Owner Occupied vs Investment

Owner Occupied properties

A property is deemed Owner occupied when a business owner operates their own business out of a commercial property for which their business is the anchor (or sole) tenant.

If you want to buy a commercial property that will then act as the premises for your own business, lenders classify you as posing a higher level of risk, and you will need to satisfy stricter lending criteria and generally may also receive a higher interest rate.

Things to consider when buying a commercial property as an owner occupier:

- **Location and zoning**
  Assessing the proposed location of your business is crucial. It is importance is to check the zoning status of the area, and also where your customers are – will they travel to you? Will your staff travel and is public transport nearby? Are you close to other amenities such as banks and cafes?

- **Current tenants**
  Is the property you are looking at currently leased to tenants? Check any current lease agreements, when it ends, and also for any future options available to the tenant. You can avoid this issue if you look at vacant properties or properties that are currently owner-occupied.

- **Size and fit-out**
  It's important to consider how the size and layout will work for your business. Fitting out premises from scratch can add significantly to your costs. Premises that are already fitted out may be a good choice, but only if it is suited to your style of business.

- **Parking**
  Does the premises have enough parking for your customers and staff? It is important to not only consider what you need now, but what you may need as the business grows, at least during the next three to five years.

- **Owners corporation**
  Previously known as body corporate, the owners corporation of a complex can make an enormous difference to its occupants. Ask about costs such as levies, and the frequency and amounts associated with building repairs.

- **GST and stamp duty**
  Factor in possible GST and stamp duty when calculating how much money you will need to raise. If the property is vacant when you purchase it, you will be required to pay GST on that property. Most buyers will be able to claim the GST back, but you need to have the funds in the first place.

- **Commercial loan**
  Consult with your broker, or do your research and shop around for the best commercial loan for your circumstances. The costs you save – or the difference in conditions being offered – can be significant.

- **Energy consumption**
  It is worth checking how much energy a property typically consumes as consumption can vary significantly and costs becoming increasingly substantial. Seek an independent consultant to provide advice on energy-saving measures for any new property.

- **Research**
  Get out and having a look at the properties that are on the market, and what price are they going for and what do they have to offer. What have similar properties sold for recently and how does that compare with what you want? Speak to a specialist commercial real estate agent that has sold properties in the area.

If you consider these points, you'll be in a great position to purchase a commercial property from which to operate your business.

Investment properties

Investment properties are when there is a third-party tenant occupying/leasing the property. Lenders view you as a lower risk borrower (compared to an owner-occupier) and will may generally offer a simpler application process and better interest rates.

Things to consider when buying a commercial property as an investment:

- **Value**
  As simple as this may seem, you can only claim a tax deduction on an expense that you have actually incurred. Cost of the materials used for repairs that are purchased at a hardware store will be tax-deductible. If the repair work is done by someone else, then the cost of hiring that person will be tax-deductible for you. If you do the repairs yourself, you cannot claim the time and energy you expended to do that work.

- **Lease term**
  It is not uncommon for a commercial property to have an initial lease term of five years, followed by an option to renew the lease for another two lots of five years, ie the maximum term of the lease could span 15 years.

- **Rent**
  Due to the longer lease terms of commercial properties, rent increases are usually based on a predetermined and agreed formula, eg the rent amount is increased at the same rate as the Consumer Price Index each year.

- **Outgoings**
  Landlords of commercial properties can generally pass on rental outgoings such as council rates, water rates, land tax, etc, to lessees as part of the rent.

- **Financing**
  Commercial properties usually have a higher value than residential properties of a similar size and in a similar location, which means the stamp duty payable on the purchase of commercial properties is also higher.

  Due to the higher risk profile of commercial properties, lenders do not generally lend as much relative to the value of the property as they do for residential properties, and the lending criteria are usually stricter and the cost of the loan (ie establishment fees and interest rate) is usually higher.

- **Taxation**
  In the case of commercial properties, provided that the landlord is registered for GST or required to be registered for GST, the landlord will be making 'taxable supplies' when they lease their property, for GST purposes, and will therefore be liable to pay GST on the rent. The landlord will also be entitled to claim back the GST on the costs incurred in renting out the commercial property or properties.

Differences:

- **Loan Structure**

  Owner occupied loan facilities generally have a bit more flexibility on the terms, whereas investment properties usually match up the term of the loan to the average maturity date on the leases

- **A Matter of Maths**

  Ask yourself the following questions: How much rent am I paying? 'Will I be getting a better return on my capital if I invest my funds in my business, or in holding property?

- **Cash flow consideration**

  Owner-occupied property loans are financed based on the revenue and financial ratios of the operating business and its collective assets as collateral, not solely the value of the building. Cash flow from the business pays the mortgage, rather than the often-unpredictable tenant occupancy that investment properties rely on. The opposite is true for Investment properties where the cash flow is first determined by the rents and if those rents can cover the debt service on that property. Most financial institutions will take a close look at the cash flows when determining whether or not to extend a loan.