

START-UP BRIEFING



Highlands & Islands
ENTERPRISE

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 place to launch your business. 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?

A Which area do you want to be in?

- ◆ Where are your potential customers?
- ◆ Where is there least competition — or should you, like antique shops and estate agents, be near to similar businesses?
- ◆ Must you be close to specialist suppliers?

B How expensive is the area?

- ◆ New towns and developments are often cheaper, but may not suit your business.
- ◆ Prices are lower in areas with vacant property — but vacant property may be a sign that the area is bad to do business in.
- ◆ Setting up in certain locations may qualify you for grants or other financial incentives.

C Must you be near transport links, such as a

motorway, railway station or bus stop?

- ◆ Can your customers and employees reach the premises easily?
- ◆ Will you be able to get supplies and make deliveries easily?

D 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?

E What local facilities do you require?

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

F How important is the image you project?

- ◆ What impression will visitors form?

FURTHER HELP

There are other Start-up Briefing titles that can help you. These briefings are referred to in the text by name and by the code given to each briefing. For example, SuB 22.

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- ◆ What will the postal address be?

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.

- A** A **licence** gives you maximum flexibility, but minimum security (see 3).
- ◆ You, or your licensor, can usually terminate the arrangement at short notice.
- B** A **lease** gives you less flexibility, but more security (see 4).
- ◆ You agree to occupy the premises for a fixed number of years.
 - ◆ You may be liable for the rent for the whole period of the lease, even if you vacate the premises early.
- C** When you purchase a property, you buy the premises outright and acquire the **feehold** (see 5).
- ◆ 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, especially if it is on one of the flexible deals offered by many local authorities, Enterprise Trusts and LECs. Usually the licence fee is paid monthly, and either the licensee or the licensor can terminate the agreement at a month's notice.

- A** 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, Enterprise Trusts and LECs provide subsidised workshop units and business centre offices.
 - ◆ Flexibility — as your needs change, you can usually take more or less space, or leave the premises, 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.

B There are also **disadvantages**.

- ◆ Lack of security — the licensor may be able to terminate the licence at reasonably short notice.
The licensor is also free to increase the license fee at the end of the licence period, when you may wish to renew the licence.
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 tend to change frequently in a small workshop or office scheme.
Noise, dirt, smells and an image of amateurism can all reflect badly on your own business.

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

4 Leasing for the longer run

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

- A** The **advantages** of leasing become greater 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).
- B** Leasing's **disadvantages** tend to stem from bad landlords, or odd clauses in the lease.
- ◆ Ongoing liabilities — as your business situation alters, you may need to move on.

► See **Property licences**, SuB 23.

In most cases, a lease can be passed on to a new tenant, 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.

You will not be responsible for these costs if the lease does not include 'joint and several liability'.

- ◆ Fees and time — buying a lease can be expensive and time-consuming. Legal advice is essential.
- ◆ Bad landlords — some fail to keep premises clean and maintained, and fail to fulfil their side of the agreement. (This may also happen with premises on a licence.)
- ◆ 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 feuhold

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 25 per cent of the price and a commercial mortgage for the other 75 per cent.

- A** 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

Property regulations

Your business must comply with all sorts of rules and regulations.

These include planning permission and a wide range of building, fire, health and safety and environmental health regulations.

- ◆ *These regulations affect you, regardless of whether you license, lease or buy.*
- ◆ *If you breach certain property regulations, your key business processes could be shut down immediately (eg if a Health and Safety Executive inspector issues a prohibition notice).*

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. If you buy the right property at the right time, you could make a good profit.
- ◆ Image — owning the feuhold is usually a sign of a strong, well established company.
- ◆ Security — owning your premises is always a definite advantage when negotiating with your bank manager.

B 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

- A** The **location** must suit your business (see 1).
- B** 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? For example, an open-plan office with reception area and a meeting room.
- C** 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?

► Working from home suits some start-up businesses. This is covered in **Setting up an office**, SuB 24.

- D** 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?
- E** 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?
- F** **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)?
- G** 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.

- A** **Location** may be especially important.
- B** Specify the type of **tenure** required — licence, lease or feuhold.
- ◆ If you need leased premises, state the length of the lease.
- C** Decide what **size** premises you need.
- D** List your **requirements** (see 6).
- ◆ Highlight any special or unusual needs.
- E** Indicate your **type of business**.
- ◆ It will be easier if this is covered by the property's existing planning permission.
- F** 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

- A** **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.
- B** Commercial premises are advertised in local **newspapers** and **property magazines**.
- C** LECs can refer you to **local sources** of information.
- D** **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.
- E** **Estate agents** should respond selectively to your property spec.
- ◆ Many estate agents and surveyors 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 feuhold premises, the search and selection process can be complicated and extremely time consuming.

- A** 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.
- B** 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 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.
 - ◆ Then decide which properties to visit.
- Do not be hurried by agents with properties to sell who keep mentioning other interested buyers.

EXPERT CONTRIBUTORS

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SuB 22