

Buying a Commercial Property for Your Business Premises

Why rent, when you could own the building?

As a business owner, you may be considering whether to buy your commercial property or lease it.

Each option has both advantages and disadvantages and there are many factors to take into account.

In this article, we'll highlight some of the main considerations when buying a commercial property for your business premises, whether you are buying your current premises or moving to new location.

BENEFITS OF OWNING THE PREMISES

- **Security of tenure:** The landlord cannot terminate your lease, increase the rent or sell it out from under you.
- **Refurbishing:** With no landlord, there are no fitout restrictions or requirements (except those specified by local bylaws).
- **Tax benefits:** Owners can deduct the costs of owning commercial property (interest on loans, repairs and maintenance, electricity, rates, depreciation).
- **Negotiable terms:** Before purchasing, the terms of the commercial property loan can almost always be negotiated.
- **Stable outgoings:** Predictable monthly repayments are written into the loan agreement.
- **Capital growth:** If the market continues upward.

Of course, ownership also has disadvantages. For example, if your business grows and you need larger premises, owning the asset may stifle your growth.

BUSINESS ENTITIES THAT CAN OWN A COMMERCIAL PROPERTY

Several ownership structures are available when purchasing commercial premises for your business, including:

- **Sole trader:** Where the proprietor owns the asset. Although it's the cheapest structure, it has a higher litigation risk and is not generally recommended.
- **Partnership:** Co-owned by all partners with shared liabilities.
- **Company:** Where the purchasing entity is a company you own. This provides you with some protections against legal claims and certain tax concessions.
- **Trust:** This could be a unit trust, a family discretionary trust, or a hybrid trust. Trusts can provide better protection against some legal claims.

Whichever ownership model you choose, the advice and services of experienced professionals will be invaluable. There are varying tax implications and important legal consequences with each of these ownership models. Give us a call to arrange a time to discuss your situation in detail.

FUNDING OPTIONS

Unless you have the liquidity to cover the whole transaction, you'll be looking for a lender. Lenders may offer variable, fixed or split interest rates. They may also offer principal and interest or interest-only repayments.

1, Banks. Banks and other lending institutions will show you their own in-house finance options.

2, Through a mortgage broker. A good broker will know what's available on the *wider* market, and can walk you through multiple funding options, pointing out the pros and cons of each.

3, Use your SMSF funds. Advantages of using SMSF funds include reduced tax on fund earnings (only 15%) and reduced CGT (only 10%), though conditions apply. As always, get unbiased professional advice before you start.

If your SMSF balance is insufficient for the purchase, it is possible to borrow additional funds. This is done via a "limited recourse borrowing arrangement" (LRBA).

When business owners purchase their premises, they in effect are renting the asset from themselves, and thereby they gain security and capital growth benefits.

HOW MUCH CAN YOU BORROW?

For loans up to one million dollars, generally it's 80% of the property value, though some lenders use 75% LTV. As the property value increases, the percentage typically drops but different lenders have different risk profiles. Talk with a broker to learn more.

GET EXPERT ADVICE

Whichever decision you make, there are many issues involved and this is not a DIY arena. Our experts are available to help with your decision making, and to put you in touch with the relevant professionals.