02

Buy or lease?

Deciding whether to buy or lease your premises is not always easy as sometimes you will not have the choice. It is an important decision, with strong arguments both ways, and it could vitally affect the future development of your business.

What is my starting point?

Start with your business itself. Is it a mature business already? Is it a young business which you expect to remain roughly at its present size? Do you expect, if all goes well, that it will expand significantly in the years ahead? Try to build a picture of where you expect the business to be in five years' time.

Leasing is generally more flexible than buying, at least in the case of a short lease. If your business is currently small but you expect it to grow, leasing might be the preferred option. You can take a lease or even a licence on premises that satisfy your present space requirements. If a short term lease is appropriate for your business RICS has a standard lease for small business in the retail sector available from **rics.org/smallbusinesslease**

As your space needs increase you can move on to a larger building without the hassle of having to sell your original premises. With industrial buildings in particular, design trends change quite a lot and if the building that you lease becomes obsolete you can move to one that meets current requirements. However, there is always the possibility of buying a building which can be extended or adapted if you find you need more space in the future.

Some types of business require a large amount of plant and equipment in the building, with high installation costs. As you will want to write off these costs over many years, you will not want to change premises at frequent intervals. In this case, buying may make more sense than leasing. If you do take a lease, it will need to be a long one.

Would I have more freedom of action as an owner?

Aside from the question of moving premises, you will generally have more freedom of action as an owner than a tenant. You would not need to obtain a landlord's approval (with the attendant time delays and costs) for changes that you want to make. It is more likely that you would be able to extend the building. You will not be faced with the administrative inconvenience of negotiating rent reviews, of renewing your lease or of arguing dilapidation claims if you move out.

On the other hand, many of the same restrictions will apply whether you buy or lease. You will still need to maintain and insure the building, whether it is for yourself or a landlord. You will still be subject to the same external constraints, like the need for planning permission when the occasion arises.

Which makes more financial sense: owning or leasing?

This is where the two-way arguments are at their strongest. Many larger businesses consider that their capital is better employed (and will earn higher returns) in the business itself than if it is tied up in the company's properties. They may tend to lease their buildings rather than own them and even dispose of existing buildings that they do own via a sale and leaseback (this is where the property is sold to an investor, but the occupier remains in occupation as a tenant, subject to a lease).

The decision depends partly on the way that you expect the property market to move. If you expect the level of rents to move up rapidly, as a tenant you could face big increases in your rent bill in the future when rent reviews occur, and if you do not own your property it is the owner, not you, who will benefit from any future increase in their capital value.

If you own your property, you will get the benefit of any capital appreciation and will own an asset at the end of the day. If the building increases substantially in value, you might be able to borrow against the increased value in the future, which could extend your financing options. You will not have to worry about big increases in your occupation costs following rent reviews. You should also discuss the issue with your accountant as there may be some tax implications flowing from the decision as to whether to lease or buy.

How would I finance a purchase?

A commercial mortgage is the most common form of finance for the purchase of a building, particularly of the type likely to be used by a smaller business. Such mortgages are obtainable from a variety of lenders, including the main high street banks and some building societies. You may compare the terms on offer yourself or enlist the help of a specialist mortgage broker. The terms and the cost will vary quite a lot, depending on the options that you choose.

In costing out commercial mortgages, remember the additional costs as well as the interest payments and capital repayments you will have to make. There will be valuation and legal costs at the outset and if you go via a broker there will be his or her fee to consider. The lender may charge an up-front fee for setting up the loan and there is the cost of any required insurance. There will also probably be penalties for early repayment: look carefully at these before you make the decision.