first national COMMERCIAL

July Newsletter

Commercial landlords strategically position for Sydney METRO northwest

The Sydney METRO northwest is Australia's largest public transport infrastructure project, which is being built to meet the needs of Sydney's growing population. The project incorporates Australia's longest rail tunnels and will expand Sydney's rail capacity by 100,000 commuters per hour when it opens.

Simon Russo of *First National Commercial Hills Central* reports that the project has created reluctance amongst landlords to consider long-term retail leases. Demolition clauses are now commonplace, especially in high profile locations, and developers are keen to pay premiums for key locations.

Opposite Castle Towers Piazza on Old Northern Road, Simon has just leased a 59-sqm corner shop, offered for the first time in 20 years, for $86,000 p.a. net (excl GST).

Mum and dad investors eye small offices

Small office suites (50-75 sqm) are increasingly in the investment sights of mum and dad investors, according to Brendan O'Bryan of *First National Commercial Platinum Project Marketing* (Melbourne, CBD).

Brendan reports the recent sale/lease of two 55-sqm office suites in North Melbourne for $220,000 each. One office is to be occupied and the other was rapidly leased for $15,500 + GST and outgoings, delivering a yield of 6.5%.

Roeburn Light Industrial Estate remains active

First National Commercial Karratha (WA) reports the lease of an industrial warehouse with laydown in the Roubourne Light Industrial Area for $31,200 + GST pa.

Buderim convenience store achieves $420,000

Amber Hackworthy of *First National Commercial Mooloolooba* (QLD) on the Sunshine Coast reports the sale of a 196 sqm family trust owned convenience store on Oakmont Drive, Buderim for $435,000. It has been purchased by a busy veterinary clinic with expansion plans.

Could Pauline Hanson affect Asian Investment?

According to the Australian Financial Review, "shock, horror and disappointment" has gripped the Asian business community after One Nation's Pauline Hanson was successfully election to the Senate, following the federal election.

"Ms Hanson's success in winning a Senate seat has caused many Asian businesses to question the stability of the political environment in Australia. They said the uncertainty caused by a government in limbo could put off foreign investments".

Ms Hanson was unpopular in Asia 20 years ago when she said Australia was at risk of being "swamped by Asians".

Bendigo warehouse snapped up

First National Commercial Tweed Sutherland (Bendigo) recently sold a 435 sqm warehouse on 1,062 square metres of land for $400,000.

The warehouse offered a busy Wood Street frontage and was suitable for a wide range of enterprises, given its large display windows. With four offices of various sizes, staff rooms and toilet facilities, three phase power plus side roller door access (3.4m x 3.4m), the property was quickly snapped up.

How to land a big WALE (Weighted Average Lease Expiry)

We're not talking about a large seafaring mammal but the Weighted Average Lease Expiry, which is a term that is more commonly seen than its abbreviation - WALE.

Why is WALE so important to you as a commercial property investor?

As you know, vacancy is a big problem for any investor so knowing how to calculate any vacancy period is a great tool to reduce your risk.

A WALE is used to measure the overall vacancy risk of a property with multiple tenants and is used by investors to assess the likelihood of a property becoming vacant.

In other parts of the world, a WALE may be also referred to as WALT (Weighted Average Lease Term) and WAULT (Weighted Average Unexpired Lease Term) but they practically refer to the same concept.

In the Asia Pacific region, investors are more accustomed to WALE.

How do you calculate the WALE on your investments?

The WALE is measured across your tenants remaining lease in years and is weighted with either:

1. The tenants occupied area or
2. The tenants income against the total combined area or
3. The income of all the tenants.

For example:

Tenant 1 occupies 50% of rentable area and lease expired in 5 years
Tenant 2 occupies 20% of rentable area and lease expired in 6 years
Tenant 3 occupies 30% of rentable area and lease expired in 2 years

Therefore, the WALE for this property is calculated as:
(0.5 x 5) + (0.2 x 6) + (0.3 x 2) = 4.3yrs

As with this example, tenants that occupy the larger spaces and sign on for a longer lease in the building can skew the WALE calculation upwards. This is why your anchor tenants (or larger Tenants like government organisations or stable companies) may receive the best rental rates in a collective property investment.

WALE can be measured in terms of revenue from the building in place of rentable area. However, the majority of financial reporting of your commercial properties typically list 'securities' or 'rentable areas used'. A WALE is a great measure of your investment's risk and potential for income. Properties with a long WALE face the least risk of vacancy; for this reason, most investors believe that the larger the WALE the better.

Know your investment objectives:

If your investment goals are to have a predictable and stable income, then properties with a longer WALE may be just the ticket. Measuring the WALE on your properties is a good way to measure your investment against your goals and have greater peace of mind with new investments.

SOURCE:
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