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Buying your first commercial Property as an Investor or an Owner-Occupier

When purchasing commercial property, be it a factory workshop or an office, the value of the property can be assessed from 2 fundamentally different standpoints, Len Pears of Quagga Property Brokers says.

The initial question to ponder is whether you want to occupy the property for your own purposes, or if you want to derive an income from the property itself. If you're going to use the property for your own purposes then you would want to consider the following in evaluating the opportunity:

- Asking price
- Deposit required
- Finance cost
- Potential capital growth
- Location
- Size (for future growth)
- Body Corporate rules
- Security

- Access
- Height of eves and roller shutter doors
- Amount of parking
- Nature of other activities in the business park or close proximity

These factors will help you determine whether you can afford to purchase the property and whether it is appropriate for your particular purposes and growth prospects.

Typically the return on investment, or yield, is less important to the owner-occupier, whereas location and the above factors are more relevant. For example we have noticed that whilst an investor would typically look to purchase above 8% to 9% return, an owner-occupier could easily accept 6.5% to 7% return.

If you're going to purchase commercial property as an investment, the above factors are relevant because tenants will look at many of these factors, but the most important consideration is the yield. The yield is expressed as a percentage return on your investment, based on the net rental income of the property.

Whilst capital growth of the investment is relevant, the typical investor is looking to build a portfolio of property with a view to accumulating rental income, and then reinvesting that income into further acquisitions, thus building passive income or a retirement plan.

An illustration of the yield is as follows:

A factory of 250 sq/m in Capricorn Park, a fast growing security industrial park near Muizenberg, would achieve a rental income of around R52.00 per sq/m, ex Vat. This would equate to a monthly rental income of R13 000. The net income, i.e. the income less the levies, monthly rates and other expenses would be around R10 700 per month, or R128 400per annum.

At a return/yield of 8% to 9% the purchase price would be R1 605 000 plus Vat. An investor would look to this as a benchmark whereas an owner-occupier might be prepared to pay around R1 8 35 000 or 7% for this property.