

Commercial Property Uplift Scenario- Masterclass

Welcome to your Masterclass series. This Masterclass we are focusing on a Property Uplift Scenario.

This Masterclass focuses on commercial property, that has a residential space above it, that you can change to a commercial office space. So this would then become, a property that has a commercial tenant below already and we are converting the top part to a commercial property also.

Why is this a good strategy?

This commercial conversion of a residential dwelling on the top floor, will yield much higher rental returns, and also buffer your vacancies against each other- because you have multiple sources of income for the one property.

1. You can typically charge 30% more rent for a commercial space when you convert it from residential. So if rent is \$200 per week gross for residential you can typically charge \$250 per week commercial net, plus outgoings on top which means less outgoings for you to pay.
2. The main purpose of doing this strategy is to get higher yields in a central location so if it is done in a Metro area then suggest you aim for at least 1.5% if not 2 % higher than the yield you would get if you just brought a straight tenanted property. This will mean that your efforts will be worth it in the end with an equity uplift and also higher cash flow.
3. If you are in regional and applying this strategy you want to aim as much as possible towards 10% yield for all your efforts, because in regional areas you may need to wait a bit longer for growth.

The Properties: These will be freehold properties, that you will own outright.

Remember that if there is already a tenant in place- you must look at the lease carefully to see if the tenant has a lease over the whole building. If so, you may need to wait until the lease expires, or comes to exercising an option, in order to renegotiate the lease with your tenant respect to whole building access.

First:

✓ Check the local area for office supply.

- Is there a shortage of offices? If so... Why is that? Does the area not support the need for professional services and offices? Or is this a brilliant opportunity for you?
- Do some research to see what professions there are already, in the area and the type of business you could attract as potential tenants for your offices.
- Are there new developments close by, that will house office spaces? Will they be competing too heavily with yours? Or is yours in a better location for your tenants and their clients?

- ✓ Check the rents in the area and see if this project could be worth your while, based on the conversion opportunity you have.
- ✓ Check this with the sales price of the property, your loan capacity and ability to get loan approval for the renovations.

Lastly:

- ✓ Get details from the local council regarding renovation approvals- What do you need to get their approval for- and what can you do without their approval?

This is called a Development Application (DA)- which is a formal request for permission to carry out a proposed development, which also includes changing the use of a premise from one activity to another activity.

- ✓ You will probably need to apply to council for a renovation- without the need for additional car parking provision from your end.
- ✓ Get a building assessment done and asbestos testing
- ✓ Quotes for renovation costs
- ✓ Additional water meters and electricity meters if required
- ✓ Decide if this will be a NOW project- as you buy the property.... Or a LATER project, once you have purchased the property and have some cash flow coming in for the renovations. The LATER strategy is OK, if none of the renovations will affect your existing ground floor, commercial tenant.

When searching for such properties..... Ideally they will.... And you will....

- ✓ Either have a separate entrance for the offices, from the existing ground floor retail space.... Or you would be able to create a separate entrance easily.
- ✓ Have minimal or manageable work. The work should be minimal or manageable for you.
 - Simply adding or removing internal walls is perfect.
 - Adding new doors or removing doors and walling in.
 - Consider lighting and plumbing and electricity.
- ✓ Have separate utility meters. Check to see if the upstairs residential dwelling is already on a separate electricity and water meter.
 - This may be the case if they've already been renting out the shop to a commercial tenant and the upstairs to a residential tenant.
 - However this is not always the case, as they may have rented the entire space out to a commercial tenant- who could also use the upstairs to live in.

- ✓ NOT have asbestos. You need to check for asbestos- and then research what this means, in terms of renovation procedure, council regulations and costs- for dealing with asbestos.
- ✓ NOT be load bearing internal walls, that you intend on moving. If removing internal walls, you will want to make sure they are not load bearing walls, otherwise the renovation will be bigger and more costly and take more time.
- ✓ Have enough car parking spaces or areas, for your new tenants. REMEMBER -You must check if you need council approval to tenant more people on the premises with the existing car parking structure in place.

Brunswick Case Study

506 Lygon Street, Brunswick East, Vic 3057

Ground floor retail shop with bathroom, storage and utility space and rear street access also.

First floor 2 BR apartment with sitting / kitchen area and 1 bathroom.
Separate rear entry access to first floor dwelling.

There is no current tenant in place, which means you can write up the lease to suit your terms. You can specify to tenants, The spaces which are specific and private for them and the spaces which will be designated as shared areas.

The DA for the occupation is your tenant's responsibility but you will of course help your tenant with it.

So the main thing for this conversion would be to make the area to look more like an office than a residence so the bathroom and kitchen is the main thing to make it more office like so if you have a laundry you may want to convert that into a storage room or spare room and rip out the trough and the bathroom you will need to take away the bathtub (if there is one) With the kitchen you may need to make it more like a kitchenette.

The main thing to remember is that everything is negotiable so can get a tenant in and work with them on the fitout and conversion

First Floor residential opportunity:

Refer to BrunswickUpliftExample PDF

Option A: 3 offices

This is a beautiful and simple layout that can potentially be converted to 3 separate offices.

They can be accessed from the rear entry.

They can all have shared bathroom access.

Office 1:- Front office with Balcony - would be the existing bedroom.

Office 2:- Middle office with window- would be the existing bedroom

Office 3:- Kitchen meals area could be closed off with a wall and separate entry door, to turn this into a separate office.

These renovations look like they would be the simplest and most cost effective to complete.

See if there is a operate utility meter for the residence upstairs.

Get estimates to see if you can separate the utilities further for each office.

Option B: 2 offices

This is a beautiful and simple existing solution with no renovation needed, if using the existing layout.

They can be accessed from the rear entry.

They can all have shared bathroom access.

Office 1:- Front office with Balcony - would be the existing bedroom.

Office 2:- Middle office with window- would be the existing bedroom

Kitchen meals area could stay as such and be used as a shared kitchen and board-room area.

Many smaller offices have shared meeting room / board-room and kitchen facilities and tenants will pay more to have these facilities for their business.

Equally, this could be taken up by 1 commercial business tenant, wanting 2 separate offices and the kitchenette / meeting room for all of their business.

Ground Floor Shop additional opportunity:

Refer to BrunswickUpliftExample PDF

Office 4:- This one is a great opportunity as the retail shop on the ground floor is extensive and also has rear access and has enough space to create a ground floor office from the “Lounge”, that shares utilities with the shop.

Looking at the photos, this “Lounge” has a beautiful feature fireplace. You may consider putting in a gas or electric fireplace- within this existing structure, to make this a premium office feature and charge more for this office. (If it's within, the local area rental range)

This can be accessed from the rear entry and be completely separate to the front retail shop premises.

Work you must do to get your numbers right:

✓ Comparisons for offices in area- compare price per square meter rental (see calculations below).

Try to make these all Net Rent comparisons- sometimes this isn't possible because you cannot collect all the information. On this case, you can make estimates, or you can collect gross information and also convert your calculations to gross, for comparison.

eg. Rent \$12,000 Net ex GST. Office size 30 sq.m

So Net Rent $\$12,000 / 30 = \400 / square metre for rent

Eg. Rent \$15,000 Gross Office size 30 sq.m

Outgoings combined \$4000

So Net rent = $\$15,000 - \$4000 = \$11,000$

Net Rent $\$11,000 / 30 = \366.66 / square metre for rent

OR GROSS rent is $\$15,000 / 30 = \500 / square metre Gross for rent

Eg. Rent \$12,000 Gross Office size 22 sq.m

We do not know the outgoings.

Gross Rent $\$12,000 / 22 = \545.45 / square metre GROSS for rent

- ✓ And also compare like-with-like. For example, if yours is empty and renovated, then try and compare with other empty offices that are un-furnished.
- ✓ Try and compare offices of similar sizes to the ones you are trying to create- because larger offices will have a different square meter rate to smaller offices.
- ✓ See what additional facilities the offices offer- eg shared kitchen & meeting rooms. Is there a demand for these additional facilities or not?

Where you can charge more rent per square meter:

When that space has utilities or features that are beyond the 4 walls and a door.

1. Because one of these offices will have a kitchen- you can charge more for this space per square meter.

See if you can attach a separate electricity meter and water meter for this office, as they will use proportionately more electricity and water than the other offices... or simply charge more if charging by gross rent and you cannot split these utilities.

2. Because the front office has access to a balcony, then you can also charge more for this office.

Things to consider

Keys for the shared access areas, for each tenant.

Separate water meters where appropriate.

Separate electricity / gas meters where appropriate.

Add sensor lights, LED lights and a timer for lighting and electricity, so you can charge for the common area lighting and kitchen facilities.

How will you manage this multi-tenancy property? Will you self manage- or will you get an agent?

Go over and review Module 9- Adding additional income

Look for additional doorways... Or look to create additional doorways.

Back / rear entrance to property.

Look to see if you can split a larger office into smaller ones to get additional tenants

Finally

Remember to revisit all the relevant training modules in your membership site, including the bonus resources and join Helen in the facebook group with your projects, discoveries and questions.