

Property

PART 4 BUSINESS OCCUPIERS: ADVANTAGES AND DISADVANTAGES OF BUYING FREEHOLD PROPERTY

In recent times, the UK has seen a staggering amount of overseas investment in commercial property and Far Eastern investors have dominated the market, investing approximately £4 billion this year in purchasing leading commercial properties in the capital. To name a few, Leadenhall Building (informally known as the 'Cheesegrater') in the City of London was acquired for £1.15 billion; the Walkie Talkie building sold for £1.3 billion; and on a comparatively smaller scale to these well-known buildings, 20 Canada Square was also bought earlier this year for £410 million. The UK therefore remains the preferred hotspot for property investment as well as business operations for established companies and start-ups.

In this newsletter, we look at the various advantages and disadvantages of buying freehold property which are likely to influence an investor's decision.

Advantages of buying freehold property

These are the potential benefits of buying a freehold property:

- You will have long term security and stability as there is no limitation on the length of time you can remain at the premises.
- You will have complete control over the use (subject to planning law) and management of the building. You have the right to make modifications and alterations to the building (subject to any statutory/planning obligations).
- A building is a tangible asset and therefore becomes a capital asset owned by the business. There is potential for the building to increase in value which in turn may be profitable.
- If you acquire the freehold of a premises you can grant a lease to a tenant to generate rental income. You also have the freedom to sell the property at any time you wish.
- You can raise finance against the building by securing a loan.
- There are certain tax reliefs available, such as VAT relief or capital allowances.

Disadvantages of buying freehold property

The main disadvantages of buying a freehold property are:

- At the outset, there will be a significant capital outlay associated with the purchase of the premises which may tie up business capital. The likely costs will include solicitors' fees, surveyor's fees, stamp duty land tax, land registration fees and any commercial mortgage costs.
- If you purchase the building with a loan, there is risk of repossession if the repayments cannot be met.
- You will be responsible for maintenance of the building and therefore will have to retain a budget for these types of expenditure. As well as maintenance costs, you will need to pay for all ongoing costs for the running of the premises.
- A structural survey may reveal problems with the condition of the building that may require you to undertake remedial works, which can prove costly. You may also need to undertake works to ensure the premises satisfy regulations for operating a business, in particular in relation to fire safety and health and safety requirements.
- There is no guarantee that the property will increase in value and you need to factor in the risk of market fluctuations in property values.
- If the premises subsequently becomes unsuitable for your business, the process of selling or leasing can be lengthy. You are likely to be liable for capital gains tax on any profit generated from the sale of the premises.

At 3HR we specialise in advising clients on acquisitions and disposals of all types of commercial properties of any value.

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