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Investment; Private Vs. Commercial Property

By Mary Nebotakis, Managing Director, Natloans, B. Eco, Dip. Financial Services

The First Distinction

Right off the bat, let's discuss the functional difference in the two property investment types. Commercial properties are properties in which commerce is supposed to go underway, hence, they are meant for the use of a business, primarily.

Residential properties are properties in which one intends to live or have someone live. Hence, they are a place of residence.

Practical Distinctions

Here are some of the more tangible differences between the two sorts of property investment, in no particular order:

Lease Terms & Length – Commercial properties will often have a much longer lease than residential properties, due mainly to the fact that it is much harder to find a tenant for a commercial property than a residential one. One will also note that, distinct from residential properties, commercial properties have lease terms which tend to vary quite widely, and are subject to quite a wide scope of negotiation.

Maintenance – With residential properties, the price of electricity, plumbing, land tax and rates are usually billed to the landlord rather than the tenant, with commercial properties, the opposite is often the case. Therefore, in a commercial property, the tenant will usually bear the burden of maintenance. At the same time, this provides the commercial tenant with an incentive to take closer care of the property, not just because they will have to pay the upkeep thereof, but also because it is their place of business and often the success thereof is contingent upon its good appearance.

Rent increase – Whilst most residential leases do not tend to include a fixed annual rent increase, commercial properties often do. This is typically within the range of 3-4% annually.

Risk – Residential properties are usually considered to be the safer investments of these two. No matter what is ongoing with the economy; people will always need a place to live, whilst commercial properties, on the other, can be subject to some quite significant shocks and tremors when faced with economic shocks.

Interest – Interest rates paid on properties tend to be significantly higher in the commercial realm. This is partly because an institution is presumed to have more money for payment than an individual or unit thereof.

Finishing Thoughts

This was a basic summation of the key differences in the two property types. Some information may be specific to the property in question, and there are other minute details which have not been discussed here. It is best, therefore, to see this as a starting point, and to make sure to do your own research to the best of your abilities if either of these matters of subject piques your interest. For more information, check out our homes loans section. See you soon!

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