FINANCIAL REVIEW

SE Smart Money

HD **Sub-divide and conquer**

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WC 946 words
PD 25 October 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 29
LA English

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Strategy So you've **sold** your business. Here's what to do with the premises, writes Duncan Hughes.

One in four retiring small business owners are retaining a **stake** in their companies that often involves subdividing former factory sites or transforming offices into apartments or townhouses, say retirement experts.

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They add that bitter lessons learned from rebuilding companies after the global financial crisis are encouraging others to sell stakes in their final years of work, to avoid the risk of losing everything on the eve of their retirement from a market crash.

Dreams of an annuity-style income from part-ownership of what was a family business are also being realised with the right mix of product, management and organisation.

"Decide with your head, not your heart," warns Daren McDonald, director of Moore Stephen, a taxation and accounting specialist, about selling a business.

"Don't become someone else's learning curve. Deal with people who know what they are doing and what you want," McDonald says.

Many business owners are being offered unprecedented premiums of 30 per cent on their properties by cashed-up overseas buyers, particularly from **China** and Malaysia.

"Cashing out for lifestyle reasons is great," McDonald says. "Cashing out for a premium is also great," he adds. But sellers need to be confident they can match business returns of a successful **company** with investment returns in volatile markets, or savings when banks are offering 3 per cent interest.Alternatives to selling

Specialists claim there are typically two types of business properties put on the block for **sale**. There are properties with little value outside the business, such as purpose-built factories or those in locations unattractive to any other enterprise. "Do you really need to sell the place, because if the business moves out, there might be no demand," McDonald says.

Then there are properties where changes in the local neighbourhood might make a factory or workshop a prime target for **residential** development.

Old factory and office sites in hot-spot **residential** postcodes are routinely targeted by **property** developers wanting to **buy** or seeking joint ventures with the original owners.

"Then the questions are about best development use of **property** and maximising price through an agent, a developer, doing it yourself or some kind of joint venture," McDonald says.

About 25 per cent of business owners with an annual turnover under $20 million are hanging on to some of their companies when they formally retire, says Capital IQ, a company that monitors business trends. This has doubled in the seven years since the global financial crisis.

In some cases, the owners are selling off part of the equity to venture capitalists, or entering joint ventures, to raise capital or provide expertise that will boost growth and profits.

Mark Calvetti, director of William Buck, a group of accountants and financial consultants, confirms a big spike in interest from owners coming up to retirement about alternatives to simply selling off to the highest bidder.

"People are living longer and increasingly choosing to work longer, too," Calvetti says. "Part-selling allows more time for leisure activities while retaining an active involvement in business."

But many high-flying dreams crash in flames when the big decisions are made for sentimental reasons, rather than hard-headed business analysis about current and future worth.Consider your options carefully

Calvetti urges those considering a sell-down strategy to give themselves plenty of time to consider options, which might mean restructuring the management of the company to make it more self-sustainable.

"It's all about getting ready for the sale," McDonald adds. "You might need to invent new systems, formulas and put in a management team to lead to a higher valuation. That all takes time and the sooner you start, the better."

This may be switching from a commission-driven model that relies on key employees to a business that produces a steady income stream, such as moving from property sales to managing rental properties.

"A lot of people are emotionally attached to their businesses and do not realise their products no longer have a market," McDonald warns. "Rather than selling it off, they continue to invest more money in a business that is clearly in a downward spiral. You need to decide when it's time to call it stumps."

Work through the numbers. Does developing a former business site justify the time, effort and potential development, planning and market risk? Or are you simply generating profits for your consultants?

Those considering a joint venture need to select a partner with a track record for adding value. "Everyone thinks they are a bit of a developer," warns Daren McDonald, a director of Moore Stephen. "But when the boom ends, someone ends up paying."

Examine why you are part-selling. "Undertake a financial health check to determine whether the business can grow," says Mark Calvetti, director of William Buck. "Business owners need to look at why they are choosing to part-sell or develop."

Seek dispassionate advice from an expert about alternative uses for your office or factory, such as redevelopment.

Check the implications for the rest of the business, as well as what you're going to do with the proceeds of any property sales.

Think about your expected rate of return. The seller of a business for a price equivalent to six times annual profits could easily be worse off in seven years, McDonald says.

Work out your capital gains tax liability. Also check on other fees and commissions.

Leave plenty of time to tweak your business model to make it more attractive to a potential buyer. DH

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RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

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AN Document AFNR000020141024eaap00051

