

To buy or not to buy that is the question?

The UK has had unprecedented low interest rates since March 2009, however the economic environment has now started on its cycle of upturn and is producing growth. When this growth is combined with continuing low interest rates, businesses start to question whether “*to buy or not to buy?*” their commercial property. In answering this question, business owners are live to the risks and uncertainties they still face, not least how the results of the recent general election will play out, the ongoing question of whether the economic growth will continue and how long can low interest rates be sustained.

There is a rise in the number of SMEs seeking to become owner-occupiers, and many of our clients have taken this step. Instead of negotiating rent, our clients are negotiating purchase prices. Clients have been surprised by both how much they can borrow without a sizeable deposit and in some instances that the level of payments on a mortgage are comparable to the rent that they would have paid. Even in instances where mortgage payments are slightly higher, clients have been able to either borrow more, or fix their rate for a longer period of certainty. There are also tax advantages in purchasing your own property, such as deductions in the form of capital allowances on certain expenditure, which can prove a valuable incentive.

The indirect advantages of buying a commercial property are also significant when you bear in mind that the business' balance sheet will improve over a period of time as the mortgage is reduced and potential liabilities such as dilapidations and relocation costs no longer have to be provided for.

As with everything, buying a property is a long-term decision and not something that must be dictated as a result of low interest rates or availability of borrowing; it must be part of the long term strategy for the business. Clients have also taken the opportunity to purchase commercial property within pension funds, allowing for an in-specie transfer to make up any shortfalls. This has the advantage of securing the commercial property for the business without burdening the business owners with the long-term commitment to the current location.

However, the question of whether “*to buy or not to buy?*” is a double-edged sword, business owners need to ensure that the decision to purchase their commercial property is the right one for them. Business owners have the ability to negotiate their obligations within leases which can assist them in the short or medium to long term. In the short term levels of rent, rent-free periods and break clauses allow a business greater flexibility whilst in the medium to long term capping liabilities on repairs and service charges prevent contingent liabilities from escalating.

At Hawkins Hatton Corporate Lawyers we have seen that Lloyds, RBS, HSBC and Santander all have an appetite for commercial property lends to owner-occupiers. As such the best advice I can give you is to talk to your accountant and bank manager to see whether you should “*buy or not buy*”. Once you have decided, I can help guide and advise you down your chosen route.