FORTUS

BUSINESS ADVISORS & ACCOUNTANTS

BUYING AND LEASING COMMERCIAL PROPERTY

A FORTUS GUIDE

WHERE KNOWLEDGE, STRENGTH AND COURAGE DELIVER ON AMBITION

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BUYING AND LEASING COMMERCIAL PROPERTY FOR BUSINESSES

Whether you're growing an existing company and have outgrown your current property, or setting up a completely new entity, where your business is based is one of the most important decisions you'll make.

It's not just about the location either; as a business owner you need to think about many factors, such as suitability, future growth, employees, clients & suppliers. There's a wide variety of commercial properties throughout the UK. Whether it's industrial units, distribution warehouses, offices through to expansive retail spaces, The Fortus Property team can support you to ensure you get it right.

The cost of UK commercial property can be incredibly high, even for a small space, so, it's important that you make the right choice before you sign on the dotted line.

Every building will have benefits and potentially challenges, but you need to see through these and the emotions they may bring to ensure you make the right decision for you and your business. That's where having experienced property specialists by your side can help.

It's an important and often critical business decision with lots of factors to consider, so we've created this guide to help you find the best commercial property for your business needs and at the best price; helping your future business growth and success.

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FINDING THE RIGHT COMMERCIAL PROPERTY

Whilst location is important to many businesses, it may not be the only important factor in your property search. There are many other things to consider that can be just as or even more business critical.

Ask yourself these questions...

HOW DO YOU KNOW WHAT'S AVAILABLE?

It's good to use an expert to help you in your property search. Many commercial properties on the market won't be easily found. The Fortus Property team uses a range of market-leading technology with access to all the major web listing portals. Experts can also help you act quickly when you've found the right property, from carrying out surveys and valuations, to negotiating contracts to ensure you secure the property before somebody else does.

HOW DO I FIND THE RIGHT BUILDING?

Work with a dedicated commercial property real estate specialist to find and select the space that fits your criteria and budget. They'll be able to find a range of properties that fit your criteria and organise viewings to understand what the building has to offer. You'd think that picking a commercial property is a more rational decision than home buying. But it can be easy to fall in love with and get excited about a property and stop being objective about it. Visit a number of premises if possible before making a final decision.

IS THE LOCATION RIGHT?

Where you need to be will be dependent on the type of company you run and where your workforce are currently located - but also consider what area may be best for future recruitment. Is the property close to other amenities which make it more attractive for employees? For retail businesses, location can often make or break a business, for industrial units then transport links may be critical.

DOES THE SPACE WORK FOR YOUR BUSINESS?

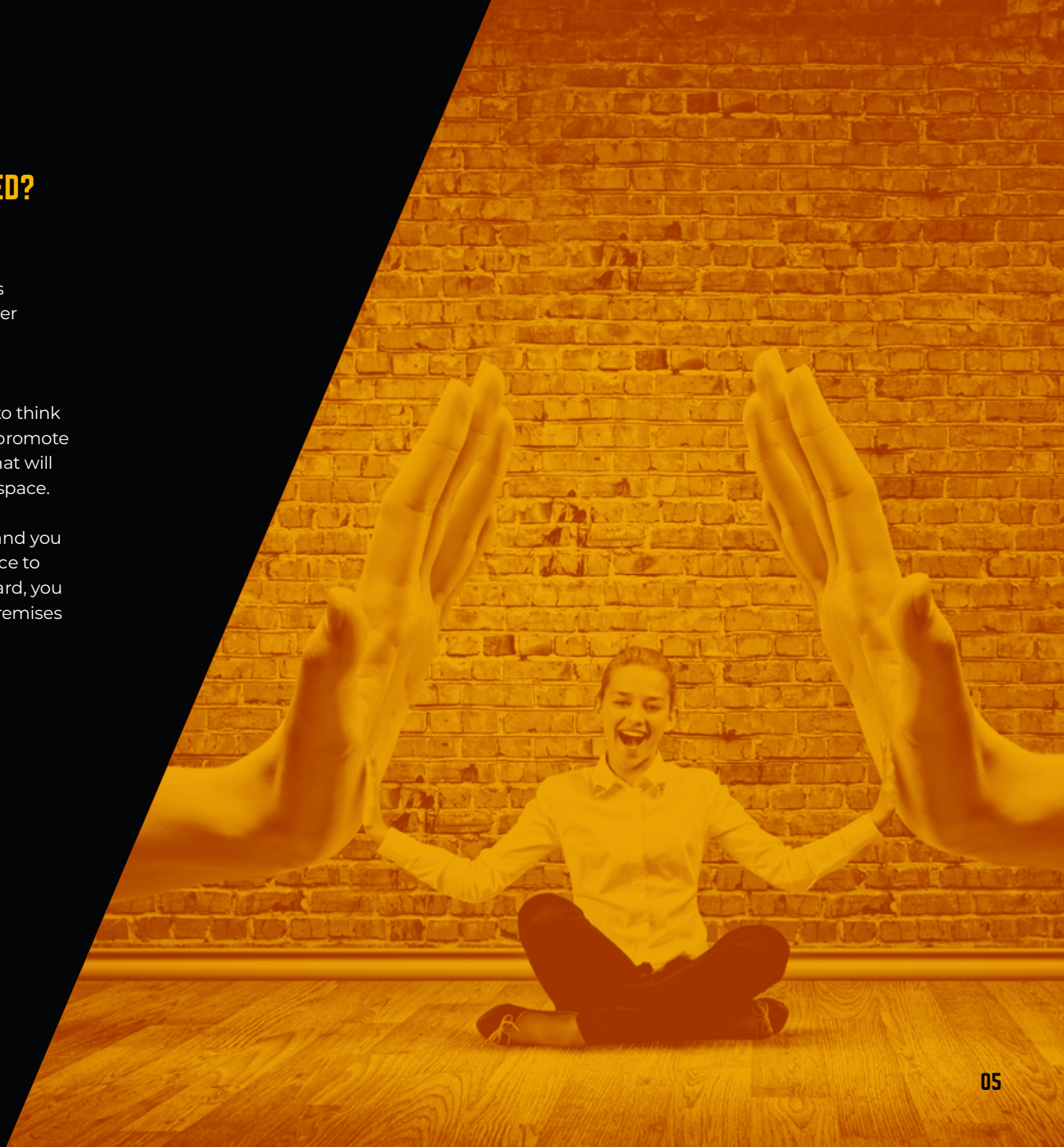
It's imperative that you carefully consider how well the space works for your business. It's easy to be impressed with newer 'shiny' offices or units. It takes work and money to transform a business into a site that's fit for another use. Older buildings that are already fitted out with things like wiring for your communication or electrical needs could be much cheaper. Space configuration is important to consider. Fitting out new space can be expensive, so you need to factor this into your planning early on to get a true idea of the costs.

WHAT AMOUNT OF SPACE DO I NEED?

In all sectors, the COVID-19 crisis has made many businesses consider their future premises requirements. Many may be considering whether the space they currently occupy is 'right' for the post-COVID-19 version of their business.

Looking to the post-COVID-19 future you need to think about if you should accelerate programmes to promote home working and flexible working practices that will likely reduce the requirement for your physical space.

On the flip side, if your business has flourished and you now need more space or a different type of space to support the growth of the business going forward, you may well be in a good position to secure new premises or more space at reduced rates.



IS THE AREA RIGHT?

More accessible areas typically command higher prices. You should consider if it's important to be near other similar businesses to your own or to suppliers. If customers will be visiting, then you need to think about convenience for them. Parking, traffic, public transport and safety can all be paramount factors for employees.

IS THERE ADDITIONAL HELP AVAILABLE?

It's a good idea to check if there is additional support in place in the area you're looking to acquire a property. For instance, Local Enterprise Partnerships (LEPs), which are partnerships between local authorities and businesses that determine what the economic priorities are in the area. They could potentially help with your decision as many of the LEPS name particular sectors as a focus for the local region.

You could also get more information about Enterprise Zones. These are areas where Government incentives are offered to businesses to help them start up or expand. They include simplified planning processes and tax concessions, and some businesses in these zones have even been eligible for 100 percent capital allowances for expenditure on plant and machinery.

IS IT CLASSED FOR THE RIGHT USE?

Commercial property is divided into use classes under the Town and Country Planning (Uses Classes) Order 1987. The legislation determines how each commercial property is occupied. You need to ensure that the property you want is in line with its planning use.

If you plan to redevelop the building or alter its intended use, you may require planning permission. But there are some exceptions to the rule where legislation allows certain use class changes without needing planning consent. Seek advice on the feasibility if you want to alter the use of a building.

IS IT WITHIN BUDGET?

If you've got a budget in mind, consider all options such as renting, buying or building from scratch. You may not find the ideal property on the market, in which case considering purchasing land and building may be a better and more efficient long-term option.

HOW WILL I FINANCE IT?

How you're going to finance the property, whether it's the purchase, deposit or to transform it so it's fit for use needs careful consideration. Banks may not be the only option, there are many options out there to consider.

WHAT'S MY TIMESCALE?

While some properties are available to move into straight away, others will need some work done to meet your business needs. If you allow ample time for finding and sorting a property, this may put you in a better position to negotiate. Leaving things until the last minute may mean you are in a weaker negotiating position and you may have less choice of property if you need to move fast.

WHAT ARE MY OWNERSHIP OPTIONS?

Try and stay true to your plan and your budget. You need to consider whether you're better off leasing or buying it outright. If you only need the space for a short period of time or want maintenance included, then renting may be the best option for you. However, if you need the space for the long-term then you might be better off building or buying your own property. Buying will give you far more options to be able to make structural changes or changes to the configuration that may be better for your long-term business.

BUILDING YOUR OWN PREMISES

Often, if you want a space that is completely your own and a perfect fit for your business needs now and, in the future, you'll have to consider having a premises built. The initial investment will be high but having the ability to create your own commercial property will allow you to design a space that is ideal for your business. If you want to build your own commercial property then you need to purchase land, then find a reliable architect.

Once the design and planning stages are finalised, you'll need to find a commercial property development company to help turn your vision into a reality.

Whilst building your own property may be time consuming and daunting, having a space that entirely fits your business needs in the long term can make the process worthwhile.

USE EXPERTS

Working with a professional surveyor will ensure you understand if there are structural issues with a property you've chosen before buying or leasing it. Even if you're renting, it's important to know the quality of the space before you sign the lease. That way you can either negotiate based on the survey or get issues resolved before you commit. Property experts will help you negotiate. If landlords are difficult at this stage, it can often be a sign that they may not be the best landlords in the longer term.

LEASING A PROPERTY

Here's a rough guide to leasing a commercial property - although the order of these steps may flex and change.

MAP OUT WHAT YOU NEED

Our first tip is to think hard and long about what you need. Map out the potential locations and also the qualities your ideal property needs, then split this list with preferred but non-essential features. You need to consider the space not only now but in the future. Will you grow into the property if your company grows? Create a clear plan before you move forward to the search phase.

AGREE HEADS OF TERMS (HOTS)

Heads of Terms should include everything you've agreed on with a landlord and every key detail of the lease that will be prepared. Making sure everything is recorded clearly in the HOTS should ensure that the lease reflects this and protects you from future disputes, which can be especially important if there is a change of landlord in the future. Our property team can help you.

INSTRUCT ADVISORS

Lease agreements can be complex and once you've signed there's no going back. Getting advisors onboard early in the search and sign up process will minimise your risks.

COMMISSION A SURVEY

You need to fully understand the condition of the building, so commission a survey to reveal the true condition and any potential problems. Attach a copy of the Schedule of Condition (SOC) (the record of the property's condition) to the lease should any future disagreements crop up or for when the lease expires.

PLAN THE MOVE

It's imperative that once you've found the right property that you carefully plan the move. Don't underestimate the time it take to organise transferring business critical systems such as telephones, tech and plant & machinery.

SIGNING THE DEAL

Completing the paperwork is a crucial but laborious process. Use professionals to help you. Whether its collecting references, helping you with finance or checking over legal documents.

If you're renting, get all your information together that the landlord may require. For example, passport, company financials or previous utility bills. Set up direct debits or standing orders. Sign the documents. You'll have to sign the lease, and any other relating documents (plans, licences for alterations, schedules of conditions) before you can move in.

TRANSFER THE FUNDS

You'll have to transfer the landlord any advance rent or deposits before the lease completes.

PICK UP THE KEYS

When you've received confirmation of all things being completed, you're good to go. Now you've just got to complete the move.

LEASE LENGTH

The landlord should make it clear upfront what the length of the lease is and should specify any circumstances under which it is permissible to break it.

It should also be specified in your contract whether you'll be entitled to a lease extension on expiry.

An official right to break will allow you to walk away from the lease at any time, presuming you have notified the landlord in writing. Check the details on this and that no additional charges are required to clear.

REVIEWING AND CHANGING THE RENT

Your lease may contain provisions that allow the landlord to change the rent. This is fairly standard, but the rules should be clear before you agree to them. There are various mechanisms for reviewing rents so make sure you are clear on the terms agreed before signing.

The COVID-19 crisis has meant many businesses reviewed their lease commitments to ensure their business premises would be fit for purpose during and after the pandemic.

The crisis has meant that many business owners now have deferred or unpaid rents and need to secure a solution to pay these that is fair for both sides and offers you a realistic opportunity of returning to pre-COVID-19 trade levels, to a point where any deferred rents can be repaid.

As well as rent deferrals and holidays, there are a myriad of other options. You should consider where rent is owed. This can perhaps be offset by extending lease terms, moving break option dates or re-gearing rent review provisions.

QUICK LEASING CHECKLIST

- What term is the lease?
- What is the rent, and can it increase?
- Is there a service or maintenance charge? If yes, what does it include?
- What is the total monthly cost - including rates, service/maintenance charge, insurance, rent, deposit etc?
- Will I be responsible for any repairs and maintenance?
- What utility supplies are already in the property?
- Is the lease inside or outside the Landlord & Tenant Act?
- Does the space I'm leasing include parking or outside work areas?
- How soon can I move in?
- Are there any access/usage restrictions?

SUBLETTING

Some leases allow subletting. There are usually restrictions in place regarding space, use of the space and the rent you can charge, so it's important to be aware of these if you're planning to sublet.

Many business owners may find they have additional space they no longer require because of the COVID-19 crisis. There may now be opportunity to negotiate options to sublet excess space with your landlord.

SERVICE CHARGES

You should ask the landlord to be explicit about which service charges will be included and how they'll be calculated. Also check whether you'll be asked to contribute to any capital improvements, such as repairs etc.

REPAIRS

Repairs can be a contentious issue. Establish if it'll be your responsibility to carry out works on the property during the lease period and what condition you need to keep the property in.

DEFAULTING

Your lease is a legal contract and there will be serious consequences should you breach the contract. The Landlord should notify you if you're in breach of contract and allow you to remedy the breach before taking legal action. Property law is complex so seek expert advice.

OBTAINING CONSENT

You'll need to make applications to the Landlord if you're planning to carry out alterations or if you want to sublet.

ADDITIONAL COSTS TO CONSIDER

If you're renting, the Landlord should provide full details of the expected costs involved when leasing the property. If you're buying, then you should consider all of the possible costs below up front.

Rent deposits

Landlords generally ask for the equivalent of 3-6 months of rent as a deposit, on top of the first month/quarter's rent at the start of the lease.

Business rates

The Government charges business rates on commercial properties. These are calculated according to the rental value of the property.

Service or maintenance charge

When properties share common parts, for instance, security, utilities or common areas, the Landlord may charge a fee to contribute to the upkeep. Find out if this is fixed or variable.

VAT

Some buildings have been elected for VAT, meaning that you're required to pay VAT on rents and service charges. Establish this upfront.

EPC (Energy Performance Certificate)

It's a legal requirement for any commercial property to have an EPC before the lease is completed unless you're entering into a license or renting serviced office space. Double check to ensure you won't be held responsible for paying these costs.

Repairs and maintenance

Check the lease agreement for whether you are liable for internal or external repairs. Make sure you know what you're liable for before you sign the agreement.

Insurance

Typically, if renting, the landlord will insure the building for you and then charge you for it. If buying, you need to insure the building directly. But you'll need to remember to sort out contents and public liability insurance.

Contents insurance is a must for any company looking to protect its resources. In some cases, you may also be held responsible for paying the building insurance, but be sure to check it.

Waste and utilities

You're probably going to have to find your own suppliers unless you're renting, and the landlord tells you otherwise.

Dilapidations

When the lease has ended you need to return the unit in good condition.

Capital allowances

This allows you to get tax relief on expenditure like lighting, heating, security, carpets etc.

Fees

These are a standard part of any transaction. Using surveyors is wise. Consider legal fees, and the cost of hiring a surveyor or other advisors. Factor these into your budget.

BUYING COMMERCIAL PROPERTY

Commercial property can be a big investment and therefore needs research, knowledge and planning to be successful. You could be investing big money and taking big risks. You need careful due diligence and wise investment advice.

We cover the basics of commercial property buying in this guide. But seek expert help early in the process to ensure you minimise risk and maximise your investment.

SET YOUR INVESTMENT BUDGET AND RETURN GOALS

Plan and consider the exact amount you can afford to invest and, if the worst case scenario arises, how much you can afford to lose.

Start thinking about realistic ROI you can expect. Get a basic grasp of what affects returns – such as infrastructure, location, type of building, environment and the workforce skills available locally.

GET KNOWLEDGE OF THE CURRENT COMMERCIAL PROPERTY MARKET

It's vital that you learn the various ins and outs of the current property market. You can use an expert to advise you but consider trends such as local area property value changes to advancing technologies that may affect the market.

USE EXPERTS

It's easy to get in over your head. Don't be afraid to contact experts who have years of experience in the commercial property market. They'll put you on the right track.

...CUT THROUGH THE JARGON

Like any sector, the commercial property market has its fair share of jargon. To save you time, understand the most common commercial property terms or ask an expert to explain.

SENSE CHECK THAT THE PROPERTY IS RIGHT

Don't jump in too quickly if you find a good property. Analyse (or get an expert to analyse) the details – such as legalities like planning laws and building regulations as well as commissioning a professional property inspection. Make sure nothing is overlooked.

SET REALISTIC OBJECTIVES

Always keep your overall goals in mind. Don't lose sight of them by getting drawn in by emotion or excitement. Know how you're financing your purchase, study the market and remain patient.

BE REALISTIC ABOUT YOUR OWN KNOWLEDGE & SKILLS

Commercial property is a complicated business that needs the expertise of people who know the industry. Don't underestimate the knowledge you need or over-estimate the knowledge you think you have.

TAX CONSIDERATIONS

Capital Allowances

Capital Allowances tax relief offsets the hidden expenditure in your commercial property. Typically, this includes elements such as air conditioning, wiring, heating, lighting and security systems – essentially everything that's a fixed part of the building and was either in situ on purchase, installed as part of refurbishment or fit out projects you've undertaken.

All commercial property owners who are UK taxpayers may be eligible to claim Capital Allowances tax relief, which can be offset against your tax liability.

Your business may have previously claimed allowances on everyday purchases, such as IT equipment and furniture. However, identifying and valuing a 'just and reasonable' apportionment of a property's cost between the 'bricks & mortar' and qualifying plant & machinery requires a detailed specialist assessment of the building by our team of experienced tax and property experts. This may not have been carried out previously. Fortus has both expert teams in property and tax that work hand in hand to ensure you get the right result.

Structure of your commercial investments

It's important to consider how to hold and structure your commercial property investments, such as demerging trading risk from property risk. There are tax neutral ways that you can separate out a commercial property from a trading company, that can have significant benefits.

Land remediation

Land remediation relief (LRR) is a valuable tax relief which applies to all commercial property sectors, claimable by any company subject to corporation tax. The relief's intended to promote the remediation and development of blighted land and buildings and applies to expenditure on various activities including some of the following:

- Removal of asbestos from buildings.
- Breaking-out buried structures and foundations.
- Treatment of Japanese Knotweed and similar harmful organisms.
- Treatment of naturally occurring contaminants including radon and arsenic.
- Claims can be made on developments, regeneration projects, fit-outs and refurbishments.

If you're building a commercial property or doing major refurbishment on a dilapidated building and want to know if you'll be eligible and the rates that apply, then **contact us today.**

HOW CAN FORTUS HELP?

There's no simple answer to finding, securing and setting up the right commercial property. It's often a long-term decision and significant investment for you and your business.

Your property requirements can be a demanding but essential element in the smooth running of your business.

It can take a lot of time and effort to go through the process, but using the right advisors along the way, can lighten the load, reduce risk and make the whole process smoother and less stressful.

Property services isn't necessarily a service you'd expect from a business advisory & accountancy firm. But, whatever you need, whether it's finding the right premises, tax efficient structuring, claiming back Capital Allowances or having us negotiate a new lease your behalf, our in-house team of Chartered Surveyors and Tax Experts will get the most out of your property assets, and reduce your occupational costs.

WANT TO KNOW MORE?

Why not **contact us** to find out how we can help with your property needs: you might be surprised at the savings you could make.

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OUR SERVICE LINES

Business ownership's complex and so are the questions our clients face every day.

With challenges ranging from financial management and recruiting and retaining people, to managing property, funding growth or strategic planning. A single speciality is no longer what's expected from business advisors and accountants.

That's why at Fortus, we offer a full range of advisory services. We're one team, with many talents, helping our clients deliver on their ambitions.

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