Wall & Smith Property Consultants

P. O. Box 44681
Claremont
Cape Town
7735
South Africa

Phone : +27 (0)21 797 2552
Fax : +27 (0)21 797 2661

FACT OR FALLACY? - THE HIGH RISK OWNER/OCCUPIER.

The November 2010 Property Watch alluded to the fact that Banks consider owner/occupiers to be high risk borrowers.

Banks appear to be looking for financial utopia, i.e. non-risk lending and that's pie in the sky stuff, any form of lending carries risk of some sort.

We have analysed our owner occupier sales since 1997, of some sixty two transactions in excess of R 66 million not one of those owner/occupier buyers defaulted.

In a number of cases the then owner/occupier sold the property for a substantial profit.

Some owners have moved to bigger premises and kept the original property as an investment.

The analysis also confirms that when the owner/occupier decision is made, it is not made in the first two to three years of the life of the business.

Scenario 1 - Years one to three are probably the most testing period for any business. Whatever capital was available when the business started has been spent on getting the business off the ground, financing sales and debtors and using own and borrowed capital, bank and creditor finance etc.

Scenario 2 -Years four to five are the make or break years. The business has either turned the corner, sales increase as do profits, cash flow is positive, or the owners own resources and all other sources of credit have been exhausted, including Grannies cash! Sales increase to the extent that the owner can no longer finance both growth and an expanding debtor's book. The operation either closes down or goes bust.

Scenario 3 – Years five and onwards. If the business doesn't close down or go bust it succeeds and becomes a well managed, profitable enterprise with sound cash flows, selling a sought after product or service that finally rewards the owner with well deserved returns on his own capital and efforts.

It is generally at the latter stage that the business decision is made to buy and change rent for equity.

The calculations in the November 2010 Property Watch assumed 100% financing and this showed that the bond payments were more than the rental payments in the first two years.

Cash flow would have been positive from month one if the buyer had paid a deposit, under current conditions banks are looking for deposits of between 25% and 35% of the purchase price and limiting repayment periods to ten years.

As a consequence, the lenders risk exposure, value in relation to debt, is almost non existent.

Doomsayers and banks will unfortunately think otherwise!!

2010 has been a bit better than 2009; a feeling of optimism is in the air notwithstanding our ongoing political and other scandals.

email : reg@wsproperty.co.za
landline : +27 (0)21 797 2552
fax : +27 (0)21 797 2661