

The Property Economist

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Neville Berkowitz, Founder of TenantProsperity.com

Future Prospects for SMEs and Business Rescue Practitioners 2024-2026

(1) Research and Forecasting Report about the Future Bleak Economic Prospects for SME Businesses in South Africa- and Implications for Business Rescue Practitioners' Success Rate

(2) Over 47 years of experience Support Structure to assist Business Rescue Practitioners in improving their success rate of business rescues and attracting new appointments

April 15, 2024

1. Economic Research and Forecast 2024 - 2026

The complete Report- Economic Research and Forecast 2024-2026 is available upon request to neville@smallbusinessprosperity.com

Nothing is left in the tank for economic recovery- a decrease in SME's paper-thin profitability will result.

A. Summary

1. Economic outlook 2024-2026: no growth in GDP

GDP growth

GDP growth was 1.9% in 2022 and 0.6% in 2023. SA Reserve Bank optimistically expects a 1.4% average annual growth rate in 2024-2026, but that's unlikely, as evidenced below.

Interest rates

Interest rates on borrowings have increased by 86 % since October 2021 (7% p.a.) and will remain at, or near, current levels (11.75% p.a.) for a further 32 months. This will stunt and possibly retard any prospects of GDP growth.

New investment projects

New investment projects which should be stimulating economic growth fell by 29% in 2023 and 53% since 2021, an 83% drop. Business confidence is at 30%, down from 45% in 2021. This fall in investment will retard GDP growth.

Government spending

Government spending will fractionally increase in 2024-6 but will increasingly be spent on debt interest payments and social benefits for 19 million people. With their R12.50/day spending money, they will mainly buy basic foodstuffs, transport, and make debt repayments, and it will not be used to stimulate the economy.

According to the SA Reserve Bank, 20% of government spending is on debt interest repayments, expected to increase to 22.1% in 2026/7. Having 20% less to place into the economy, GDP growth will be stunted.

Net real imports

Net real imports exceeded real exports in the third quarter of 2023. More money is going out of the country than coming in via real net exports. This will pressure the need for foreign funding to balance the capital account. As the socio-political and economic risks of South Africa increase, foreign funding may be offered at higher interest rates than currently offered. This will lift all interest rates higher, seriously worsening the economy.

Political uncertainty

South Africa is at a political crossroads. It is uncertain who will run the country and which new policies may drain the economy of confidence and wealth. The ANC has proven to be unable to run South Africa.

Who they choose as coalition partners will determine whether we follow the Zimbabwean and Venezuela route or begin to repair the country with the DA/MPC and the economy with public/private partnerships.

GDP growth is quivering in fear.

Conclusion

The five major drivers above for any economy, including South Africa, show nothing left in the tank to drive the economy out of its near-zero GDP growth during 2024-2026.

We could see negative GDP growth if the political outcome of the May 2024 General Election favours the EFF and or MK as the ANC's coalition partner/s or likely GDP growth if the ANC select the DA/MPC.

Businesses in South Africa, especially SMEs, are on the knife edge of possible failure or improved financial conditions.

B. Business profitability levels to increasingly become paper thin

According to StatsSA, the average after-tax net profitability of all businesses in South Africa was 6.6% in 2021, when GDP growth was 1.9%.

The 2020 COVID-19 rebound economy in 2021 spurred consumer spending on goods and services due to artificially low-interest rates of 7% p.a. Buying non-productive consumer items on credit instalments stimulated the economy in 2021 but would become its 'poison pill' in 2023-2026.

GDP growth was 0.6% p.a. in 2023 and will remain around this level of virtually nil growth until 2026.

Interest rates jumped 68% from a prime rate of 7% p.a. in October 2021 to 11.75% p.a. in May 2023 and will remain there or thereabouts for the next 24-30 months.

Middle-class consumers pay 86% of their take-home pay on credit instalments, leaving R72/day for all other living expenses. For upper-class consumers, this rate is 61% and rising.

Banks are turning off the lending taps for many consumers and SMEs, forcing them to borrow from unsecured lenders at 24-36% p.a.

How will these consumers and SMEs survive with interest rates of around 11.75% p.a. for the next 24-30 months while the country's economy barely grows?

Based on the complete Economic Research and Forecast Report 2024-2026 briefly summarised above, **SME businesses' after-tax profit margins will likely become paper-thin or losses, increasing the workload for Business Rescue Practitioners.**

** The above summary excludes various geopolitical and geo-economic issues, most of which negatively impact the South African economy and worsen businesses' paper-thin profit margins. A report on this can be found on this Blog page*

2. Over 47 years of experience Support Structure to assist Business Rescue Practitioners in improving their 19% success rate of business rescues

[TenantProsperity.com](https://tenantprosperity.com)

According to 2022 CIPC data, only 19% of businesses entering the business rescue successfully emerge from it.

Business Rescue Practitioners (BRP) only have an initial three months to file a status report, which puts undue pressure on them to research the business and fully understand it before finding a route out of business rescue.

With 47 years of experience working with landlords and their tenants, we have developed a programme and process for undertaking an Initial Future-Proofing Assessment Report of a business and, after that, a Proactive Prosperity Strategy, Action Plan, Implementation, and Ongoing Advice for tenants' businesses.

This programme and process can easily be adapted for businesses in business rescue to assist the BRP in meeting their deadlines by additionally using the information and advice provided by our Initial Future- Proofing Assessment Report and subsequent outline of what our Advisory Services indicate to ensure those qualifying businesses do to come out of business rescue.

We will work in a background role assisting the BRP where they consider that we can help them. Our work is confidential and for the exclusive use of our BRP client.

Phase 1

Initial Future-Proofing Assessment Report

We have developed a 360-degree Due Diligence process investigating 20 major elements of the business, which have 80 sub-elements.

The 20 major elements are described below under The Process.

The process is a Q&A between you as the BRP, the Management who currently or previously ran the business and us.

The Due Diligence process results in a SWOT analysis—Strengths, Weaknesses, Opportunities, and Threats—identifying where you, as the BRP and Management, should focus your energies and funding.

In our supportive role, we will follow your direction and request that we focus on specific business areas or the entire business.

The detailed processes follow:

Phase 1

The Initial Due Diligence Process

The Initial Due Diligence Process- 20 Major Elements involving 80 sub-Elements- Phase 1

The 360-degree Due Diligence Process

The major elements investigated and assessed are:

1. Understanding the business- past, present and future- the market's size, niche markets, growth potential or decay of the market, and any competitive advantage of or threats to the business
2. Regional and local trends affecting the business positively or negatively (We provide the global and national trends to complete the picture)
3. Physical location of the business – pros and cons.
4. Suitability of the business premises- pros and cons.
5. Digital participation in the business
6. Management's skills, abilities and experience
7. Customer analysis
8. Employee analysis
9. Competitor and pricing analysis
10. Marketing and sales analysis- non-Internet based
11. Marketing and sales analysis- Internet-based
12. Funders, Financiers, Creditors and Debtors analysis
13. Investor analysis
14. Inventory controls analysis
15. Goods Suppliers and Service Providers analysis
16. Stakeholders strategy to assist the business
17. Financial returns analysis- (where required, Auditor verification).
18. Financial controls analysis
19. SWOT analysis
20. Potential for either growth or decay.

Phase 2- (non-obligatory)

Proactive Prosperity Strategy, Action Plan, Implementation, and Ongoing Advice for the Business

This Advisory Service begins with a Proactive Prosperity Strategy.

Having identified the existing and potential problem areas and resolved them as best as possible, the focus turns to identifying the profitable areas of the business, and a strategy is developed to maximise profitability.

Here, we use our USPs—Critical Thinking, Problem-Solving, and Opportunism. This is where "the rubber hits the road" and 47 years of experience come into play.

An Action Plan is created for Implementation by the BRP and Management.

Most businesses operate on the Pareto Principle of 80/20, where 80% of the energy and funding go to produce 20% of the profitability. Our focus is to improve that ratio, substantially increasing profitability and prosperity.

Our research and forecasting abilities since 1980 usually see opportunities and threats long before others, as evidenced in our complete Economic Research and Forecast Report 2024-2026.

South Africa will likely experience turbulent changes, and you, as the BRP and the Management, will need to be "light on your feet" to "adjust the sails of the ship for prevailing weather conditions."

If requested, we can provide an ongoing Advisory Service that monitors and directs the progress of flexible implementation and increased prosperity.

47 years of experience advising Landlords and their Tenants

Background of Neville Berkowitz

Property Economist

I have researched and forecasted South Africa and its property industry since 1977. I was a pioneer in property economics in South Africa and produced a monthly investment journal for clients, *The Property Economist- Research and Forecasting for the Property Industry-* from 1980-1995.

The major sections of each monthly Report were:

Economy; Interest Rates; Mortgages; Construction: Investment; Rentals; Residential; Offices; Retail: Industrial

Economics and Manufacturing

During the 1980s, I also wrote and produced 40 quarterly publications of *The Economic Review of South Africa* and *The Manufacturing Review of South Africa* in a co-publishing venture with then the second-largest weekly financial magazine in South Africa.

Office of the Prime Minister

In 1983, I was appointed a representative of the Building Industry Federation of South Africa (BIFSA) on the Building Advisory Committee, reporting to the Office of the Prime Minister of South Africa.

Media selected spokesperson

From 1980 to 1995, all media—print, radio, TV, and Internet—continually used me as an unbiased and independent spokesperson on property-related issues. Once I became a developer in 1995, I stepped away from this role as I felt I was no longer independent and unbiased.

Notable Forecast Speech

Among many speeches I have given locally and globally, the most memorable was at the JSE Auditorium in July 1986 while addressing a property investors conference. I shocked the audience with a forecast of the coming demise of the Johannesburg CBD and the migration of current CBD tenants, developers, and investors to the northern suburbs of Johannesburg. The property investors in the CBD badly received this speech, and I was treated as a leper at the cocktail party after the conference! The next day, the heads of the Johannesburg Townplanning Department and the Finance Committee came for a consultation; the rest is history!

Institutional Property Adviser

During 1991- 1999, I was the Property Adviser to what was then South Africa's third-largest pension fund. I was responsible for creating a multi-billion Rand property portfolio. Each tenant was assessed similarly to the future-proofing process offered by TenantProsperity.com

Global

From 1992/3 to 2007, I established Neville Berkowitz Global Associates with Associates in seventeen countries on five continents. However, changing family commitments prevented my frequent trips abroad, and I closed this business in 2007.

Adviser, Transactional, Investor, Developer

As an SME entrepreneur for 47 years, I have acted in various advisory and transactional roles to local and global property owners, lenders, tenants, investors, and developers. I have been an investor and developer for three decades.

I have been assessing, investigating, and analysing tenants' businesses for nearly five decades for my clients.

Why TenantProsperity.com?

At age 70, I came out of retirement. I created what has evolved into TenantProsperity.com to help save one or more SME businesses from the ignominy of business failure, believing it is better to light one candle than curse the darkness.

I foresaw the beginnings of World War 3 when Russia invaded Ukraine in early 2022. The Middle East also presents another flashpoint for World War 3.

Additionally, I am very concerned about the Socialist/Marxist Road, the ANC, and its likely new Coalition Government during 2024-2029, continue taking South Africa, including its SME business owners and their landlords, into a failed state.

Many SME business owners live on a knife edge of profitability and solvency. Very challenging economic and political times and then potential trade restrictions, boycotts, sanctions, and blacklisting may push many businesses over the edge into business rescue and currently have an 81% possibility of not being rescued.

TenantProsperity.com focuses on helping landlords by future-proofing their selected SME tenants' businesses for survival and possible prosperity.

(The same competencies and abilities can be used as a support structure for Business Rescue Practitioners.)

As an entrepreneur for 47 years and having survived the political and economic shocks since the 1976 Soweto Riots, I have advised all categories of property people, including tenants' businesses, across the economic spectrum.

SMEs face unprecedentedly difficult times, and I want to help those that my time constraints allow.

The fortunate SME businesses in business rescue have a far greater chance of regaining their financial health if I work as a support structure for their BRP.

Neville Berkowitz

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