Getting settled

Each week during Spring property season, *Money*'s team of experts will come up with strategies for getting the best result – before and after the hammer falls.

Winning start

Photographer Mel Koutchavlis's first foray into commercial property was driven by one factor. She and her then partner couldn't agree on a residential property.

It was only when an architect acquaintance invited them to buy into an off-the-plan commercial property development that they found common ground. They plonked down a $40,000 deposit and negotiated that rent lost if the project ran late would be deducted from the sale price.

Eighteen months later they drew down a $310,000 loan for the 80-square-metre commercial suite in Surry Hills, which was then reduced by about $10,000 because the project ran late. A PR tenant was installed and the $3300 monthly rent more than covered their repayments. "We were making $500 a month as opposed to most residential places when you buy them you might be losing $500 a month," she says.

Koutchavlis, also an experienced residential investor, says commercial tenants are harder to find, but leases are longer. They did have to cover the loan repayments on their unit when it was vacant for a few months. But it was worth it when they sold in 2012 for $400,000; paid out the $250,000 outstanding loan and pocketed about $140,000.

When she was ready to invest again this year, her preference was for commercial. "But the space that I found they took it off the market just as I was asking for the contract," she says.

Instead she put her sale proceeds into a residential investment. "I am starting to get into a little bit more property development now but these things take time and they take a lot of money and you need to have nerves of steel a lot of the time," she says.

Investors like Koutchavlis have been driving much of the recent housing market growth. RP Data reports housing finance for investment purposes hit $8.4 billion in June, the highest level since January 2008.

But some people are turning their attention to property investments with a twist such as commercial, car parking or entire unit blocks.

Units appeal

Shane Quinn, director, Quintessential Equity, a fully managed commercial and industrial property syndicator catering to wholesale investors, says yields from investing in commercial and industrial property can be 7-11 per cent compared with 3.5-6 per cent for residential property. But the higher yields reflect the greater level of complexity and risk associated with such properties.

Positive outlook: Mel Koutchavlis outside her investment property in Redfern. Photo: James Brickwood

A glance at their super statements gave one Sydney couple, Belinda and Colin (not their real names), the push they needed to make their first property investment. Their aim? A property that was positively geared, or close to neutral. They had set their sights on a house in Sydney's west but rising prices and static rents put the kibosh on that plan.

Then an unsuccessful attempt to buy a block of four art deco units in Wollongong's Port Kembla proved an eye-opener. "We were surprised to discover that blocks of units that weren't strata [title] were cheaper than we expected," says Belinda.

In June they paid $550,000 for a Queenslander in Brisbane that had been converted into four units.

"The whole block cost less than a house would have in Sydney and it's very unlikely that all four residences would be vacant at the one time so it spreads the risk." Often banks only lend on unit blocks at commercial rates. Fortunately, their mortgage broker secured a five-year fixed rate residential loan at 5.5 per cent and they almost hit their target of being positively geared.

Christine Long

Hammer time

Commercial charges higher

Sheyne Walsh, head of lending, Centric Wealth, says the financing of non-standard residential assets can add a layer of complexity to buying such properties: "The big banks as soon as they get a sniff that it's commercial [property] they want to charge you commercial rates."

The interest rate differential can be 1 per cent plus there are hefty ongoing fees. The annual loan service fee for a standard residential property might be $96 to $400 whereas on a commercial facility it can be 0.8 to 2.5 per cent.

In addition, Walsh says, the fee is charged on the entire facility. So an investor with a $1 million commercial facility who only uses $700,000 will still face a 1 per cent fee or $10,000 a year. Commercial facilities also tend to come with loan terms matched to the lease term, which can create pressure when a bank won't renew a facility unless tenants are locked in.

People are often better off getting room to "manoeuvre" by using their house as security and securing a 25-year loan term to buy such properties, says Walsh.

Christine Long