

Searching for premises

Choosing your business premises is one of the biggest decisions you ever have to make, but few people have much useful experience of it. For a start-up business with modest resources, it can be a daunting prospect. Yet all it takes is clear thinking and a well-planned approach.

This briefing guides you through the steps involved in finding the right premises.

It covers:

- Choosing the best location.
- The pros and cons of licensing, leasing, and buying premises.
- Specifying the kind of premises you want.
- Finding the right premises.

1 What makes a good location?

Start by thinking about where you want to be. Do you need a prime town centre location? Or is an out-of-town business park more suitable?

1.1 Which area do you want to be in?

- Where are your potential customers and suppliers?
- Where is there least competition — or would you benefit from being near to similar businesses?

1.2 How **expensive** is the area?

- New towns and developments are often cheaper, but may not be suitable.
- Prices are lower in areas with vacant property — but may indicate that the area is not good for business.

- Setting up in certain locations may qualify you for grants or other financial incentives such as the Business Premises Renovation Allowance. The premises must be in a designated disadvantaged area and have been vacant for a year or more.

1.3 Must you be near **transport** links, such as the motorway network?

- Are the premises easily accessible?
- Will you be able to get supplies and make deliveries easily?

1.4 How will the location affect **employees**?

- Will you be able to recruit suitably skilled people locally?
- Will the location meet employees' needs for housing, schools, shopping and lunch?

1.5 What local **facilities** do you require?

- Do you need to be near a bank, post office or local parking?

1.6 How important is the **image** you project?

- What impression will visitors form?

1.7 Could you run your business from **home**?

- Check whether your mortgage or tenancy agreement prevents you from working from home.
- Check whether you are suitably insured.
- Check your tax position. You may become liable to business rates, capital gains and other taxes.
- Will working from home create the right impression?

For start-ups where image really matters, the big serviced-office companies offer immediate access to smart, fully-equipped, flexible offices. Many also provide support services on demand.

2 How long will you stay?

When you occupy premises, there are three kinds of property contract you can sign.

2.1 A licence gives you maximum flexibility, but minimum security.

- Licences usually cover a short period of time – up to two years.
- You, or your licensor, can usually terminate the arrangement at short notice.

2.2 A lease gives you less flexibility, but more security (see 4).

- You agree to occupy the premises for a fixed number of years (often up to 25 years).
- You may be liable for the rent for the whole period of the lease, even if you vacate the premises early.

2.3 When you purchase a property, you buy the premises outright and acquire the **freehold** (see 5).

- You can stay in the premises as long as you want.
- Established businesses with spare cash may buy their premises as an investment.

3 Licensed flexibility

A licensed office or workshop is the ideal solution for many start-up businesses. Usually the licence fee is paid monthly, and either the licensee or the licensor can terminate the agreement at a month's notice.

3.1 There are several **advantages** for start-ups.

- **Simplicity** — a licence is usually a simple contract which can be agreed quickly and without expensive solicitors' fees.
- **Cost** — some councils and Enterprise Agencies provide subsidised workshop units and business centre offices.
- **Flexibility** — as your needs change, you can usually take more or less space, or leave, without being penalised.
- **All-inclusive** — the licensor usually takes care of maintenance, rates, and most insurances, though the cost is sometimes

recovered via a service charge.

- **Services** — reception and secretarial services are often part of the package provided. There may be a separate service charge covering these and other facilities.

3.2 There are also **disadvantages**.

- **Lack of security** — you have no legal right to stay in the premises, if the licensor has given you proper notice to leave. The licensor is also free to increase the licence fee at the end of the licence period. As long as you are a good licensee, the licensor will usually wish to keep you.
- **Lack of choice** — offices and workshop units are widely available, but the supply of other premises on licence is limited.
- **Lack of flexibility** — practical or legal restrictions may stop you from altering the premises to meet your own requirements. Nor is there much point in spending to improve premises you may soon leave.
- **Neighbours** — other licensees can cause problems, and may change frequently. Noise, dirt and smells from neighbours can all reflect badly on your own business.

Some licences offered by private licensors may be almost as flexible as those offered by councils or Enterprise Agencies, though others are more like leases.

4 Leasing for the longer run

Most established companies lease their premises. For small start-up businesses, the pros and cons may be finely balanced.

4.1 The **advantages** of leasing increase as your business becomes more established.

- **Choice** — most business property is leased.
- **Security** — you have a stable base, with the right to stay there for the length of the lease (usually three to 25 years).
- **Alterations** — you can spend money on improving the property (usually subject to obtaining written consent from the landlord), knowing you will be staying.
- **Incentives** — a landlord may offer incentives to take up a lease (eg a rent-free period).

4.2 Leasing's **disadvantages** tend to stem from bad landlords, or odd clauses in the lease.

- **Ongoing liabilities** — as your situation alters, you may need to move on. In most cases, a lease can be passed on, but you may still be liable for rent and costs

(including the legal costs for both sides) if the new tenant fails to pay up. In some cases, you may also be responsible for all repairs.

- Fees and time — buying a lease can be expensive and time consuming. Legal advice is essential.
- Bad landlords — some fail to fulfil their side of the agreement to keep premises clean and maintained. (This may also happen with licensed premises.)
- Extra restrictions — these may be written into the lease and could threaten your business (eg by hindering diversification).
- Rent reviews — most leases allow the rent to be increased periodically (every three or five years), in line with market rents.

5 Buying the freehold

Few small businesses choose to purchase premises, as it ties up cash, which is generally needed as working capital or to fund expansion. You usually need cash for 30 per cent of the price and a commercial mortgage for the other 70 per cent.

5.1 The advantages include eliminating one layer of uncertainty from your long-term business planning.

- Control — you own the freehold until you choose to sell the property.
- Stability — with a fixed-rate mortgage, the schedule of mortgage repayments and interest is negotiated once and for all. There should be no large increases in your monthly outgoings (whereas rents can increase significantly).
- Customised premises — you can alter and improve the premises as much as you like to suit the needs of your business (subject to planning permission and building regulations).
- Investment — in the long term, the trend in property prices is upwards.
- Security — owning your premises is always a definite advantage when negotiating with your bank manager.

5.2 The disadvantages stem from the major financial commitment you make.

- Cash drain — can you afford to have so much money tied up in property, or should you keep it for running the business? Unless you have surplus cash, and will not need the money in future years, buying a property may be an unwise decision.
- Risk — property values can sometimes go down, as well as up. Properties may also

be costly to maintain.

- Fees and time — finding and buying the right property can be time consuming, and involves paying legal costs.
- Responsibilities — you have to manage, maintain and repair the property yourself.

Buying premises is a major step and should be approached with caution. Make sure you take proper legal and financial advice before proceeding. It is advisable to have a survey, as structural problems with the building become your problems once you own the building.

6 Know what you want

6.1 The **location** must suit your business.

6.2 The premises must provide enough office, factory, storage and yard **space**.

- Will you need room to expand?
- Is the way the space is laid out important?

6.3 You may need **access** for employees, customers and deliveries seven days a week, or at night.

- Do you need to be on the ground floor?
- How many entrances (how wide and how high?) do you need?

6.4 You will need adequate **services**, including power, phone lines, plumbing and drainage.

- Does the work you do call for particular services (eg gas or three-phase power)?
- Do you have plant or processes that need special ventilation or air conditioning?
- Do you have unusual requirements for waste disposal and drainage?

6.5 The **appearance** and comfort offered by your premises must be appropriate to your business — for employees and for visitors.

- What are your requirements for light — both natural and electric — and heat?
- What facilities, such as WCs and a kitchen, will employees and visitors need?

6.6 **Planning permission** may be a critical factor.

- What planning category does your business come under?
- What new planning permission might you need (eg consent to put up a large sign)?

6.7 The building must be **structurally** sound.

- An older building may look nice, but will the wiring and plumbing be adequate?
- Will expansion or layout changes be possible?
- Must your premises have special physical attributes (eg overhead clearance, upper-floor loading or reinforced foundations)?

7 The property specification

Draw up a 'property spec', including all the details of what you are looking for. Note which aspects of the spec are essential, and which are merely desirable.

7.1 Location may be especially important.

7.2 Specify the type of **tenure** required — licence, lease or freehold.

- If you need leased premises, state the length of the lease.

7.3 Decide what **size** premises you need.

7.4 List your **requirements** (see 6).

- Highlight any special or unusual needs.

7.5 Indicate your **type of business**.

- It will be easier if this is covered by the property's existing planning permission.

7.6 State your maximum **price**, including VAT and any annual charges.

A good spec will stop you wasting time looking at premises which are non-starters.

8 Sources of information

8.1 Personal contacts may know of suitable premises, or suggest other people to talk to.

- You could be introduced to a company prepared to sub-let space, or find someone whose office you can share.

8.2 Commercial premises are advertised in local **newspapers** and **property magazines**.

- Dalton's Weekly covers property across the whole country. Search for premises online at www.daltonproperty.com.

8.3 Business Link, Enterprise Agencies and Development Corporations can refer you

to **local sources** of information.

8.4 Local councils are major property owners. Ask for the property or economic development departments, especially if you are seeking licensed offices or workshops.

- The council may have a property register, or even run a subsidised business centre.

8.5 Estate agents should respond selectively to your property spec.

- Many estate agents have specialist commercial divisions. Some now list available properties on their websites.
- Agents' fees are generally paid by the landlord or seller, unless otherwise agreed.

9 Successful searching

If you are looking for leasehold or freehold premises, the search and selection process can be complicated and extremely time consuming.

9.1 Consider paying an **estate agent** to search and negotiate on your behalf.

- At your first (free) meeting, the agent can explain the different options and costs.

9.2 If you conduct the search yourself, follow a methodical **process**.

- Give agents your detailed spec. Discuss the spec with them, so you all agree what it is that you are looking for and ask them to send you details of properties.
- Select the most suitable properties and discuss them on the phone. Annual cost per square foot (including rent, rates and service charges) is a useful basis for comparison.
- Check the energy efficiency rating of the building. This can be a good indicator of likely energy costs. All sellers and landlords must provide potential buyers or tenants with an Energy Performance Certificate when they sell or lease a building.
- Then decide which properties to visit.

Do not be hurried by agents who keep mentioning other interested buyers.

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