

Premium commercial space makes **financial sense**

In the past, private property investors struggled to get a foothold in the commercial property sector due to the prohibitive costs of commercial property transactions. The landscape has changed, with the opening up of the sectional title market and more companies considering becoming owner-occupiers.

Leasing offers businesses more flexibility and less commitment, as it is not tied into a long-term mortgage. This is important to consider if a company is new or in a growth phase. Leasing suits listed organisations with external shareholders, who look for returns. There is a level of prestige attached to owning office space and it makes sense for a stable company to establish itself in its own premises within a business hub.

A noteworthy benefit for owner-occupier businesses is that their property can be used as collateral to obtain financing or to fund future investments. When leasing, a company that has rented for 10 years has nothing to show for it at the end of the lease period.

When leasing, the initial capital outlay is typically the first three months' rent if the company has a good credit rating. In terms of rental fees, the market will dictate, but the benefit is that the payments are tax-deductible. When buying, a company can secure a long-term, fixed-rate bond and therefore the costs become known.

Many companies buy more space than they need at the time to accommodate future growth, and are able to sub-let the extra office space in the interim. Then there are the fit-out costs and whether you are a lessor or owner-occupier, these are always high. But as a lessor, consider having to pay for fit-out costs every time a lease expires and is not renewed. A benefit for buyers is that developers offer generous tenant installation allowances of up to R1 400/m² for a new building, which will presumably have a longer period of use than a fit-out under a lease.

SMMEs are still leasing, but there is an aspiration to buy, while some bigger companies are leasing for the tax benefits. There is also the trend of property funds owning commercial space but only leasing to large single tenants. Then, there are some sectional title office owners selling space to private investors, which allows for direct investment into the property market, as opposed to investment in listed property funds. ■

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