the big retailers moved to these centers.

Therefore, given these changes and risks for investors in retail after the pandemic, the focus of this report shall be on the office segment.

INDUSTRIAL

Industrial property primarily consists of factories and warehouses.

Many of these buildings now contain large amounts of offices as the industrial base has changed from manufacturing to more storage and distribution.

The size of industrial premises can vary from small factoriettes to large multi hectare distribution centers.

The smaller factories provide the average investor with an opportunity to get into the industrial sector at a relatively low cost.

Industrial buildings can be classified into 3 broad categories;

1. manufacturing
2. research and development
3. warehousing or distribution.

Factories can stand vacant for years, waiting for the economy to improve and often for a suitable tenant.

Large factories are often constructed for a specific industrial function and, as such, sometimes do not attract alternative businesses.

If a manufacturer goes bankrupt, or moves, it can be difficult to find a suitable replacement tenant.

Again, like retail, the risks and difficulties investing in this segment for most investors is too high, so we shall focus on offices.

3. Commercial vs Residential

It is important to recognise that the commercial property market is very different from the residential one.

How is commercial property investment different from residential property investment?

There are very few similarities between these two types of investment. Everything from the average lease length to the level of risk is different.

One of the key points of difference revolves around the lease. Commercial leases are much longer and, unlike residential, play an important role in determining the value of a property. This is because it's harder to replace a commercial tenant than a residential one.

That demand for commercial properties is far more elastic than demand for residential properties also means that the vacancies between commercial tenants can be longer than those between residential tenants. Combined with the commercial sector's vulnerability to broader economic shocks, commercial properties offer greater yields to attract investors.

The length of the leases is also an important consideration. If a building is let to a good quality tenant for a long period then the rental income is assured, even if market conditions for property are volatile. **This is one of the attractive features of commercial property investment.**

That's a brief summary of the differences between commercial property investment and residential investing: the risks are greater, and **the returns can be much higher.**

3. Commercial vs Residential

KEY POINTS:

*Commercial leases are usually **LONG-TERM CONTRACTS:** periods of 3 years or more are not uncommon.*

*The returns on residential property come pretty much only from increases in capital value, whereas a large part of the commercial property return is income, with **WINDFALL PROFIT OPPORTUNITIES.***

*Commercial properties usually cost significantly more, in the millions of dollars unless the opportunity occurs to **INVEST IN INDIVIDUAL PROPERTIES** or partake in joint ventures with developers.*

1. **Leases for commercial properties tend to be for longer periods**, often 3 to 5 years as opposed to the 12 month lease which is common in residential properties.

2. Rents are usually charged as a rate per square meter and **rent reviews are incorporated in the lease document**. Rent reviews may be calculated every year or 18 months and can be an increase to market rental or an increase by the amount of the CPI, whichever is higher. Some leases have a clause preventing the rent to drop even if the prevailing market rent drops.

3. **Tenants in commercial properties usually pay all the outgoings** such as rates, taxes and insurance, while with residential property the landlord pays these.

4. Because your **tenant** conducts their business from your commercial property, they **tend to look after it better** than residential tenants do, usually maintaining and painting the property.

5. Commercial properties are **less management intensive** – tenants don't tend to bother you for small items like leaking taps.

6. Lenders will usually **only lend up to 50%-60%** of the value of commercial or industrial properties. Residential property can get 70% to 90% loans.

7. The **initial capital required** to get into a good commercial property is usually **considerably higher** than that required for residential properties, as a good shop or office in a strong centre may cost 2 or 3 times the price of a unit or apartment.

8. **Interest rates** for a loan on commercial properties are usually **higher** than for residential properties.

9. When vacancies occur in commercial properties, they can be **vacant for longer periods** than residential property.

10. The **cycle for commercial properties is different** to that for residential properties and is more dependent on the general economic factors than the residential market.

11. The **lease** required on a commercial property is **much more complex** and usually requires a lawyer to prepare it.

4. How the Commercial Property Market works

BENEFITS

The main benefit of commercial property investment is that it promises **higher returns**, often without the same degree of micro-management required by residential investment. Here's why.

- **Higher yields / greater cash flow** – commercial properties tend to offer net rental yields between 4% and 8%, much higher than the 3-4% typically offered by residential. This means that many commercial investments are cash-flow positive.
- Longer leases – while residential tenants rarely sign leases longer than one year, the minimum lease required in commercial property is typically three years-long, with many stretching to as long as 15.
- **Annual rent increases** –commercial leases often have fixed rental increases built into the lease. Also, annual increases between 3-4% are fairly common.
- Tenant pays outgoings – most commercial tenants are required to pay for most, if not all, of a property's outgoings. This includes council rates, insurance and land tax, as well as maintenance and repairs.
- Tenants are more inclined to look after the property – the responsibility of running a business provides tenants with a greater incentive to keep on top of maintenance and repairs.
- Diversification – investing in a commercial property confers the benefits of diversification on investors who otherwise would have only invested in residential properties. Owning both commercial and residential properties minimises an investor's exposure to downturns in either market.
- Broad scope for depreciation – commercial investors can also claim thousands of dollars in **tax breaks** through depreciation.
- Low taxes and fees. There is **no foreign investor taxes**.
- No restriction on foreign buyers **when buying AND selling in most countries.**
- **Secure and stable cash flow.**
- In addition, as often the leases are tied to the inflation rate, in the event inflation goes high, the commercial property investor (unlike residential) has a **guaranteed increase in rent** to account for this.
- Adding value — just as investors

in residential property are able to add value by buying a rundown property and renovating or redeveloping it, there are opportunities in commercial property to add value.

Ways you can add value to your commercial property as it ages include:

- Renovating
- Upgrading
- Subdividing or enlarging the block
- Improving the appearance of the property
- Obtaining permission for redevelopment
- Renegotiating the lease
- Changing its use for example to residential

Values

VALUES OF COMMERCIAL PROPERTIES ARE LARGELY DRIVEN BY RENTAL RETURNS OR THE POTENTIAL FOR CAPITAL GROWTH.

To estimate the value of an 80 sqm office which is leased for $50,000 net per annum and assuming a 5.5% net return, then the value can be calculated as follows:

$50,000 / 5.5% = $909,090

Which means the property is worth about $900,000.

Yields can vary from 3.5% for premium locations with strong tenants to up to over 10% in poorer locations with weak tenants.

Other factors that affect the return are potential for capital growth, redevelopment potential and tax related factors.

This is completely different to the way residential property is valued.

An apartment or house is worth much the same if it has a tenant in place or not.

In fact it is usually worth less if there is a tenant on a long term lease as owner occupiers would not buy the property.

With commercial properties, which are valued based on their rental return (or potential income) a **vacant property usually carries a substantial discount** to a leased property.

Purchase costs

The costs of buying a commercial property are quite straight forward.

No Agents fees for buyers are payable, and the purchaser is only responsible for his own solicitor's fees and for Stamp Duty.

The amount you pay is calculated on a sliding scale, generally from 4% to 6% of the purchase price.

Stamp duty is tax payable to the relevant state or territory when you purchase or acquire an interest in a commercial property.

Your total stamp duty bill will depend on where the property is located – each state and territory sets its own rate.

Stamp duty is generally payable at the time of purchase, or very soon after. Your conveyancer or legal adviser can do the paperwork for you.

There are no extra foreign buyer's fees applicable in many countries when buying commercial.

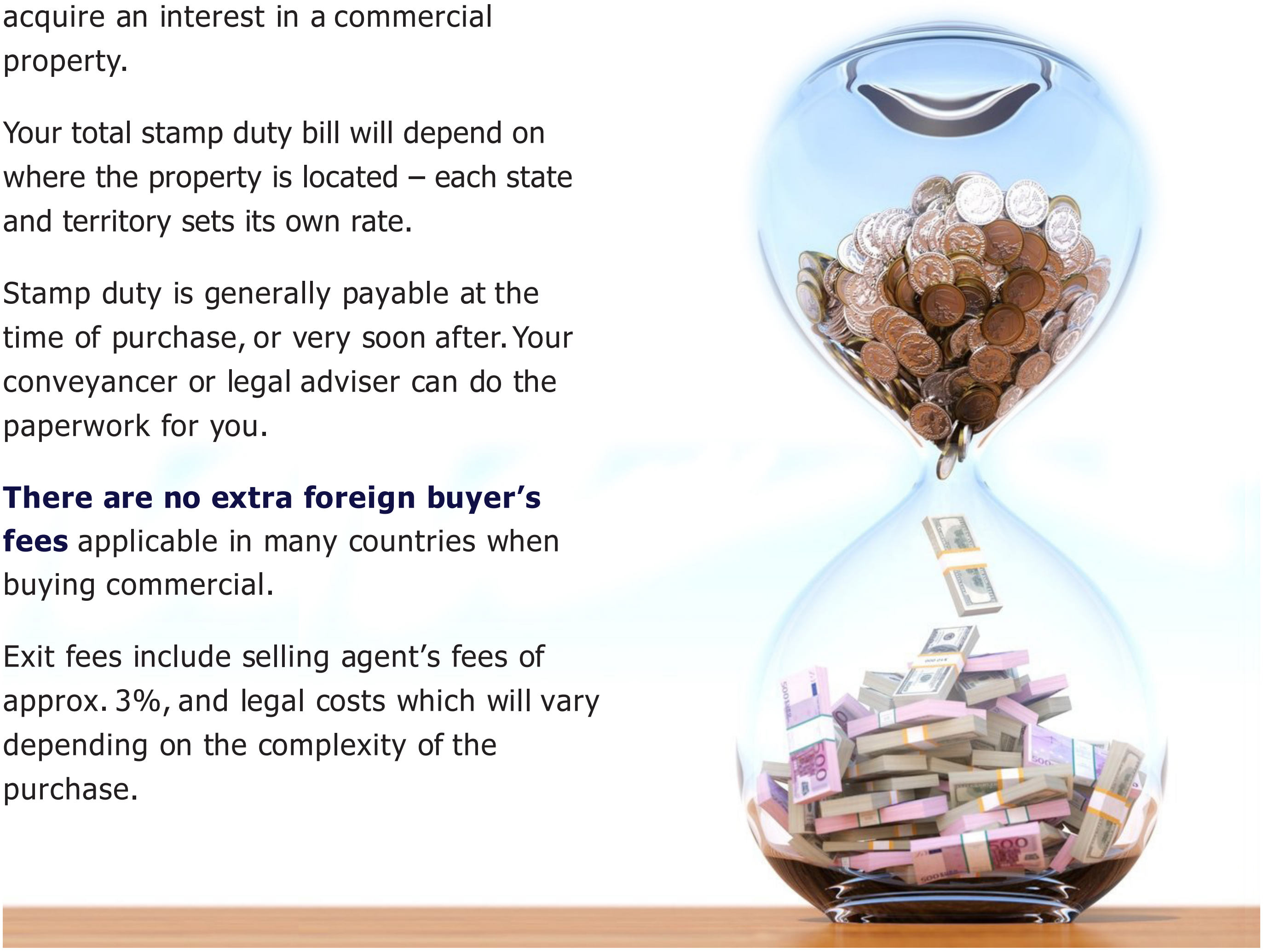
Exit fees include selling agent's fees of approx. 3%, and legal costs which will vary depending on the complexity of the purchase.

Financing

Securing **commercial finance is more complicated** than for residential property and it does require the expertise of a specialist as the traditional banks tend not to involve themselves in commercial lending to individuals.

The commercial lending industry is generally slightly more conservative than the residential property lending industry.

Depending on the client and in general commercial property loan to value ratios are in the range of 40%-60%.



Direct Investment

Rarely are individual investors offered the opportunity to invest in the commercial property market directly.

The majority of commercial property ownership is tied directly to institutional investors, such as hedge funds, private equity groups, superannuation funds, trust funds and other big investment groups.

However direct commercial property investment offers the individual purchaser a sound balance to their portfolio and can **often provide a solid cash flow** base for further investment.

Property Risk -Location

The old adage 'location, location, location' holds true when buying commercial properties. **The location of a building is crucially important in determining its market value.**

A property investment is likely to be held for several years and the attractiveness of its location can change over the holding period, for better or worse. For example, where an urban area is being regenerated, the perception is that **the location is likely to improve**.

Physical Characteristics

Similarly, the type and use of the building will affect its value.

The specifications for new buildings have improved and have made them highly attractive for tenants.

What factors affect demand for commercial property?

These are a little different to residential property and while obviously driven by supply and demand, commercial demand is driven by **economic factors** as well as population growth.

A strong economy is fundamental for increasing commercial property values.

As the economy starts to grow the demand for warehouse space grows, followed by increased demand for retail space as consumers feel more confident and spend more, and this is in turn followed by increased demand for office space.

In addition to the strength of the general economy, the other key factors that affect demand include:

1 FLUCTUATIONS IN INTEREST RATES

When the Central Banks raise interest rates to manage inflation and slow the economy, the higher cost of money slows the rate of company growth. At the same time higher interest rates tend to reduce consumer spending. This has a slowing effect on the demand for both commercial and residential property.

Low interest rates make it cheaper to borrow money, which **increases demand** for commercial property and boosts prices.

Conversely, high interest rates make money more expensive, which leads to less demand.

4. How the Commercial Property Market works

What factors affect demand for commercial property?

2 INFRASTRUCTURE DEVELOPMENT

The development of infrastructure and new freeways can change the demand for commercial property.

3 DEMOGRAPHICS

As different segments of the population are motivated to move to different locations, new opportunities arise.

For example, Baby Boomers have increased demand for healthcare services in certain suburbs while young families require more childcare facilities in the new outer suburbs.

As lifestyle becomes increasingly important, more people want to work nearer to home. Thus there has been an increase in the number of small offices located in the middle ring suburbs, **especially where new residential towers have sprung up.**

4 POPULATION GROWTH

Locations that have strong population growth require more services.

As new suburbs spring up, shopping centres are built to service the growing consumer demand. Grocery stores are required, then cafes and specialty shops, support services (small industrial), and then office space.

High population growth leads to increased demand for goods and services, which, in turn, results in increased demand for commercial property.

Of course, population growth is not experienced evenly across the country, and so it’s important to pay attention to the direction of these migrant flows to leverage the benefits they represent.

4. How the Commercial Property Market works

Foreign Direct Investment in Australia is a perfect example of how capital moves around the world into commercial property assets:

- Australia attracted US$633 billion in foreign direct investment (FDI) inflows in 2018, an increase of almost 40% on 2017. This strong performance ensured Australia maintain its ranking as a top global destination for FDI.

- Foreign economies had a total of AU$3.5 trillion invested in Australia at the end of 2018 according to the Department of Foreign Affairs and Trade (DEFAT), up from AU$3.3 trillion in 2017.

- The United States and United Kingdom remain the largest investors in Australia, followed in turn by Belgium, Japan, Hong Kong and Singapore - all of whom are ahead of China in the 9th place.

- Malaysia is also a strong investor in the 19th place.

- Hong Kong increased its investment into Australia in 2017-2018 by 9.8%.

- And according to Colliers, FYE 2018, Hong Kong investors purchased 7% of total Australian CBD transactions, Singapore 15%, compared to China at 5% and the USA at 9%

- **Australia has the 14th highest amount of direct foreign investment in the world**, and is likely to remain an attractive investment option with a relatively transparent and solid real estate market, legal structure and economy.

- Investors from Hong Kong and Singapore also benefit from a familiar legal regime, as Australia is a common-law jurisdiction and they share many common features in their laws.

- In addition, Australia's public market is well regulated and has good representation from professional investors.

- Its REIT regime is the most developed among Asia-Pacific markets and allows investors better access from the stock market.

- Substantial investors can consider buying commercial assets directly. Smaller investors can consider funds,trusts,syndication and joint ventures.
- Non-prime assets in the office and retail sectors continue to offer value,but investors would need operational expertise to operate these assets.
- The table below shows the top 20 foreign investors in Australia (for example) at the end of 2018. Yearly values are in AU$ billion and include both direct,portfolio investment and other investment.

WHICH ECONOMIES INVEST IN AUSTRALIA? 2018, A$ BILLION

Rank in 2018	Economy	2016	2017	2018	% of total	% change 2017 to 2018	5-year trend % growth
1	United States	859.5	906.2	939.5	26.7	3.7	5.0
2	United Kingdom	526.2	486.5	574.8	16.4	18.1	4.0
3	Belgium	271.6	308.1	316.9	9.0	2.8	9.4
4	Japan	223.0	225.1	229.3	6.5	1.9	6.8
5	Hong Kong (SAR of China)	102.8	108.7	118.8	3.4	9.2	13.6
6	Singapore	91.6	85.4	85.4	2.4	-0.0	1.7
7	Netherlands	76.6	82.1	81.5	2.3	-0.8	12.3

Foreign Direct Investment in Australia

WHICH ECONOMIES INVEST IN AUSTRALIA? 2018, A$ BILLION							
Rank in 2018	Economy	2016	2017	2018	% of total	% change 2017 to 2018	5-year trend % growth
8	Luxembourg	74.5	80.9	78.4	2.2	-3.0	7.0
9	China	85.0	64.0	63.6	1.8	-0.6	3.5
10	France	28.2	25.3	50.2	1.4	98.6	18.7
11	Germany	43.3	48.5	49.0	1.4	1.0	9.6
12	Canada	41.6	44.7	48.7	1.4	8.9	9.8
13	Switzerland	58.5	53.8	47.9	1.4	-11.0	-1.2
14	New Zealand	44.9	45.6	47.1	1.3	3.4	7.5
15	Bermuda	39.4	41.7	41.9	1.2	0.4	18.1
16	Republic of Korea	24.5	25.7	27.4	0.8	6.7	7.5
17	Virgin Islands, British	24.2	24.3	23.9	0.7	-1.5	4.8
18	Malaysia	21.3	21.4	22.2	0.6	3.6	2.2
19	Ireland	26.1	24.2	21.8	0.6	-9.9	7.1
20	Norway	16.0	20.1	19.6	0.6	-2.3	22.1
	All economies	3,235.9	3,327.4	3,514.4		5.6	6.3

Based on ABS catalogue 5352.0. Last updated: May 2019.

5. The Risks

WHAT ARE THE RISKS OF INVESTING IN OFFICES?

The higher returns promised by commer-cial property investment come at a cost.

The Commercial tenant is obviously a crucial part of the investment.

The main risk comes in the form of higher vacancy rates. It could take a while to find a new tenant. **Longer vacancies** – everything from the increased exposure to economic cycles to the added time it takes to conduct any necessary repairs means vacancies between commercial tenants tend to be longer than those between residential tenants.

OTHER RISKS /DISADVANTAGES THAT CAN BE CONSIDERED INCLUDE:

- **STRICTER TERMS OF FINANCE** – as the level of risk is widely perceived to be higher in commercial property, banks generally require higher deposits –typically a minimum of 40% – and charge higher interest rates and administrative fees.
- **INCREASED EXPOSURE TO ECONOMIC CYCLES** – demand for goods and services is more elastic than demand for housing, which means that commercial property is more sensitive to changes in the economy.
- **REQUIRES DEEPER UNDERSTANDING OF ECONOMICS** – given commercial properties are more sensitive to economic cycles, commercial investors requires a deeper understanding of how the broader economy is performing, to ensure they buy a property that attracts tenants with profitable and sustainable businesses.
- **RENTAL INCENTIVES** – both the extended lease and high costs associated with moving into a commercial property mean that commercial landlords are often expected to offer incentives, such as rent-free periods and fit-out assistance.
- **HARDER TO SELL** – the higher level of risk associated with commercial properties means that it can generally take longer to sell than residential.
- BUT, unlike residential, commercial properties **CAN BE RESOLD TO FOREIGN BUYERS.**

5. The Risks

- **MORE COMPLEX LEASES** – unlike residential leases, there's a lot of variations between commercial leases, with pretty much every term open to negotiation. This means you'll need to lean a little more heavily on lawyers and accountants.

  - ***Lack of pricing information*** *— Compared to residential property there is little pricing information available for investors in commercial property. It is therefore more difficult to know the value of your particular property.*

  - ***Scarcity of other information*** *— If you are interested in shares or in residential property there are many blogs, magazines, newspapers and websites that will help keep you informed and make you a better educated investor. There are very few information resources for people interested in commercial real estate.*

6. Joint Ventures

SOME OF THE BENEFITS OF INVESTING IN A COMMERCIAL REAL ESTATE JOINT VENTURE MAY INCLUDE:

- The developer is a specialist in real estate investing with years of experience.
- Expert management is provided, meaning the investor can be hands off, while still enjoying the potential benefits of commercial property.
- No Stamp Duty for individual investors
- No Foreign Buyer Fees in most countries
- No Legal Fees, unless the investor seeks their own advice
- No bank loans needed
- No tenants to deal with
- No Body Corporate fees to pay by individual investors
- No Council and Water rates paid by individual investors
- No Sales Commission (unlike the normal disposal of properties)
- Diversification of Investment Properties (across projects, states & locations)
- Ideal for Wholesale and Sophisticated Investors
- No Capital Gains Tax in most countires
- Potential for windfall developer profit share

SOME DISADVANTAGES OF A JOINT VENTURE COMMERCIAL PROPERTY INVESTMENT INCLUDE

- No Actual Ownership of Property by the investor
- No ability to create a long term passive income earning potential
- Investment is illiquid
- No equity available
- Generally, most joint ventures do not have a long term "never sell" philosophy. Meaning once a suitable profit has been made, or the project has sold, the joint venture or syndicate will sell and return investors funds plus profits.

7. Summary

The commercial property market will continue to be attractive for global property investors, with the combination of a highly developed and transparent real estate markets and solid fundamentals. In some respects, it is likely that the pandemic will serve as a driver of secular change that undermines a variety of longstanding investment and demographic trends.

Fund managers have been scrambling to reassess their investment strategies in an effort to understand how asset values will change over the typical five-to-seven-year investment timeline they like. The likelihood of such profound changes gaining traction over the longer term will depend on how long and how deeply the pandemic continues to dictate both social behaviour and government policy. In practice, of course, memories tend to be short, so the impact may prove fleeting if social distancing restrictions are lifted relatively quickly.

As at the date of this report it is too early to tell what the long term changes to this asset class will be, however, astute investors should watch the market as fortunes can be made in this class going forward after the virus.

Sources of information:

Australia Bureau of Statistics
NAB - National Australia Bank Survey
Jones Lang La Sale Market Review
CBRE
CommercialRealEstate.com
2020 Capital Markets Review

Disclaimer

The date of this report is 1 July 2020.

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