

## **SOUTH MELBOURNE COMMERCIAL OFFICES: FAQ**

### **What are the advantages in purchasing "off-the-plan"?**

Buying “off the plan” means buying prior to construction. Benefits include the ability to lock in at today's prices. Many buyers who have got in early have enjoyed the benefits of price appreciation.

Another benefit is delayed settlement i.e. buyers are not required to settle or pay for their property in full until construction is completed and settlement has taken place. This allows the buyer to arrange appropriate finance, use their money for other investments in the meantime, and /or allows added time to save more deposit.

It's a very attractive way of investing in Australia as no progress payments are required. In addition, thousands of dollars in Government charges can be saved when investing off plan.

**Only a small deposit (10%)** is required and the remainder is not due until the building is complete. New properties also offer huge depreciation tax benefits.

### **What rent returns can I expect?**

You can anticipate a high rent return, which is one of the attractions of Commercial property. The return would equate to 8% to 9% if talking in residential terms. However, as the tenants in Commercial actually pay the outgoings for you, your NET return will be around 6%, again substantially higher than residential.

### **Is this different from Australian residential property?**

Yes, it is quite different. The differences are many but include longer leases, scarcity of property, huge demand, higher rents, and stronger owner/landlord protection.

### **What is the typical Duration of leases?**

Typically 3 years with options for another 3x 3 years. And unlike residential, usually, annual rent increases are written in to the lease.

### **What are the additional costs on Purchase?**

As with residential, the buyer has to cover his own legal fees, stamp duty and bank charges. We anticipate legal fees at round AUD \$3,500 to \$3,900, and bank fees around 1% of the loan amount. Tremendous Stamp Duty savings are available for early buyers. Buyers should also note GST. (See GST question below)

### **What are the expected types of tenants?**

Tenants are likely to come from businesses in the legal, finance, design, engineering, trading & service industries. The South Melbourne area is a tremendously popular business area. (As can be seen by the record low vacancy in offices here)

### **I've heard Commercial property has a high cost of entry. Is this true?**

Yes. Normally Commercial properties have been limited to Institutional buyers, and large private investors. In fact, in 2009, the average purchase price reported by private investors was AUD\$25 million.

Smaller individual investors have been limited to older retail shops.

This current opportunity is one of the very few new office buildings offered to smaller investors, with average prices just AUD\$405,000.

### **What is my ongoing costs of up-keeping the offices?**

The tenants meet all the outgoings, such as Body Corporate (Management) fees, Council Rates and Water rates.

### **What are my monthly Outgoings?**

You need only take care of the interest on your loan, and pay your rental management fees to your agent to collect the rent, as well as any landlord insurance.

### **Are there any tax savings?**

Yes. New Commercial Buildings can qualify for significant depreciation tax savings. (Up to 60% of the purchase price may be given back to you in the form of a tax deduction) Additionally properties bought for investment allow the owner to claim all expenses on the investment against future rental income.

Finally, by making an early decision and locking in a price prior to construction starting, the Government will allow you substantial Stamp Duty savings.

### **What are the restrictions on foreign buyers?**

None

### **When is the expected Completion?**

End of 2011

### **If the project is delayed, is there any compensation?**

The developer usually has a sunset clause in the contract indicating the latest date for completion. If for any reason the completion is delayed beyond that date then your 10% deposit is then fully refunded, the contract is rescinded and any bank interest earned on your 10% deposit will be accorded to you.

As the developer in Australia does NOT have any access to your 10% deposit until completion, it is in their interest to complete as soon as possible otherwise they do not get any money. There are no progressive payments need to be made by the buyer.

### **Who is the developer, and what is their track record?**

MAB Corporation (MAB) is a privately owned property development company that has been successfully operating since 1995. With over \$2 billion in projects MOB generates approximately \$300 million in annual sales, has net assets approaching \$200 million and employs almost 100 people.

Established and owned by fifth generation Melbourne property identities, Michael and Andrew Buxton, MAB has activities in residential, retail,

industrial, commercial developments and a funds management business with approximately \$250 million under management.

The first Stage in this project, of New York style warehouse type units was very successful. This current release is the final major stage of offices.

### **What are the payment terms?**

AUD \$1,000 booking fee (fully refundable) then 10% deposit. No other payments are need until completion around the end of 2011.

### **Are there any discounts?**

No. The price is fair market price, and is exactly the same price as will be offered in Melbourne. The advantage you have in moving now is to have the most choice, before official launch, and the Stamp Duty savings.

However, as a special exclusively for Citylife clients there is “Prompt Payment” discount of \$2,000 available for those able to pay the 10% deposit in cash within 14 days.

### **What financing is available?**

Financing is readily available for up to 65%. Interest rates are slightly higher than with residential, although you can also re-finance any residential property you have if preferred.

### **Is parking provided?**

Yes, each office has one Freehold car park included on Title, at no extra charge. These are valued at between \$40,000 to around \$60,000 or more.

### **What is GST and who pays it?**

Each buyer will be responsible for paying GST (Goods and Services Tax) on completion, of an amount of 10% of the purchase price.

However, buyers can obtain (through their accountant) a refund of their 10% within 60 days after completion.

## **What are the Risks?**

All investments carry some risk. The risks for commercial are similar to residential. That is, the main risk is in a vacant property. According to current research by Colliers, the South Melbourne vacancy rate is at a record low of 1% compared to the CBD 5% and Southbank 7% and St. Kilda Road 10%. When you consider a normal vacancy rate for offices in Melbourne is 8%, then it is clear that strong demand can be expected.

In addition, once a tenant is located, commercial offices usually offer longer leases, in the range of 3-9 years as compared to 6-12 months for residential properties, and offer regular rent increases written in to the lease.

## **If the office is empty, how much do I have to pay?**

If the office is empty that owner will pay outgoings which include body corporate, water and council rates.

## **Are there agents who can rent this out for me?**

Yes, there are a number of highly reputable property management agencies who are very keen to take over the Management of these offices for individual owners and investors, and we would be happy to recommend one closer to completion. We are currently using Colliers and RUN Property. (Australia's largest property management group)

## **What is the current vacancy like in Melbourne in general?**

The current vacancy rates for offices as currently reported by Jones Lang La Salle is around 8%, which is considered a normal vacancy rate for the office market, and a reasonable level between supply and demand..

## **What is the vacancy in South Melbourne?**

According to the latest research by Colliers, South Melbourne is currently at just 1% vacancy, a very low level.

## **If the tenant doesn't pay me, what can I do?**

14 days late in rent, means immediate eviction applies.

**Is there any rental guarantee available?**

Yes, a rental assurance programme has been negotiated with the Developer. This allows for a 7% gross return on completion for 12 months or until a tenant is found, whichever is earlier.

This takes the pressure off investors, and allows for an orderly renting campaign, as investors know they will have immediate rental returns.

**When do I have to pay the 10% deposit?**

Normally the 10% deposit is required within 14 days. If you need longer time, speak to us to see what can be arranged.

**How much is the full deposit required?**

Assuming a 65% loan, and you have paid 10% already, you will need another 25% upon completion.

**Is it true that Stamp Duty Savings are only available for Residential property?**

No. Stamp Duty Savings are available on these properties too, if purchased off the plan before construction starts. You will only pay stamp duty only on the land value, not the full price, and can represent savings of tens of thousands of dollars. This saving also applies if buying off plan apartments in the State of Victoria.

**How much deposit do the tenants need to pay?**

3 months rent.

**Can I get the interest on the deposit?**

Yes.

## **Why do you consider South Melbourne to be such a good area for Commercial investment, as compared to, say, the City Centre?**

Lower entry price, more flexibility of sizes, single units available (the CBD tends to be more corporately owned), a lower vacancy rates and good access to all transport links and infrastructure.

In addition, many owners and tenants simply do not like the hassle of having to go into the city, find parking, and get stuck in the traffic.

South Melbourne is seen as a very viable option for many businesses.

## **Is this a better investment than Residential property?**

Not necessarily “better”, but different. Both can be great investments, it depends on your current situation, your gearing and your current portfolio mix. However this is certainly an excellent alternative investment to Residential property.

Rents are significantly higher relative to purchase price, there is the all important “scarcity” factor, leases are longer, and upkeep and maintenance is minimal.

Also, as at December 2006 the estimated size of the Australian commercial property investment market was AU\$449 billion of which *Australian Institutions owned approximately AU\$178 billion (40%)*.

So the lesson here is clear: many larger Institutions consider Commercial to a very superior investment to many others.

## **Why hasn't there been other projects like this offered before?**

Traditionally commercial property developments are usually offered to large corporations that purchase the whole project. This is a rare opportunity for individual investors, and in fact is the first one ever offered by the Citylife Property Group.

## **I am not an Australian. Can I still buy?**

Absolutely. Approval is given by the Australian Government for foreign persons to invest in Commercial properties without restriction. (Unless over \$50 million) Unlike residential, you may also resell to a non Australian buyer.

### **If I sell, can I get my money out of Australia?**

Yes! You may need to get a tax clearance certificate first. The funds can be sent anywhere in the world.

### **Does buying property help me migrate?**

No! Buying a property is not a criteria to migrate.

### **I live overseas. How involved do I have to be?**

Property ownership "from afar" is very common. There are very professional property managers. All bills can be paid for you. Rents are banked into your account. Property ownership can be pretty much trouble free. However, being a landlord does carry with it some responsibilities, and from time to time you may need to get involved. With e-mail and the internet, overseas property investing has become a world-wide reality.

### **Am I paying too much?**

Citylife guarantees that all prices are offered at exactly the same price offered in Australia to local investors. You pay no extra by buying from overseas. All prices are fixed. There are no hidden costs. All prices are fair market prices, based on current market rental valuation rates from independent parties.

### **How complicated is Commercial property investment in Australia?**

Not complicated at all.

Freehold titles are available.

There is strong landlord/tenant legislation.

There is an increasing and available pool of tenants. *The population is increasing, and land is diminishing. It does not have to be complicated.* There

are no constantly and complicated changing regulations. There are no age barriers to investment.

An accountant will take care of all tax returns needed each year.

Seek advice from experienced, successful property agents.

### **Is it risky investing in property in Australia?**

For short term property traders, negotiating a bargain price, finding the best interest rate, and deciding when to buy and sell are extremely important.

For long term property investment, the initial price, interest rates and timing have *far less impact because of the levelling effect of time*. Long term property investment has been relatively unaffected by downturns in the economy, high interest rates, fuel crisis, and unemployment. *A well located property has low risk, with good returns. The best time to buy is when it suits you financially, and hold for the long term.*

### **What if interest rates rise?**

Interest rates go up and down over time. However, you can also fix rates for up to 5 years.

Or you can pay the loan off faster, to reduce the debt. And you will receive extra tax deductions on higher interest rates, reducing the impact.

In addition, when rates are up, it tends to mean less people buy property and more people rent, giving you higher rental returns. It is not unusual to see the rent increases more than offset the interest rate rises. .

### **What does Return on Investment (ROI) actually mean?**

The Return on Investment (ROI) is a measure of the return a property will achieve after taking into account the amount of money outlaid, compared to the total amount returned at the end of the period. **Investors usually only look at the capital growth or rental income a property achieves, but this is misleading.**

A property purchased for \$400,000 and sold for \$500,000 could be considered to have achieved a 25% capital gain. However, *is this the real gain?*

If an investor outlayed 35% deposit on such a property, ROI would go up to 71% - a substantial difference.

### **Should I pay cash for an investment property?**

*Generally no!* The golden rule for borrowing money is to use other people's money to use leverage for an appreciating asset. Interest expenses are fully tax deductible.

### **Your offer looks very attractive. But I'm still unsure whether I should leave my money in the Bank?**

This is a common question and ultimately, only you decide what is best for you.

Nervousness about making the "wrong" decision, and the apparent safety of leaving your money in the bank, often outweighs the "harder" decision of deciding to invest.

That's why the ABS (Australian Bureau of Statistics) tells us that just 7% (of those ages 18 and over in Australia) owned, or were buying at least one rental property for investment.

And of those, 78% had only one rental property and just 13% owned two.

Our computer modelling shows that an investment in property, (even a modest 5% growth rate) will outperform cash on deposit (at say 6%) by over 75%.

*Rather than spending weekend after weekend looking at the internet* you can maximise your returns and better manage your investment by organising your finances in the best possible way and ensuring that you buy a quality property in a good area, at a fair market price.

And finally, if inflation is running at say 3%, the value of your cash is dropping by that amount each year. Even if you are getting 6% on deposit, inflation, taxes and purchasing power is dwindling the return down.

The advantage of Commercial property is that it is also a superb inflation hedge, as rents are usually tied in to the prevailing inflation rate.

(Visit [www.inflation101.com](http://www.inflation101.com) for more information on this topic if needed.)

### **I think I will watch the market for a while longer**

Investing is a lot like having children! If you had waited until the *perfect* time have children, if you'd waited until you had plenty of money, lots of free time to spend with them, money for their education etc you might have to wait until you become a parent before having any children! Investing, like having children, requires taking action, and in both cases, the rewards can be tremendous. We respect your decision, but this rare opportunity will not be available for long.

### **I'd like to think about it**

We encourage you to think about it. The more you think about it, the more you will release what a special opportunity this is. Just don't miss this opportunity by thinking about it too long! Once sold, there simply will be no more.

We have not offered a product like this ever before. It simply has not been available. Stage one was a huge success and was snapped up.

In fact you may never have enough information. We are in this business full time, every day, and we are always learning something new.

### **I'm worried about future inflation**

Then Commercial property could be the perfect hedge for you.

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