

## What is Commercial Property?

Commercial property, also known as investment property, commercial real estate, or income property are buildings intended to generate profits, from either rental income or capital gains.

Typical commercial properties include:

- **Retail buildings**
- **Office buildings**
- **Industrial buildings**
- **Apartment buildings**
- **Mixed-use buildings, where the property may have a mix, such as retail, office and apartments.**
- **Warehouses**
- **Medical centres**
- **Hotels**
- **Shopping centres**
- **Land**
- **Garages**

Each type of commercial property needs managing in different ways, and the team at will be happy to discuss these in detail.

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# Why Invest in commercial property?

Typically, commercial properties generate greater financial reward than residential investment properties. This is particularly true with the recent tax changes for landlords.

However, investing in commercial property also carries increased risks.

The experts at Siteline properties will be happy to guide you through the whole process to ensure a successful outcome.

## Commercial property: The advantages

### Income potential

Commercial properties usually have an ROI of between 6% and 12%, depending on the area. Whereas, residential property offers between 4% and 10%.

### Diversify your Portfolio

Investment risk can be spread by buying commercial property in different sectors and different locations.

### Professional relationships

Siteline properties is use to dealing with LLCs and operates its properties in a professional way. Consequently, whether you are an individual or a company, you will find our team knowledgeable and courteous.

### Aligned interests

Retail tenants have an obvious vested interest in maintaining their store or storefront, so the tenant is more likely to maintain and improve the property, and ultimately, the value of your investment.

### Aligned hours of operation

Businesses usually work during the day, so, commercial property investors rarely receive after-hours calls. Normally, commercial properties have an alarm monitoring service, so should anything happen at night, the alarm company will notify the authorities.

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## **More objective price evaluations**

**Evaluating commercial property prices can be easier than with residential. You can ask to see details of the current owner's income, and use them as a basis for the price.**

**The asking price should be set so you can earn the area's current cap rate for the type of property being considered.**

**Note: The cap rate, or capitalisation rate, is used to indicate the rate of return expected on a commercial property. This measure is used to estimate the investor's potential return on their investment. It is calculated by dividing the net operating income by the property asset value - and is expressed as a percentage.**

## **Multiple Lets**

**Multiples of commercial tenants under one freehold provide varying income streams.**

## **Longer leases**

**UK leases are longer than in Europe or the US.**

**The typical length of an office lease in London, for example, is between 10 and 15 years.**

**The average length of leases across the UK is around 3-5 years.**

**Residential properties generally have leases of 6-12 months. This means that investing in commercial property offers more security as you benefit from a set level of income for a longer period.**

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## **Tenant continuity**

**Commercial tenants, don't like moving because it disrupts their business.**

## **Lease agreements**

**Under a lease agreement, the leaseholder or tenant usually bears more responsibility than the owner.**

**Leases are often 'Full Repairing and Insuring' (FRI). This means the property's standards should be maintained by the leaseholder or tenant. If necessary, the owner can legally force the leaseholder or tenant to complete any works to a satisfactory standard.**

## **Triple net leases**

**In a triple net lease, the building insurance, property taxes, and repairs and maintenance costs are the tenant's responsibility. Consequently, the rent paid with a triple net lease is usually less than in a standard lease.**

**With residential properties, maintenance and repair costs are more difficult to pass on to tenants.**

**There are variations to triple net**

**leases and the experts at Solluca Property Investments will be happy to provide more details.**

**Commercial leases are governed by fewer consumer protection laws, such as security deposit limits and termination rules, that cover residential real estate.**

## **Tax-efficient use of pension funds**

**You can invest your pension into commercial property in the same way you invest in stocks and shares.**

**This type of investment can be highly tax-efficient. Unfortunately, you can't do the same with residential property. The experts at Solluca Property Investments will be happy to explain the current options.**



## Commercial Property: The downside

### Assessing a tenant's financial stability

You need to take professional advice from an accountant or solicitor when assessing a new tenant's financial stability. Also, be aware that the tenant must answer a range of due diligence compliance questions.

### Larger down payment

Down payments on commercial properties are usually in the region of 25%-35%, whereas, deposits on residential investments are around 20%.

### Time pressures

More work is involved in managing a commercial building with multiple tenants than managing the equivalent residential investment.

For example, with commercial retail, you could be dealing with different leases and annual CAM (Common Area Maintenance) costs payable by your tenants, along with general maintenance and public safety issues.

### Professional help required

To handle any emergencies, maintenance or repairs, you will need some level of professional help. This carries an additional cost that should be added to expenses and included when evaluating a commercial investment property's total cost. Property management companies will charge between 5% and 10% of rent revenues, for their services, including lease administration.

### Larger initial investment

Buying a commercial property usually requires more up-front capital than residential rental. Capital expenditure can also be higher.

### Age and location

The property's age and location can seriously affect the purchase price and the investment's ongoing viability. Our expertise is always available to discuss this type of issue.

### People risks

Commercial properties, particularly those with retail and office space, are used by more people. These people hurt themselves or do something to damage the property. So, make sure you're adequately insured.

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