

# COLLABORATE newsletter

NOVEMBER 2015

## Commercial vs Residential. Is it all too confusing?

The debate on whether it's better to invest in residential over commercial is a tenuous one. For those new to property investing, residential seems like the obvious alternative. Its proponents say it's the least risky option, but is this true or born of a lack of knowledge about investing in commercial property?

Those in favour of commercial would argue that it can be safer due to its cash flow potential. Smart investors of course look at both to see how it may fit their portfolio. If you're looking to diversify and want a cash flow injection, a well-located commercial property might be a good addition. Thorough due diligence and understanding the pros and cons involved can make for an informed decision.

The average rental return for residential properties across Australia's capital cities is 3.6% according to CoreLogic RP Data. In contrast, it's not uncommon to get anywhere between 8% and 12% gross rental yield for commercial properties.

While a residential tenancy can turn over every six to 12 months, a commercial tenancy can be anywhere between three and 10 years. Tenants

also tend to stay longer especially when they've invested some capital customising the premises. Unlike residential properties where landlords are liable for paying rates, such as council, water and body corporate, commercial tenants can pay these outgoings for you.

There are potential risks though need to be taken into account.

Commercial properties are sensitive to economic conditions. When the

longer to find a tenant. It's not uncommon for commercial properties to have long vacancies, which means you will need to cover all the costs during this period.

While major infrastructure changes can attract commercial investments around the development, it can also lure tenants away from existing areas and older commercial premises. This could result in your property becoming vacant. Finally, if the time comes to sell,

the value of commercial properties closely correlates with the lease on the property.

If a commercial property becomes vacant, or the lease is about to expire, the value of the property would generally be expected to fall. As with most investments, timing is everything.

Commercial or residential property should be considered as part of a balanced portfolio whether you are investing to own them or to build them to on sell to other investors. Location, price and market conditions are all factors to consider when making your choice.



economy is strong, businesses flourish and demand for commercial properties generally rises. But when there's an economic downturn, demand for commercial premises usually falls.

This means it can take longer to find a tenant once the property becomes vacant. While commercial properties attract long-term leases, it can take

## The Money Pit

### Customer Service & Your Business | Part 2: Customer Service Top 10

As we talked about last month, keeping the customers you have worked hard to get is as important as obtaining new ones. What kind of Customer Service or Retention System do you have in place to ensure each of your customers receives the same experience when dealing with your business on every occasion?

Below is our Top 10 list of things you can do to ensure consistent and best practice customer service in your organisation.

1. Appreciate the power of "yes" - make doing business with your Company easy. No over complicated processes or procedures.

2. Keep Clients updated and help them understand the systems you have in place. Make these 'touch points' good experiences for them.
3. Under promise and over deliver but KEEP your promises.



4. Know how to apologise and fix your mistakes.
5. Identify and anticipate your customers needs.
6. Be a good listener and respond to clients as soon as possible.
7. Get regular feedback.
8. Make them feel important - pretend you are in their shoes.
9. Treat your employees well - this will be reflected to your customers.
10. Develop a good customer service system, stick to it so they know you are reliable and trustworthy.

The most important thing to remember is to implement something that you can stick to and fits well with your organisation.



## Signature message

by Dean Gavrilovic

This month we review investment in Commercial vs Residential. Most people and organizations tend to invest in what they understand. Mum and Dad investors typically choose residential, whereas more astute investors or corporates choose commercial, which can come with a higher risk profile.

Have a look at our second month in our ongoing series in 'The Money Pit' on tips on customer satisfaction. Every business has customers so we hope you get some useful 'nuggets' for your business. Next month is Christmas, oh boy ... hasn't the year gone quickly!

## The Right to Vote? A Review of Local Government

The lavish wedding in August of Auburn Council's Deputy Mayor, Salim Mehajer, which caused the unauthorised closure of a local street and other disruptions has brought the issue of Conflict of Interests into the spotlight again regarding those with civic obligations in areas that they have commercial interests, specifically property development.

In April 2012 the state government amended rules allowing councillors who are property developers to vote on broad planning regulations that directly affect their own investments.

The changes to Section 451 of the Local Government Act meant property developer councillors could vote on things such as building heights, density and zoning in areas where they owned land or buildings, where previously they would have had to exclude themselves.

The extravagant event did serve to have the NSW government confirm initially it would review laws that appear to have helped Mr Mehajer build his empire, which spans six companies and

a row of properties and land in Lidcombe.

Then the State Government announced it would amend the law to ensure local government councillors could not vote on any matters in which they had a pecuniary interest. It had previously refused to commit to changing the law, saying it was being reviewed as part of a wider overhaul of the Local Government Act, their "Fit For The Future" plan. Local Government Minister Paul Toole confirmed the change would be made.

Labor Leader Luke Foley welcomed the Government's commitment to change the rules and went a step further and called on the Government to now consider his proposal to ban property developers and real estate agents from running for local government.

The City of Sydney put forward a motion in favour of the change in late October but there has been no further announcement about when these amendments will be introduced.

## Latest News

### Banking Reforms

The Australian Prudential Regulation Authority's (APRA) changes to investor loans are designed to cool the residential property markets in Sydney and Melbourne, where house values have skyrocketed on the back of record-low interest rates and high demand from property investors.

As part of the changes, finance lenders are required to adhere to a limit of 10% growth in investor loans as well as hold more capital on their books. The latter has led to many lenders to raising interest rates on some loan products.

"Given the importance of housing-related lending, it should not be surprising that APRA supervisors are increasingly vigilant on the risks this lending presents," APRA chair Wayne Byres said. "Put simply, if all our eggs are increasingly being placed in one basket, we need to make sure the basket isn't dropped."

ASIC is reviewing interest-only lending in the context of consumer protection legislation.



Thought of the month ...

"All too often the best way to see a light at the end of the tunnel is to ... go turn it on!"

- Peter G Hold



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