

Commercial Property Factsheets

Buying commercial freehold property

Initial checks

Simple initial checks can help you identify any major problems, letting you decide not to proceed any further (or to reassess the price you might pay) before getting involved in significant costs.

- A careful look around the building helps you assess its general condition and spot obvious faults. Planning how you would use the space also helps you establish whether you are likely to need to make costly alterations.
- Visiting the area on different days and at different times and talking to other local businesses lets you assess the local environment - what the neighbourhood is like, traffic conditions, parking availability and so on.
- Researching other similar properties for sale, or taking advice from someone with expertise in the local property market, helps you establish what a fair market price for the property should be.
- The vendor's agent can tell you what category of use is permitted by the current planning permission. If you will require a change of use, the planning department at the local authority may provide informal guidance on whether this is likely to be acceptable to them.
- If you decide to make an offer to purchase, further checks by your lawyer and surveyor will be needed to confirm these initial assessments.

The purchase process

- An initial offer below the asking price gives you room to negotiate. You may want to use an expert to handle negotiations for you.
- Your negotiating position will be stronger if you can find out about the vendor's situation: for example, whether they are hoping for a quick sale and how much interest there is in the property from other potential purchasers.
- Your offer sets out your opening price and highlights the key conditions: for example, any offer should be subject to legal checks, survey results, contract conditions and so on.
- Even if the vendor accepts your offer, the vendor is free to solicit competing offers unless you negotiate a 'lockout' or exclusivity agreement. This prevents the vendor considering other offers provided you exchange contracts by a set deadline.
- All aspects of the agreement remain negotiable until contracts are exchanged. At that point, the contract is binding on both parties and a deposit (typically 10 per cent) is normally paid. Withdrawing from the contract after exchange can involve substantial liabilities.

Costs

Other costs can significantly increase the purchase price. Running costs such as business rates, utility bills, maintenance and repairs will also make a substantial contribution to the overall costs of ownership.

- Stamp duty land tax is normally payable if the purchase price is over £150,000: 1 per cent from £150,000 to £250,000, 3 per cent from £250,000 to £500,000, and 4 per cent for prices over £500,000.
- Your advisers (eg lawyer and surveyor) can advise you on their fees and related expenses such as land registry fees and the cost of searches.
- You should budget for the cost of any alterations and fitting out the premises.
- VAT may be payable depending on the vendor's circumstances. If VAT is payable, you should take advice in advance on whether you will be able to reclaim the VAT paid.
- Property purchases can be structured in different ways: for example, making the purchase through your pension fund or a

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This document was created on 05 May 2010

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separate company, purchasing the business that owns the premises rather than just the premises. Structuring a transaction in one of these ways can reduce your total tax costs, but also has other implications - advice is essential.

Legal checks and contract details

Comprehensive legal checks are an essential part of the purchase process.

- Your solicitors will search the local land charges register for information such as the property's planning permission, any restrictions on how the property can be used, and any public rights of way on its land. They will also check for any local planning applications that might affect it.
- Basic details such as connections to mains services need to be checked.
- Once you purchase the property, you are likely to be liable for the costs of putting right any environmental problems - including pre-existing contamination. An environmental search helps detect potential problems of this kind.
- A thorough check of the sale contract and related documentation will cover any other restrictions on the use of the premises (eg covenants) and details of what is included in the sale (eg equipment).

The survey

A full survey helps protect you from any unwelcome surprises, and can be used to negotiate a lower price to compensate for any faults uncovered. You should not rely on a survey carried out for someone else (eg your bank) - you are unlikely to have any redress if there is a problem later on.

- You should agree in writing what the survey will cover. If you will be mortgaging the property, you should confirm in advance that the survey will be acceptable to your lender.
- The survey should cover the condition of the building, including whether it complies with building regulations and health & safety regulations, and whether it meets legal requirements for disabled access.
- The survey should identify any dangerous materials such as asbestos (which you are legally obliged to manage in your premises).
- You may also need specialist surveys for other areas - such as lifts and air-conditioning - where you have further legal obligations.
- A surveyor with local expertise can also provide a valuation of the premises in current local market conditions.