Bizcommunity

Should you buy or rent property for your small business?

Despite hybrid working becoming more mainstream, some businesses still see value in having a dedicated office or headquarters. Commercial property, however, whether rented or owned, will impact a small business's cashflow, so making an informed decision on which direction to take will depend on a few factors that are unique to your business, says Kevan Govender, regional investment manager at Business Partners Limited.

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He explains that making the most future-fit decision on whether to purchase or rent commercial property must involve carefully weighing up the pros and cons of each option. Small businessowners will also need to ask themselves several key questions about how they can maintain the financial viability of their ventures in assessing what would work best.

To buy or not to buy?

One of the key advantages of owning commercial property is that you will have free rein over any renovations and improvements you want to make to the property, says Govender. For businesses using the property as a point of sale, having the freedom to design the space to reflect your business' aesthetic may be hugely beneficial from a branding point of view.

Furthermore, commercial property could provide a useful safety net in the unfortunate event that your business needs to close down, he explains. In these cases, the property can be used as a way of earning rental income by taking on tenants. Alternatively, if at any time your business needs to downscale, a portion of the property can be leased out as an opportunity to earn additional income. Better yet, when the business owner retires, proceeds from selling the property can serve as their retirement cash nest.

The most immediate downside of buying property for your business is rising interest rates, notes Govender. With South Africa having seen 10 consecutive interest rate hikes over a period of just three years, the possibility of future increases are highly likely. In this case, what you may be liable to pay on the bond as a monthly instalment, at the onset of purchasing the property, may increase over time and place strain on your cashflow.

Trends driving the commercial property sector's resurgence

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The pros and cons of renting

If investing in property within a highly pressurised economic climate is too much of a commitment right now, business owners may wish to rent a space instead. One of the key benefits here is the ability to claim the monthly rental amount as a tax-deductible expense, explains Govender. In the case of businesses that own their own property, the capital portion of their bond repayment is not tax deductible.

A major disadvantage, however, is that renting commercial property does not carry any equity or investment value. Monthly rentals will become hard expenses, which will cut into your revenue and produce no return on investment when it comes time to relocate.

Explains Govender: “The advantages and disadvantages need to be carefully considered within the context of the current state of your business and the growth plan you have set out as an entrepreneur. There is no blanketed solution for all small businesses. Making the best decision will always involve reviewing a few important metrics.”

Unique factors to consider

The first aspect to consider is whether renting or owning commercial property will increase the immediate cost of making use of a dedicated space, he says. In some cases, the repayment due on a bond may be less or marginally more than the cost of renting the premises. In other cases, renting property may give business owners access to sought-after, prime locations that may not be affordable as an option to buy.

Here, Govender notes, it’s important to review whether the location of the premises is vital to maximising revenue. In the cases of retail stores, location can be a make-or-break factor that should not be compromised. On the other hand, owning property in prime locations such as central business districts and cultural hubs could see the value of that property increase substantially over time. This could, in turn, be seen as a profitable investment that will reap positive returns and inject capital back into the business when it comes time to sell, he says.

Another aspect to consider is whether the size and nature of the commercial property you intend on leasing or buying aligns with your growth strategy. If scaling your business in terms of the size of your workforce or your business’ capacity for manufacturing, is on the cards, then renting may be more viable as a short-term solution, says Govender.