

Talking Business



with
Suncorp Metway

*Gary Harvey, State Manager -
Queensland Commercial Banking*

Leasing offers flexibility

Australian businesses appear to be following the trend in the United States which sees companies moving from property ownership towards leasing. Grant Whittaker, Queensland Managing Director of national real estate firm Frank Knight, says Australian businesses are starting to appreciate that their skills may not necessarily include expertise in property investment. Many are concentrating on the core business and opting to lease premises instead of tying up their capital in an asset that might not be productive, he says.

Most business owners are better off using their capital to grow their business, says Kerry Herron, chairman of valuation firm HTW Valuers, especially since overdraft rates are higher than returns on property.

Nick Wordsworth, a director of Landmark White Valuers, sees distinct cost advantages in leasing. He says renting is generally cheaper than ownership, especially since landlords routinely offer incentives such as assistance with fit-out costs or rent-free periods. He believes there is also a larger choice of available commercial property for rental than for purchase.

More flexibility

Leasing is even possible for custom-built premises, with a growing number of tenants designing their facilities and finding an investor to fund the construction. An alternative approach is Sale and Lease-Back, where businesses sell their premises to an investor and then occupy them on a long-term lease.

Even though renting offers more flexibility than property ownership, businesses must pay careful attention to the terms of the leasing contract to ensure that they don't get locked in with unfavourable terms.

Whittaker, for example, stresses the length of the lease. "While many landlords will want to sign up 10-year leases, if you sign a 10-year lease you've locked yourself in for 10 years.' The risk here, he says, is that few businesses can anticipate their space needs in 10 years' time. Herron, meanwhile, advises tenants to be cautious when negotiating rent increases through the term of the lease. Tenants should strive for certainty in these arrangements, with most leases tied in some way to inflation.

Availability

Brisbane's CBD is seeing stepped-up construction activity, according to PRD Realty Research