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> "Investing capital in your premises is something a business should look at only if they believe that the capital is of better use in the commercial property market than invested in whatever their core competency is."
>
> **– Rob Fenner, National Director of Corporate Solutions at JLL**

on a yearly increase of 6% to 8%. This all aligns with whether the property is well managed though, and if you're the landlord and the tenant, whether your business can continue to pay the rentals for the foreseeable future."

"Before you consider whether to buy, you need to take multiple factors into account," adds Suraj. "There's work involved in owning a property – is it worth it for you?"

Gil agrees. When he and his business partner, Ran, built their property, it took three times longer than expected. "There is a great upside in the long run but building and owning a building can also be a massive distraction from the business itself," he explains. "It's also a massive long-term commitment and cyclicality in businesses is variable, whereas paying rent is stable and escalating in a predictable way annually. With a rental agreement you may only be in for three to five years. When you own, you commit for much longer."

It's this factor that Suraj believes prospective buyers should pay particular attention to. "You need to consider your five- to ten-year plan," he advises. "For example, if you know you're growing, it might be better to rent until you need a bigger property." He also warns that cash flow is critical. "Pay attention to interest rates," he says. "As interest rates go down, it makes more sense to buy. But what happens if the interest rates go up? This could put a huge cash flow strain on the operations company. Do you have enough cash flow to handle an increase in interest rates? Consider the worst-case scenario before making any decisions."

"These are long-term decisions," agrees Rick. "If you know you're going to grow, now might not be the time to buy – stay renting. You also need to find the right place with a long-term view of where it's going. You could choose an up-and-coming area or an already established area – but either way, location is important. This is another area where valuation experts are critical because they don't only look at the property, but the entire area. Either way though, if you do choose to buy, the returns you get from the business (or from a tenant) need to exceed the bond rate. You must be making more than 10% in profit for this to make sense. Otherwise you just slowly erode your business."

5 CONSIDER OTHER REVENUE STREAMS PROPERTY OWNERSHIP COULD BRING

Once you own a building, there are a number of smart ways to monetise the property. "These are negligible when you're considering buying, but after you've bought the property, you can be smart about how you use it," says Rick.

"There are many ways you can bring additional revenue streams into the business through the property," adds Suraj. "We offer a grid-tied solar opportunity, for example, that allows commercial and industrial property owners to monetise their roof space. You can also rent out any unused space, particularly if you've bought a bigger property than you need to accommodate future growth."

"You can also reach out to cell-phone providers – do they need a tower in the area? Would they like to erect it on your property? Are you well positioned to offer billboard advertising, or building wraps?

"There are a lot of different things you can bring together. This is often what investors do better than business owners who only have one property – their premises. Investors are in the game of looking for income streams, and because they're in the business of buying and managing properties, they get good at it." **EM**

FEDGROUP'S PROPERTY FINANCE SOLUTIONS

The Commercial Property Finance division of Fedgroup has been operating for almost 30 years. It's a participation bond fund, which means a pool of investors invest in the fund, and business owners and property investors can secure bonds from the fund to purchase commercial and industrial properties.

"We're able to offer attractive interest rates to our investors," says Rick. "Our rates are in the top three in South Africa. A minimum investment is R5 000, so our entry points are low, with a five-year fixed term."

From a property owner's perspective, Fedgroup's terms are flexible. "We can lend up to 75% of the asset value," says Rick. "We also give interest-only terms. This means you can choose to only pay the interest, and once the business has grown and your revenues have increased, you can elect to start paying capital, or you can continue to only pay your interest and see returns once the property has appreciated and is sold. Those returns can then be invested in the next property."

Over and above the flexible terms and the fact that Fedgroup does not prescribe how funds are allocated once the loan has been granted, Rick believes their clients benefit from the property experience of the division's team and partners. "We can talk property with them, which is extremely valuable when making such a big decision."

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