

MIXED TENANCY RETAIL / OFFICE DOWNSTAIRS AND RESIDENTIAL UPSTAIRS

Welcome to The Commercial Property
Cashflow Webinar

STUDENT QUESTION

When looking at mixed office / residential... Office at ground level with residential upstairs.

- Is a property that is both residential and office space a good idea? Are there any BIG negatives in this?



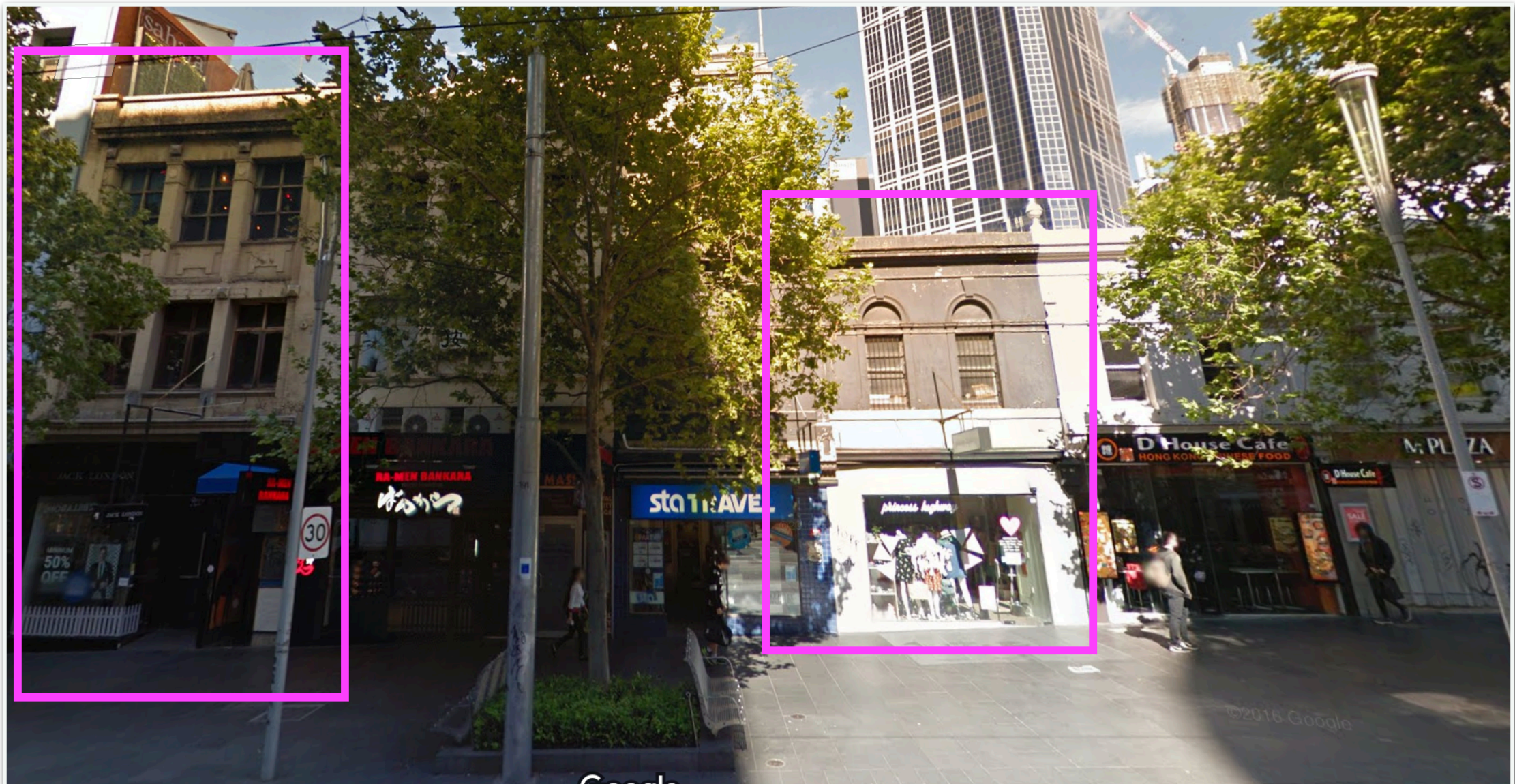
MIXED TENANCY PROPERTIES

- Typically Freehold buildings with Shop or Office downstairs and Residential upstairs
- While the building is zoned commercial you can still have residential premises upstairs.
- These type of properties can also be zoned mixture of residential and commercial but is located in a commercial area or strip.
- When these properties were built, 30 or 40++ years ago, the shop owners would actually be the ones living at the back or on top of the retail premise.
- The properties are now modified, so there is a separate entrance at the back of the building, or a separate doorway beside the retail shopfront that allows you access to upstairs.

WHERE DO WE FIND MIXED TENANCY PROPERTIES?

CBD

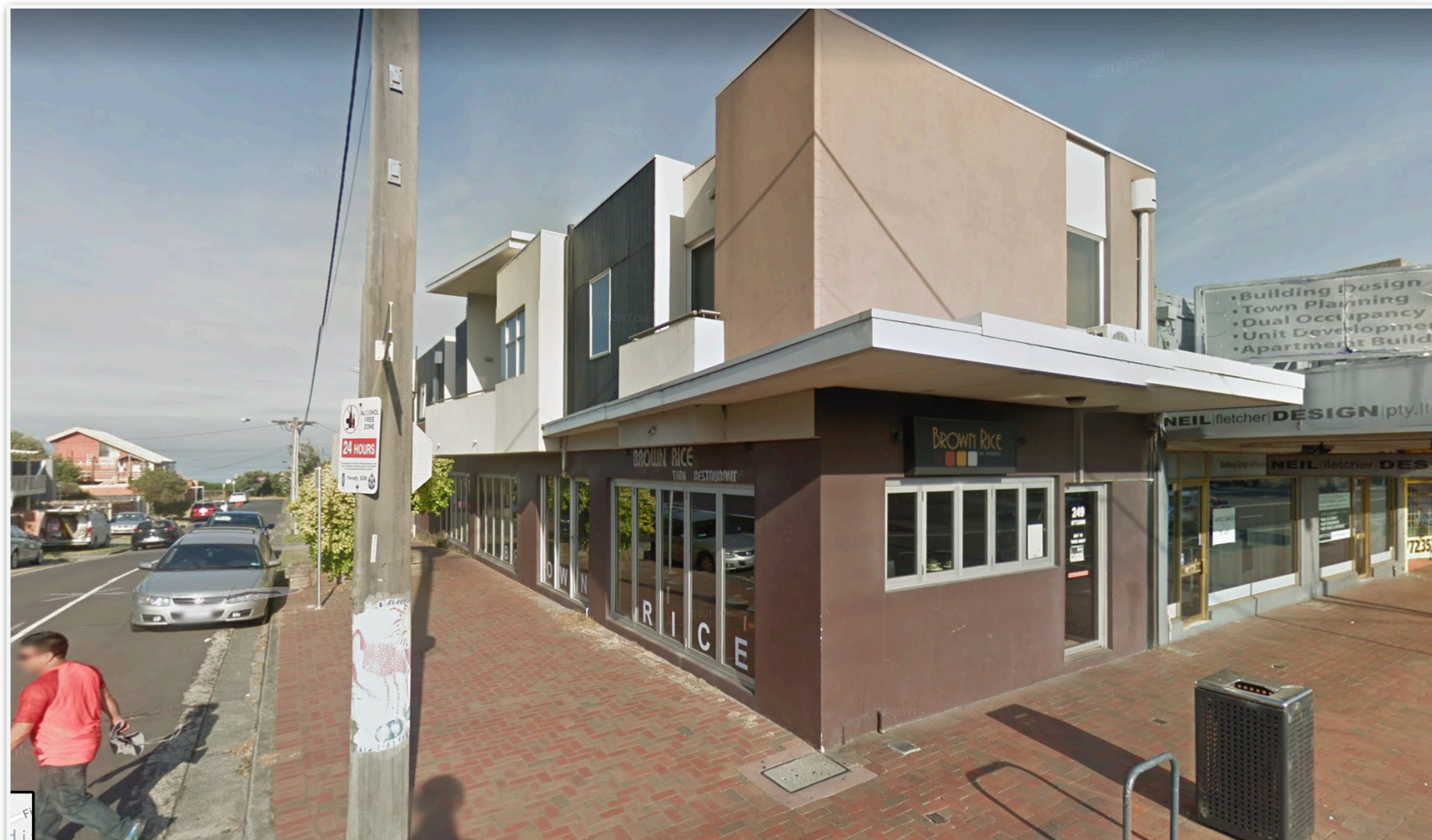
- Some CBD buildings that are older will have a retail shop below and residential upstairs for 1 or 2 levels



WHERE DO WE FIND MIXED TENANCY PROPERTIES?

Suburban:

- Suburban shopping strips have quite a few of these buildings
- There are some small suburban developments that are selling these as new development mixed tenancies.



WHERE DO WE FIND MIXED TENANCY PROPERTIES?

Regional:

- Regional townships also may have these.



SOME OF THE DOWNSIDES OF A MIXED TENANCY

High Purchase Price:

- Because they are typically freehold commercial buildings- they come with a higher price point...
- Expect to pay around \$1.5 Million + in regional areas and...
- Probably around \$2.2 Million+ in City areas. (These properties can be up to \$10m or even \$20m.)
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SOME OF THE DOWNSIDES OF A MIXED TENANCY

Higher overall expenses to manage:

- Residential turnover of rent is more frequent- 12 months typically, so you have to pay more money,
- Pay an agent to create a new lease for you and find tenants each time, and...
- Pay agent management fees.
- More out of pocket expenses such as common area cleaning, common area electricity, gardening and general building maintenance

SOME OF THE DOWNSIDES OF A MIXED TENANCY

Downsides:

- Can be time consuming to self- manage as there are lots of issues that may come up from different tenants all the time so this type of property is not a passive investment.
- Smaller tenancy leases may not be as secure as larger tenants
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SOME OF THE UPSIDES OF A MIXED TENANCY

- Freehold building, so no strata fees for you to pay for the residential portion of your building.
- Some of these residential tenancies have the option to be converted into offices with some minor layout changes (subject to council approval). Which can bring in a higher return on investment.
- Lower Vacancy periods and faster tenant uptake of your residential portion, because residential property typically rents out faster than commercial.
- Less income loss – since you have more or smaller tenants, losing one tenant is only likely to be a small percentage of your cash flow overall

SOME OF THE UPSIDES OF A MIXED TENANCY

- Freehold building meaning no strata fees or strata approvals needed for capital works or changes to the building
- May have the option to strata the building then sell off each unit/lot individually for higher capital gain

MIXED TENANCY LOANS

Loans:

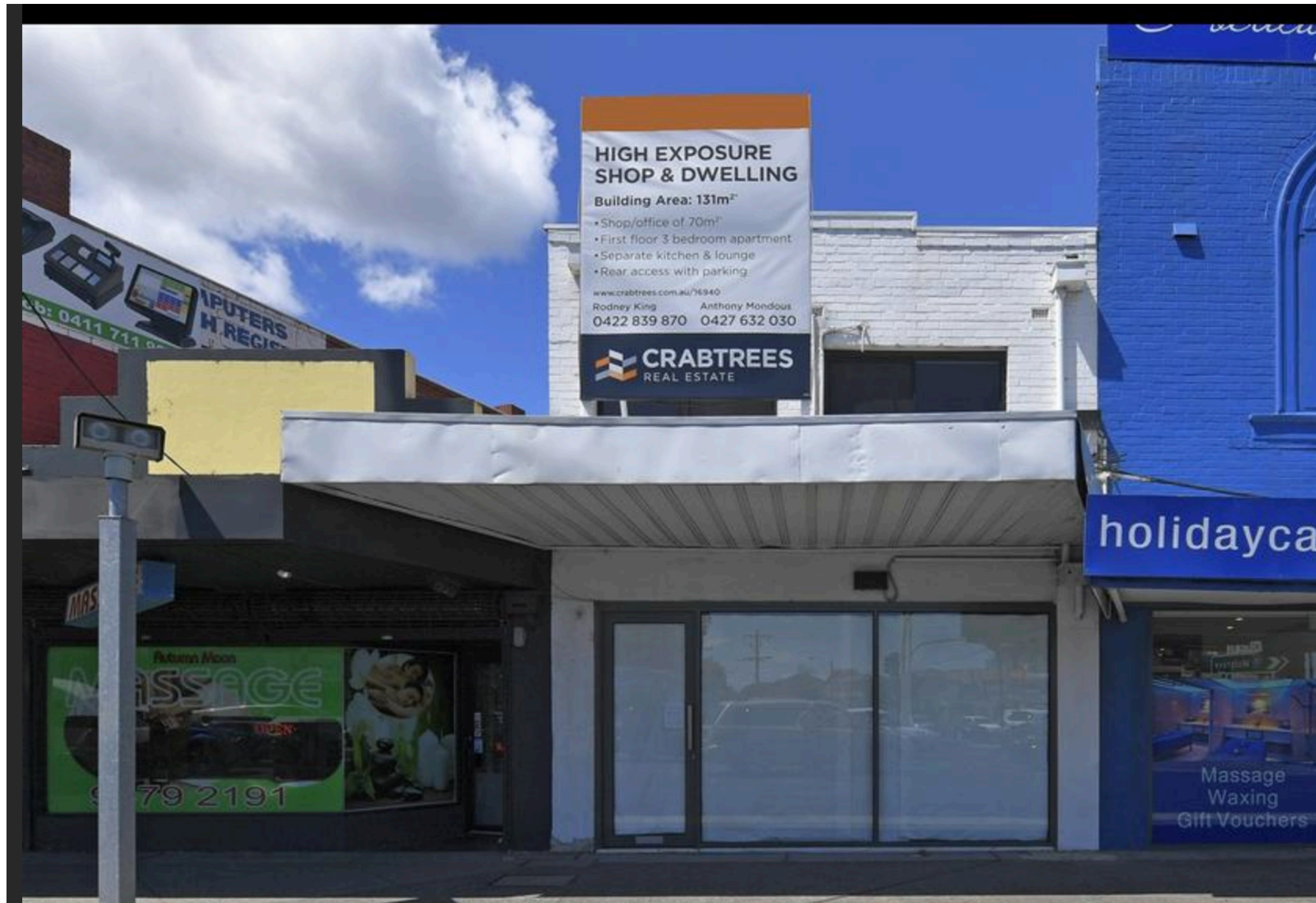
- Properties are assessed by banks by their location and commercial or mixed-use zoning, in addition to all their regular criteria
- Getting a mixed use property loan will depend on how your property is defined by the lender.
- Real estate that has a mixed purpose does not always fall under commercial lending.
- Rural and residential mixed use property, can often be bought with a residential home loan- Ask your Lender for Broker about this
- **A residential loan has a lower rate, lower fees and a longer term than a commercial loan.**
- *<https://www.homeloanexperts.com.au/property-types/mixed-use-property-loans/>*

HELEN'S TIP FOR MIXED TENANCY

- Tip – For mixed tenancies you want to make sure not one tenant is more than about 35% of your overall rental income. This is to safeguard yourself in case that tenant leaves.
- If you have one large tenant that is 50% or more of your incomes you might want to work out ways to increase the other tenants' leases or find additional revenues of income in your building to reduce that ratio.
- There are several ways to do that including looking at expanding the current property if you have space at the back of the building, signage space on the front of the building, adding storage cages on the property.

QUICK CASE STUDY

Oakleigh- Melbourne- Vic



QUICK CASE STUDY

Retail Offices/Shop -Freehold with 3 Bedroom Apartment

The key features of the property include:

- Favourable Commercial 1 zoning
- Ground floor retail space with separate room and facilities
- 3 Bedroom residence on first floor
- Suitable for retail or office
- Lock-up garage with rear laneway access
- OCCUPY, INVEST OR DEVELOP (STCA)
- Vacant possession

QUICK CASE STUDY

Retail Offices/Shop -Freehold with 3 Bedroom Apartment

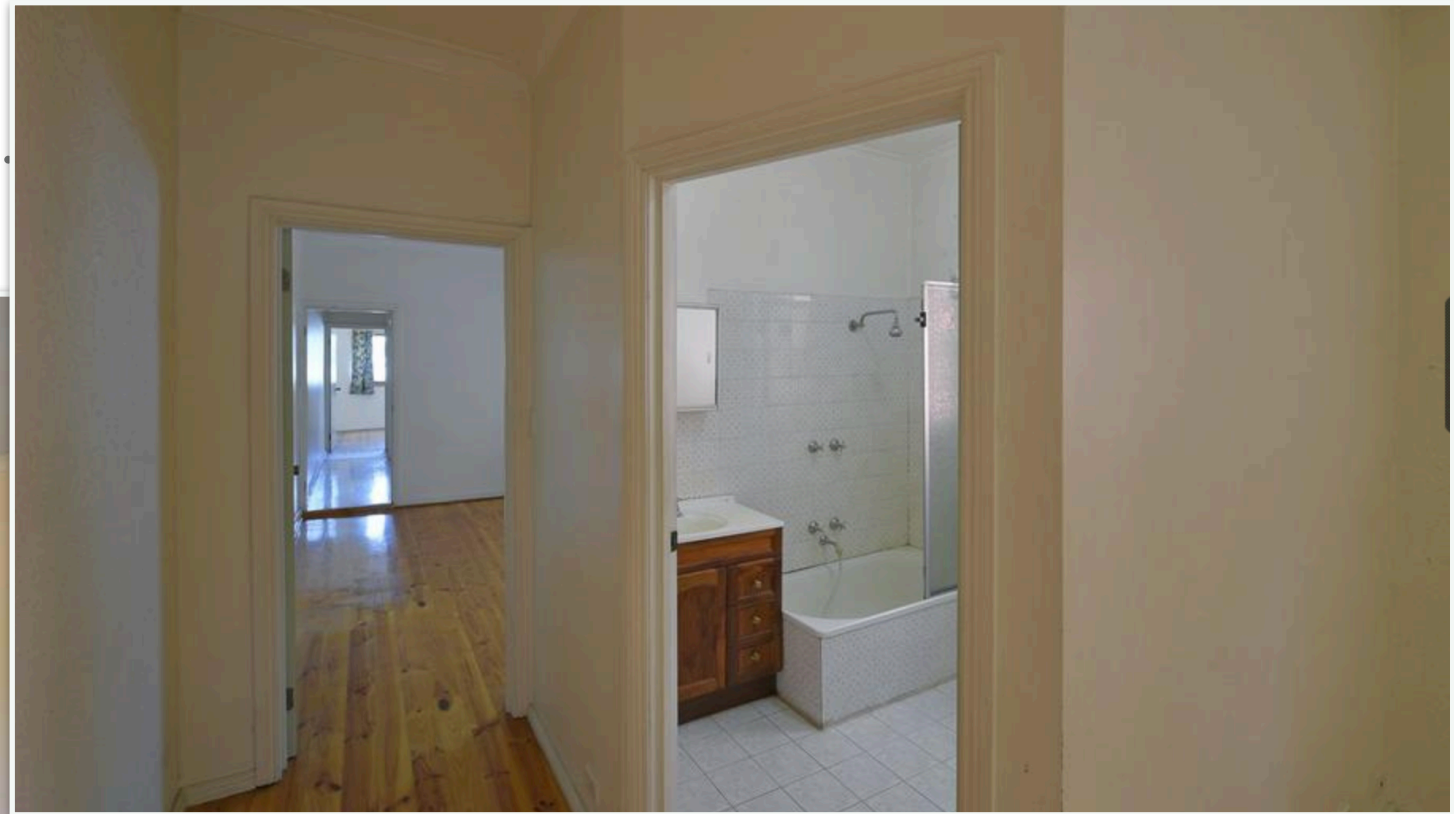
The key features of the property include:

- Building Area 240 m2*
- Land Area 136 m2*



QUICK CASE STUDY

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QUICK CASE STUDY

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QUICK CASE STUDY

Agent Information:

- Shops along this strip lease for \$20,000 - \$25,000p/a NET
- 3Br Apartments in the area lease for around \$18,000p/a


Considerations:

- The Shop looks like it needs some refurbishing - factor in that cost
- Residence looks like it's in good condition- Check the kitchen and Bathroom- Factor in Cost to maintain appliances - Hot water system, Cooking Facilities plus maintaining a tenant.
- This apartment is not new, so you would have to check the agent's price with your own due diligence against comparable older apartments...plus the laneway entrance.... and it's over a shop.... So possibly lower that price.

QUICK CASE STUDY

Local Shop Sales: Smaller Newer Properties- 4.2% return

Sold



3/1127-1129
Oakleigh, VIC
\$450,000
65.0m²

> VIEW

Sold



4/1127-1129
Oakleigh, VIC
\$450,000
62.0m²

> VIEW

Sold



2/1127-1129
Oakleigh, VIC
\$450,000
62.0m²

> VIEW

SOLD

SOLD PRICE

4/1127-1129 North Road

\$450,000

Oakleigh, VIC 3166

Shop & Retail • Offices • Showrooms & Bulky Goods

Floor area

62.0m²

Sold on

10 Oct 2016

TENANTED INVESTMENT

- Just a few steps from the corner of Warrigal Road, this retail food outlet presents an opportunity for the investor. Features include:
- 62m2 (approx.) floor space
 - North Road exposure
 - Kitchenette and amenities
 - Rear entry and car park
 - Rental return \$19,172.40 per annum plus outgoings
 - Currently leased with further option

QUICK CASE STUDY

Considerations:

- Shops along this strip lease for \$20,000 - \$25,000p/a NET
- 3Br Apartments in the area lease for around \$18,000p/a (\$346/week)
- Insurance assume \$600
- Deduct Council & Water Rates expenses from the residence- assume upwards of \$800
- It seems there are no common areas to clean & maintain- as residence is accessed by a separate door in the back laneway.
- Landlord's Insurance assume \$335
- <https://www.canstar.com.au/landlord-insurance/the-cost-of-landlord-insurance/>

QUICK CASE STUDY

Considerations:

- Agents maintenance fees 8% for residence = \$1,440 plus letting fees \$346 = \$1,786

<https://www.rent.com.au/agents/blog/best-property-management-fees/>

Melbourne

Management Fees – 8.8% of all rents collected.

Letting Fees – 2.2 weeks rent / 4.4% of annual rent.

Internet Marketing Fees – \$520 (Melbourne has the highest internet marketing fees overall).

Lease Renewal Fees – 1.1 weeks rent / 2.2% of annual rent.

Routine Inspection Fees – \$50 each.

Monthly Admin Fees – \$11.

Annual Statement Fees – \$55.

VCAT Fees – \$250 flat fee plus costs.

QUICK CASE STUDY

Considerations:

- Income = \$18,000
- Outgoings = \$600 + \$800 + \$335 + \$1,786 = \$3521
- Net Residential rent = \$14,479
- Assume Each part of this property is 240 sqm / 2 = 120 sqm
- So Net Rent residential could be $\$14,479 / 120\text{sqm}$
= \$120.65 /sqm
- So Net Rent Commercial could be $\$20,000 - \1000
insurance / 120sqm = $\$19,000 / 120\text{ sqm}$
= \$158.33 /sqm

QUICK CASE STUDY

Considerations:

- You may consider refurbishing & setting up the residence as 3 separate offices, leased out to 3 different tenants who share the bathroom and kitchen facilities.
- There would be more to manage on your part.
- You would need to consider how to split the energy bills and cleaning of the common areas