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Southside's success behind the scenes of the resource industry



There are a number of reasons why companies like Pilbara Iron, BHP, Western Mining and other industry giants have their equipment machined at Southside Engineering - the same reasons Fraser Watson decided to purchase the business.



Southside Engineering is located at 123 Chisholm Crescent, Kewdale.

Southside has a reputation for providing quality work in a short time frame, understanding that "time = money" for mining companies.

The business's main focus is gearbox refurbishment, and Southside is one of few companies with a gear grinder on site, allowing them to quickly manufacture gears in-house from scratch.

Fraser began looking 3 years ago for a business close to his specialization of resource-related engineering, and chose Southside Engineering as his new venture.

Having heard about Southshore Finance from a neighbour, Fraser made contact with Michael Coombes to discuss his borrowing options for the business purchase.

"Mike was extremely helpful, taking an interest, not only in the financial side of things, but also in the actual business activities," said Fraser.

In his new business, Fraser is totally focussed on delivering the highest quality of workmanship in a timely manner. Southside's success over the years can be attributed to providing exactly that. To ensure that standards are maintained, Etienne Leclerc has remained on staff along with all of his employees.

Rumours of expansion? Before taking over Southside, Fraser spent 20 years in the oil and gas industry, working in the North Sea, India, Vietnam and other locations. He is looking to expand Southside's services to cater to oil and gas as well.

Is it time to change your loan product?



By Michael Coombes

A number of clients have phoned in to our office since the interest rate rise in March asking what most borrowers across Australia are probably wondering. "Should we be locking in to a fixed rate loan in case of any further interest rate rises in the near future?"

We have a longstanding policy of advising our clients to choose interest rate products that best suit their needs and that allow them to "sleep comfortably at night."

When choosing between a fixed or variable rate, you should research market trends, study your cash flow and assess the impact of potential rises or decreases.

You must also consider the pros and cons of fixed and variable rate products. Extra payments may attract penalties on fixed rate facilities, while variable rate facilities can generally be partially or fully repaid without penalty.

"Splitting" loans into part fixed and part variable can offer the best of both worlds - the comfort of a fixed cost for part of the debt and the flexibility to make additional payments on the rest.

It won't cost you anything to have us review your current situation to assess whether your loan type is the most suitable one for you.

Is it time to purchase your business's premises?

By Michael Coombes

A time comes for most business owners when they consider whether they should continue leasing their current premises, enquire about purchasing them, or purchase and relocate to their own new space. I believe that a business owner should make the decision to purchase their premises if the right circumstances exist. Here are some factors to help you decide...

Is your business thriving in its current location?

If your business has functioned well for a substantial period of time in its current location, it may be worth securing your space.

Would mortgage repayments on your current property or a new one be roughly the same as your lease payments?

Remember that with your new loan payments come purchase and set up costs. Even if mortgage repayments would be similar to your lease payments, you'd also be facing Stamp Duty, settlement fees, bank fees, and cost of alterations, which may include wiring, lighting, phones or other fittings.

Have you weighed all of the costs involved in moving?

Depending on your type of business and equipment, there may be large costs involved in relocating. For example, a manufacturing company recently found that it would cost \$60,000 just to relocate their heavy machinery, let alone the other settlements costs mentioned above.



Are you growing or likely to grow out of the location within 5 years?

If you're considering purchasing your existing premises, are you likely to grow out of it in less than 5 years? If it's a new location you're looking at, you would want it to be sufficient for 5-10 years to justify moving and purchasing costs.

Who's choosing high-risk businesses?

The correlation between a business buyer's age - or stage of their career - and the level of risk they're willing to undertake in a new business has not wavered over the years, in our experience.

Traditionally, it has been younger people who are willing to invest in what could be perceived as a high-risk, high-return business with excitement and a bundle of creative ideas, ready to take a chance.

People who have been working for 20 or more years, generally nearing the end of their career, have worked most of their lives for their savings and are not as willing to risk them.

It's for this reason that many of them choose 'safe' businesses such as Lotto/news agencies or post offices. They are retail, cash flow positive, well-protected businesses, whose customers already exist and whose territories are protected.

It's also important to note that any two people might look at the same business and draw completely separate views as to the risk involved and their return expectations.

As business prices are not tracked the way property figures are and are not linked to the economy or interest rates, but to the intrinsic value a proprietor attaches to it, it can be very difficult to price them.

Are you thinking of investing in commercial property?

Investing in commercial rather than residential real estate has been the popular choice among our clients recently - a decision that has been mostly attributed to the less impressive returns being achieved with residential investments.

With the current cash rate at 5.50%, a chance of a further rise and residential yields still remaining low, investors are now seeking other opportunities.

Rising interest rates have caused many of those who had faith in the residential property market to turn to either shares or a type of property investment with a traditionally higher yield commercial.

Despite the fact that with commercial property's higher yield comes higher risk, many are finding the risk worth it.

Returns on residential investment tend to be 3-4%, whereas commercial property returns rest in the region of 6-9%.

Though vacancies are the common enemy of both commercial and residential property investors, maintaining consistent occupancy can be a greater challenge with commercial property.

Location and profile of the property are two major considerations to keep in mind. While the property may be tenanted currently, should that tenant decide to leave, is the property likely to be highly valued by others?

Also consider that homes are designed with the same living facilities (kitchen, bedrooms, etc.), while commercial properties come in all shapes and sizes, depending on the type of business for which they are designed.

Showroom/warehouse type structures tend to be the most versatile properties - easy to fit out for a specific business's needs. This is an important factor if the tenant will be expected to pay for the conversion, however landlords often offer to cover some conversion costs as a draw card for tenants.

An ideal property would be one located in a highly visible, easily accessed location, which has a tenant signed to a substantial lease at a good return and which can be easily converted from its current state to suit a variety of other businesses with the least possible conversion costs.

Should you require further information on any topic relating to business or commercial property finance, residential property finance or equipment financing we'll be more than pleased to assist.

The information contained within this newsletter is of an advisory nature only and due to constant changes we advise you to contact us before making any formal financing decisions.

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