

Pragmatic advice for landlords, tenants in a contracting economy

By [Gary Palmer](#)

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Some of South Africa's largest landlords have taken a pounding over the last two months with even our largest retailers, like Massmart, seeking rental relief. While this serves as a cautionary tale, smaller property owners and tenants can take action now to ride out the bumpy months ahead.

As the reality of job losses begins to take its toll, many tenants will face the reality of not being able to pay their rent. Landlords, meanwhile, will be looking hard at their cash flow projections and wondering how they will meet repayments to banks and other lenders. Based on what we are seeing in the markets now, we have some advice for both property owners and their tenants.

Landlords, think long-term

Landlords should be thinking about how they can garner as much goodwill as possible during this time. A good working relationship between owner and tenant has real value, especially when times are tough.

With this in mind, landlords have a few options they can turn to that could offer real benefit to their tenants:

Write-offs – We have a number of clients who are either writing off the full rental for one or two months, or who are allowing tenants to just pay 50% of the rental for a number of months. These losses are then reported in their tax returns.

Payment holidays – The most often referenced assistance has been payment holidays. Most landlords out there are opting to take this route if a tenant asks for assistance. Property owners are then capitalising the payment holiday (usually around three months-worth) into the lease. If you follow this route it's best to include addendums into the lease, laying out the details of the agreement. This could be an extension on the lease period, or a payback period to catch up the skipped payments.

Passing on interest savings – Some property owners are passing on the savings they have seen as a result of the interest rate cuts. While it's not a huge amount, even this small saving will be appreciated by tenants and could serve the landlord well in future negotiations and dealings with their tenants.

Use the deposit – One way of giving tenants a break is to allow them to access their deposit money. If they can't pay rent for a couple of months, let them take the break, with the understanding that they will then forfeit that money from their deposit when they vacate the premises. This agreement should also be recorded in an addendum on the lease contract to cover both parties.



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Tenants must play it straight

Both commercial and private tenants may feel completely at the mercy of this sudden and vicious downturn economy. However, if they proceed with caution, there are certainly some steps they could take to protect their future.

The long game counts – Despite the immediate pressures, commercial tenants must take a long-term view on how they behave during the next few months. Business owners should know that how they act now will impact how they are treated by lenders in future. Delinquent clients who refuse to take calls or communicate with lenders will be viewed very unfavourably in future.

Consider all your options – As laid out above, there are a number of ways that tenants can access relief from their landlord. It's important, however, to know what the impact of each option will be. Simply jumping at a payment holiday, for instance, may come with some very unattractive long-term consequences. Interest will still be accruing and you could end up with a nasty surprise in a year's time. Do the sums before you sign anything.

Communicate clearly – We are all prone to panic. In times like these, it's important to focus on what you can do. If you are in trouble, apply for payment holidays with your bank if you think that is the right thing to do. Contact your creditors and tell them what is going on. Now is the time to over communicate and manage expectations.

Get your house in order – Tenants should not just assume that they will be granted payment breaks. They should have all the necessary documentation at hand when going to their landlord. For those running a small business, we recommend you produce your management accounts, show landlords your bank statement and lay out your reasons for requesting a payment break. It also may be worth doing a credit check on yourself to show your credit history of good payment behaviour.



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Transparency and responsibility

The overriding message in this situation for both tenant and landlord is to behave responsibly.

Unfortunately, we sometimes see that there is not a lot of transparency in how either party is behaving. Landlords are often given payment holidays by their banks, but are then not extending these to their tenants.

Tenants, on the other hand, are simply refusing to pay the whole rental amount, including their utilities. This can really hurt property owners, some of whom still have to pay the utility fees to municipalities, leaving them significantly out of pocket. The best way forward is to play nicely, and do what's best for your longer-term business relationships.

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