

Comprehensive Reference Work for Financial Planners

Property red tape is holding SA entrepreneurs back

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By Rick de Sousa, Commercial Property Finance Executive at FedGroup.

Given South Africa's unfortunate economic situation and low growth in the property sector, few entrepreneurs think of property as a financial opportunity, but nothing could be further from the truth.

Let's be clear. We are not talking about the listed property sector, where companies are at the mercy of shareholders who chase short-term profits at any cost. This approach is partly to blame for the poor performance of the sector in recent times.

We are speaking about property in the form of bricks and mortar. A stock can implode. A solid property, in a good area, that is well maintained will stand the test of time. Most businesses – whether in services, manufacturing or even the rental market – operate out of a property. Some business models are 100% reliant on the actual property.

So, in an environment where there are very attractive opportunities in a property buyers' market, what is holding back businesspeople with solid track records and business acumen? As many an entrepreneur will tell you, gaining access to commercial property finance can be a massively onerous and distracting exercise. Issues include red tape, burdensome conditions imposed by those with market dominance, and a shortage of liquidity linked to the state of the economy.

However, there are also innovative alternatives available that can have a massive impact on the prosperity of the business.

These include interest-only terms, where the property owner only services the interest portion of the loan and not the debt portion. This frees up a substantial cash amount every month that can be reinvested into the business. In addition, all the growth in the value of the property belongs to the entrepreneur when the building is finally sold.

Another consideration is the turnaround time to arrive at a finance decision. Many providers take months to provide loan applicants with a decision, but there are also those businesses who understand the entrepreneurial mindset and can provide a loan decision in principle within a few days.

It may appear nostalgic or idealistic, but sometimes an entrepreneurial mindset and business-friendly environment is one where the red tape is dumped, and deals in principle are done with eye contact, over a handshake and in a short turnaround time.

One must never confuse this old-school ethos with a lowering of standards. Sustainable business should always be built on the back of solid research, due diligence and an honest and accountable track record.

Commercial property finance is no different. However, agility and innovation in empowering entrepreneurs will certainly have a bigger impact on individual businesses and the economy than the current status quo.

By adopting an innovative approach to owning their own premises, entrepreneurs may unlock the value that makes the difference to help their businesses survive and thrive.