Buying premises

Buying business premises gives you control over one of your major financial investments.

As an owner-occupier, you can choose to stay in the premises for ever. If need be, you can raise money through selling, taking out an additional mortgage or letting part of the premises.

Buying a freehold (or long leasehold) property is one of the most important commitments you are likely to make. It is vital to get it right.

This briefing covers:

- The pros and cons of buying premises.
- What to look for in a building.
- The potential liabilities and costs for you.
- Negotiating a good deal.

1 Why buy?

Putting down a large deposit may seem expensive, compared with the low start-up costs involved in renting.

But if you believe in the long-term future of your business, there may be good reasons to buy.

1.1 The property is a business **investment**, which may give you a good return.

- Over the long term, property owners have generally achieved excellent returns on their investments.
- Looking ahead, the more standard your premises are, the easier they should be to sell — or let — at a good price.

  Property investors generally prefer premises laid out in a standard 'institutional' format, with open plan offices and air conditioning.

1.2 The **long-term cost** of buying premises is generally less than the rent you would pay.

- The overall cost of buying premises is usually higher than renting for the first five years, equal for the second five years, and cheaper from then on.

1.3 Your premises may be the ideal investment for your **company pension scheme**.

- If you set up a 'small self-administered pension scheme' (SSAS), its funds can be used to buy a commercial property for use by the company, as long as the company pays the SSAS's trustees a commercial rent. This can be a useful and tax-efficient way for shareholding directors to finance their own company.

1.4 You may gain **operational flexibility** by owning your premises.

- You can design the premises to suit your business.
  If you are building from scratch, you can specify aspects of the premises in detail.
- You may be able to extend or rebuild parts of the building as your business expands.
- You can let part of the premises to another business.
- If necessary, you can re-mortgage the premises to provide funding.
- You can arrange a 'sale and leaseback' deal to raise finance. You then become the tenant of the company you sell to.

1.5 You may be able to claim **capital allowances**, to reduce your tax bill.

- If you are buying an industrial building, or if there is any significant plant in the building (such as a boiler), capital allowances may be applicable.

2 Why choose not to buy?

Before you go into property ownership, consider the possible disadvantages.

2.1 Can you **afford** to invest so much?

- Buying premises ties up cash that could be used to grow the company.
- If you are borrowing money to buy, interest rate increases could hit you hard.

2.2 Do you **understand** the commercial property market?

- By buying your premises, you make property ownership a core part of your business. You become exposed to an unpredictable market.
- If you buy at the wrong time, in the wrong area, or the wrong type of building, you may end up losing money.
- In a recession, it may be hard to let or sell your premises without a significant loss. But that may be the exact time when you are forced to sell.

2.3 Will you want to **relocate**, or change the size or layout of your premises?

- A good lease may allow you more flexibility to move elsewhere quickly.

2.4 Are you prepared to handle the **extra work** and expense that will be involved in maintaining your premises?

3 Shortlisting premises

With your chartered surveyor, draw up a list of criteria you would like your premises to meet.

Circulate this specification to commercial property agents with local expertise. They will provide you with a list of suitable premises.

3.1 Draw up a **short list** of suitable properties and visit them. Give properties marks out of ten for each of your criteria, to make comparisons easier.

- Is the location right?
- Is the building in good physical condition?
- Is the price affordable, and in line with market rates?
- Can you alter the building to meet your specific needs?
- Is there adequate car parking and services?

  Consider whether it would be cheaper and fit your timescales to buy land and build new premises to your own specification.

3.2 Look into the **vendor's situation**.

- Is the vendor in a hurry to sell?
- Why did the previous occupier leave?
- Are other buyers interested?

4 Costs

In addition to the purchase cost, you will need to budget for the other costs of ownership. Ask to see the previous owner's bills. Can you reduce any costs or will they increase?

4.1 A mortgage will require you to have **buildings insurance**, which makes commercial sense anyway.

4.2 The local valuation office will tell you what **rates** are payable on the premises.

- Check you are not being overcharged.
- You can look up the rateable value of the property instantly at www.voa.gov.uk.

4.3 If the property is on an estate, you may have to pay an annual **service charge**.

- This will usually cover park maintenance, landscaping, security and roads. Try to negotiate a cap on this charge.

4.4 You will need to **maintain** your premises to preserve the value of your investment.

4.5 Lighting and **heating** can be expensive.

- Low energy designs save you money. For example, low energy lighting, and separate heating systems for your office and factory.
- Check the building's Energy Performance Certificate. It will help you establish how energy efficient the building is and likely energy costs.

4.6 You must pay **stamp duty land tax** at the time of purchase, at one to four per cent of the price.

- It may be possible to reduce the amount payable by allocating part of the price to any equipment included in the sale.
- Commercial properties worth less than £150,000 are exempt.

4.7 You must pay a **land registry fee**, which can be up to £800.

4.8 In some cases, the vendor may be obliged or choose to charge **VAT** on the purchase price.

- Check whether the vendor intends to charge VAT.
- You may be able to reclaim any VAT you pay but the rules are complex.
- Consider how to fund any VAT you have to pay, even if you can reclaim it on your next return.

4.9 Investigate whether you can claim the **Business Premises Renovation Allowance**. Under the scheme, businesses can claim 100 per cent capital allowances towards the costs of renovating or converting premises in designated disadvantaged areas that have been vacant for one year or more.

5 Making an offer

Once you have found suitable premises, make a conditional offer in writing. Your professional adviser can advise you on price and wording.

5.1 Make it clear exactly what the conditional offer is **conditional** on. For example:

- The results of a property survey.
- Planning permission or other approvals.
- Confirmation that any previous occupant has moved out ('vacant possession').
- Contract conditions and property searches.
- Finance being arranged.

5.2 Propose a **price**.

- Make an offer below the asking price, and below the maximum you can afford, to give yourself room for negotiation.

5.3 Be ready to **negotiate** on price.

- Find examples of similar properties which are on the market for less.
- Quote the price of any repairs or alterations you will need to make.
- List any problems with the property, such as noise or lack of services.

5.4 If appropriate, negotiate a '**lockout agreement**'.

This prevents the vendor negotiating with other potential buyers or accepting other offers, as long as you exchange contracts within a given time.

- If you do not do this, the vendor may seek other potential buyers, while indicating that the property is 'under offer'.

All aspects of a property deal remain negotiable until the moment when you exchange contracts. (See **7**).

6 Using a surveyor

A chartered surveyor can advise you throughout the purchase process. At the outset, find out what the fee will be, plus any extra charges.

6.1 Your surveyor can do the **initial search** for premises and shortlist the suitable ones.

- He or she can assess the condition and investment value of these premises.

6.2 Before buying premises, a full **survey** (not just a valuation) is essential, to check:

- The actual size of the premises. This may vary from the agent's details.
- Whether the building complies with building regulations.
- The estimated cost of any current and future building repairs.
- The condition of services, such as lifts.
- Whether any dangerous materials were used in the construction, such as asbestos or high alumina cement, which may need to be removed or replaced.
- Any unusual problems that might otherwise be overlooked.

6.3 Choose a surveyor recommended as being **experienced** and reliable.

- Check who will do the work.
  You may be impressed when you meet a partner from the firm, only to find that a junior employee then does the work.
- Ask what type of survey the surveyor recommends, and why. For example, a specialist mechanical survey of lifts and air conditioning equipment.
  Make sure the survey covers all your areas of concern. The surveyor cannot be not held responsible for things he or she does not agree to check.
- Check the cost and timing of any work that needs to be carried out.
- Check that the surveyor has professional indemnity insurance.

  Get these points agreed in writing.

6.4 If you are planning to get a **mortgage**, liaise closely with your bank.

- Check whether your surveyor's report will be acceptable to the bank, to reduce your mortgage set-up fees.
- Do not rely on a survey commissioned by your bank.
  If the bank's survey overlooked faults, you would usually have no comeback, as you would not have been the surveyor's client.

7 Legal stages

Employ a property lawyer to carry out property searches and other legal 'due diligence' and to complete the purchase transaction.

Ask your solicitor, at the beginning, for an estimate of your legal costs and other expenses.

Legal due diligence can take several weeks. It involves getting answers to six main questions.

7.1 Are the premises actually **owned** by the vendor, and does he or she have the right to sell them to you?

7.2 Are there any **restrictions** on the use of — or alterations to — the premises?

These restrictions may be embodied in covenants, or form part of the terms of planning consents for the premises. For example:

- Only certain trades or professions may be allowed to occupy the premises.
- Trading hours, or vehicle access, may be limited to protect local residents.
- Others may have rights over the premises which might affect its use.
- Displaying an external sign on your premises may be forbidden.

  Restrictions are especially likely if the property is located in a conservation area, or if it is a listed building.

7.3 Are there any current or future **planning** decisions which may affect your premises?

- New roads, one-way streets, parking restrictions, pedestrianisation schemes or general building works might have an impact on your business.
- Find out whether any consent to build on the land has been given, or refused, as this affects its value.

7.4 What **guarantees** are available on the premises?

- Check if building, damp-proofing or pest control work has been done in recent years. If there are warranties, establish whether they are transferable and how long they will cover you for.

7.5 Are there any **practical problems** with the premises? For example:

- Does the property have all mains services?
- Have there been any conflicts with neighbours, such as boundary disputes or problems with noise or careless parking?

7.6 What **equipment** is included in the sale?

- Check whether appliances such as boilers or air conditioning units have warranties, and when these items were last serviced.
- Check that this equipment is actually owned by the vendor and not part of a hire purchase or leasing agreement.

Once due diligence is satisfactorily completed, you exchange contracts with the vendor. The purchase contract is then binding on both parties and a ten per cent deposit is normally payable. You pay the remainder of the purchase price (plus stamp duty land tax and any other fees) later, at the agreed completion date.

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