

# Making Money from Commercial Property

## Successful Investing in Commercial Properties

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# Investment - not Speculation!

“An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return. Operations not meeting these requirements are speculative”

Benjamin Graham THE INTELLIGENT  
INVESTOR

# Commercial Property ?

- Many have found this to be a very satisfactory and rewarding investment medium:
- Shops
- Offices
- Workshops / Industrial / Leisure
- Mixed use – including residential

# Shops



# Offices




# Workshops



# Leisure / Retail



# Spectrum of Quality / Value

- Prime Commercial £1.5m +
  - Secondary Commercial £75k - £1.5m
  - Tertiary Commercial up to £75k
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# Preserve of the Professionals?

- Traditionally:
  - Institutional Investors
  - Property Professionals
- Now – encourage the “amateur” ?

“It is in the interests of the entire property market to keep private investors as long-term investors in the market”

- Richard Auterac, EG August 2002, Director & Auctioneer, Jones Lang LaSalle

# So what's Changed?

- Stock Market
- Pensions
- Interest Rates
- Inflation
- Buy-to-Let – residential
- Average returns – **best performing asset** class over one, three, five, ten and possibly even 15 years!

# What are the Prospects?

- Global recovery uncertain - prospects for UK property remain strongly positive.
- Consensus total returns on Investment Property forecast for 2002 increased to 9.3%
- Forecast total returns 2003 - 9.3%  
2004 - 9.9%

Source Investment Property Forum – August 2002 Survey – [www.ipf.org.uk](http://www.ipf.org.uk)

# Risk / Reward / Effort - Spectrum

- 20 % + secondary /development
- 11% - 19% - secondary
- 10% good secondary / primary
- 4% - Building Society



# Pros - ComProp 1

- Relatively **High Income**
- **Steady growth in value** if unspectacular
- Established UK property **market structure**
- Institutional Lease principles – **clear return**
- Tenants accept **FRI lease** - protects landlord rights
- **Established disciplines** for valuation, finance, service charges, rent reviews, lease renewals etc.
- The property market has **SOME liquidity**.

## Pros - ComProp 2

- Upward only **rent reviews** – 3 to 5 years
- **Long leases** compared to residential
- Commercial generally requires less initial **refurbishment** cost
- Often **minimal management** involvement
- Managing agent – not necessary?

# SIPP – Self Administered Personal Pension

- Rental income is paid untaxed into the SIPP
- Up to 75% mortgage is allowed to purchase
- All legal costs and disbursements paid from the fund
- No Capital Gains Tax payable on sale of property
- Reclaim VAT on property improvements
- Pensions may be payable from rental income
- No limit on the number of properties which can be purchased
- Fund can buy property from own business and continue to use it, with a minimal impact on the business's liquidity
- You can purchase a share of a property

# Cons: ComProp

- Slightly higher commercial **lending rates**.
- Higher **average lot values** – more difficult to spread risk – but syndicated investments?
- Less spectacular rises in **capital values**, compared to residential
- Values can go down in **declining areas** or where occupancy rates decline



# Investment Philosophy!

- **Value Investing** – finding value - buying value – take the long-term view
- Thorough **analysis** – attention to detail, do your homework, learn the lessons.
- Risk Reduction – **avoid the big mistakes**
- Plan for the upside, **be mindful of the downside**

# Investment Considerations

- How much of your **own capital** to invest – how much to **borrow**, how much can you borrow?
- The **location** – where do you invest?
- Property **type** – retail, office, industrial, leisure ?
- **Risk/reward** profile – higher the risk, greater the return
- **Risk reduction** – portfolio, tenant, local market
- Developmental – buying & **enhancing value**

# Commercial Property Secrets

- How the ComProp **market** works,
- **Economic analysis**, investment, CAPM
- **Financial analysis**, DCF, NPV, IRR
- **Risk reduction** Methods!
- Know what **costs** are involved?
- Understand the **tax** and **legal** implications?

# Commercial Property Secrets

- How to do the sums – **Spread Sheet Calcs**
- How to develop and **enhance value** to make real money!
- Managing the **refurbishment project**
- How to manage **tenants** wisely!
- How to reap the **rewards!**