

SMEs can benefit from commercial property investments

20 June 2016: Regardless of whether a small business wants to diversify its investment portfolio or intends to own the premises from which it operates, owning commercial property can provide entrepreneurs with great returns.

Attie Anderson, Head of Commercial Property Finance at FNB says returns on commercial property investments will largely depend on the type of building and the area in which the small business invests. Any building which is used for business purposes, for instance, retail space, office parks and industrial properties, will qualify as commercial property.

He shares five reasons why small businesses should consider investing in commercial property:

- **Higher returns on investment** – SMEs can benefit from rental income on a monthly basis, as well as capital returns in the long-term as the value of the building appreciates. The level of returns will differ from area to area, and small businesses are encouraged to do proper research before buying to ensure that the property and the area lends itself to optimal returns.
- **Diversified portfolio** – commercial property is the best way to diversify and manage investment risks. It is less volatile compared to other risky instruments like equities.
- **Longer-term lease contracts** – unlike the residential sector, commercial properties have longer-term lease contracts, which provide more certainty on the income stream. Furthermore, commercial properties with multiple tenants provide more security due to the spread of risk among various tenants. If one tenant moves, the business' cash flow will not be significantly impacted.
- **Owner occupied commercial property** – small business owners that opt to own the premises from which their businesses operate can enjoy a number of benefits ranging from no rental increases or lease renewals on the property; generating additional income by leasing

a portion of the building and having better control of building expenses.

“Moreover, should the business expand, requiring additional space, property owners have the flexibility to make alterations and renovations on the premises, instead of relocating and paying more for bigger office space,” adds Anderson.

- **Refinancing** – SMEs that own commercial property have the option to refinance their properties to unlock equity and use the funds for alternative business purposes such as investing in infrastructure e.g. machinery.

“Buying a commercial building is a major financial commitment that should be carefully considered in line with the business’ long-term growth objectives. For SMEs that have done their homework, have cash on hand or can afford to arrange finance, commercial property can be a great asset with a number of financial benefits,” says Anderson.