

Commercial Property Cash-flow Masterclass

How To Frame Your Offer To Agents

When Making an Offer and Negotiating

When you make an offer – Negotiate with the agent based on your perceived positives and negatives in the property.

Do as much research and due diligence as possible, to add to the strength of your negotiating position.

Bear in mind in some states the contract of sale has no unconditional period while in other states you can have the contract subject to finance or due diligence.

A plan for making your offer on a property

Overview

- List out any downside you feel that the property has and the reason you are making the offer at the price you have chosen.
- Do yield Calculations and work out offer price
- Also put in any conditions you want on the contract- these can be:
 - Subject to Finance – only applicable in certain states
 - Subject to building and pest – only applicable in certain states
 - Subject to Inspection – you viewing the property in person
 - Subject to Due Diligence – only applicable in certain states

Steps

- Calculate & Make a list of current yield and the corresponding sales price
- List what you are looking for in a property- is your benchmark
- List what the current property is missing
- State what % yield you are looking to achieve
- List the downside of the property - details about what concerns
- Create your offer based on your desired % yield and sales price
- Call agent and discuss the pros and cons of the property
- Listen to what the agent says
- The agent will give you reasons why the vendor wants a higher price
- Ask the agent to put the offer to the vendor, state you're willing to negotiate
- Tell the agent that you have your finances in place and ready to exchange contracts
- Know the ultimate price you are willing to pay and if you are willing to go above budget or not

Assessing Commercial Property

Strata Properties – Office Suites, Shop fronts

IM – Information Memorandum– this document gives you an outline of the property, the tenant and the local area.

Now add to this, your own research online and in person.

Check the local area for vacancies, good mix of tenants and complimentary businesses.

If vacancies are above 10% - proceed with caution and do further research.

Lease– Look for Net Rent and outgoings, who pays for what- options on lease- rental increases, market reviews, bond and security payments and guarantors.

Once you have decided the property has the right yield or is the right type of property for you – then you need to ask for the following documents:

● AGM Minutes–Annual General Meeting Minutes

● Strata Minutes–Last/most recent Strata Minutes

You then go ahead and read through the minutes to look for:

- Any major repairs that has been done to the property and any major repairs that are due
- Schedules for future special levies
- Check for any pending or current law suit (legal action by the strata or the strata being sued)
- Air Conditioning service / replacement and Elevator Service / replacement. (this is the biggest potential cost for large commercial buildings) - Even check roofing repair or replacement projects.

Pros and Cons Strata:

Anything that comes back from your due diligence that suggests there are huge upcoming costs, strata fees, special levies, or problems, then list these as the negatives / cons against the property.

All the points that come back as positive, list those as pros.

Freehold/Free standing buildings

Look at:

- Building insurance (or an estimation as the vendor may not supply them to you unless you go ahead and buy the property)

- Outgoings
 - Water,
 - Electricity,
 - Building Repairs and Maintenance, Roof
 - Any Air Conditioning Maintenance - if none, this could be a huge upcoming cost.
- Major problems like plumbing, toilets- need to talk to the tenant about

Pros and Cons Freehold:

Anything that comes back from your due diligence that suggests there are huge upcoming costs, roof repairs, building repairs, air conditioner replacements, or problems, then list these as the negatives / cons against the property.

All the points that come back as positive, list those as pros.

After the offer is submitted

- Your Offer, may be accepted, counter offer or rejected
- If the offer is accepted the agent will issue a sales advice and get the contract drawn up
- Make sure you read through the contract to make sure it has everything you want in it
- Take the contract to your solicitor and pay the deposit (which varies from property to property) - They will help you uncover anything that's not in your favour, or any potential problems. Make sure your solicitor goes through the lease on your behalf also.

Property Yield Price Calculations

Net Yield %	(Equals Net Rent / Sale Price) x 100 Eg (\$15,000 / \$200,000) x 100 = (0.075) x 100 = 7.5%
Offer Price	Equals Net Rent / Yield as decimal Eg. \$15,000 / 0.08 = \$187,500
Net Rent	
Sale Price	
% Return Net	
Offer Price at 10% (0.1)	
Offer Price at 9.5% (0.95)	
Offer Price at 9% (0.9)	
Offer Price at 8.5% (0.85)	
Offer Price at 8% (0.8)	
Offer Price at 7.5% (0.75)	
Offer Price at 7% (0.7)	
Offer Price at 6.5% (0.65)	

Create a list of Property Pros and Cons - According to your investing strategy and needs.

(You can add to this list)

Property Pros	Property Cons
New Lease- established tenant	Lease expiring
Fixed 3%- 4% increases	Short term lease
3 x 3yr or more Lease options	No rental increases
High yields	No lease options
Good secure lease	Low return Low yields
Main shopping strip	Low potential for capital growth
Good vibe and general business in suburb or district	Many more shops empty and up for lease (e.g. more than 7-10% empty
Good clientele and busyness- if retail shop	Problem area- closed shops- graffitis- burnt homes or signs of abandonment.
High potential for capital growth	