smith COMMERCIAL

Case Study: 45 Cavill Avenue, Surfers Paradise

Project

- Sale strategy
- National marketing
- Information Memorandum
- Lease negotiation
- Sale negotiation

Background

45 Cavill Avenue is a 3 level freestanding 1,341 building located in a retail precinct in Surfers Paradise. Over 20 years old, the property retained the original tenant on ground and first floor and a 9-year tenant on the top floor.

The Challenge

As an investment the property had some major weaknesses including:

Tenant A

- Held 65% of the space which could have been seen as high risk
- Was paying double the market rent (honoured due to the relationship between the owner and tenant)
- Had large arrears and only operated from the ground floor while seeking to lease level one as office space in a CBD market with 50% vacancy
- Had a lease condition that upon the sale, the rent would return to market which would halve the current rent
- Provided a buyer with only 2.5 years left on the lease.

Tenant B

- Had a lease that was to expire within months of the start of the sales campaign.

Strategy / Solution

The presentation of the advertising and information memorandum sought to provide the benefits of the property by highlighting:

- The market rental adjustment for Tenant A at contract date would provide a true market rent for valuation purposes and a base for real income growth of 3-4% for the future
- Whilst Tenant A had arrears, the new rent would save them $191,000 per annum. A new owner would benefit from a tenant with increased cash flow and ability to pay as a result of the rent reduction
- There was an opportunity on the first floor for a purchaser to either occupy the 406m2, continue to collect the market rent from the current tenant or diversify with a new tenant.

Success

Over 40 enquiries emerged during the national campaign, which stretched out for 9 months before a buyer could be found.

The sale required our negotiation with Tenant A to strike a new 5 year lease (i.e extinguish the current 3 year lease and extend their time for an additional 5 years) and negotiate a new 3 year lease with Tenant B.

Fortuitously, an office tenant was found for the whole of the level one during the sale negotiations. This was negotiated as a sub tenant on behalf of Tenant A.

The negotiations delivered the new owners with a fully leased building with fresh leases from long-term tenants and strong locked in annual increased growth for the future.

Price:	$3,800,000
Capital Value:	$2,834/m2
Yield:	9.61%