

Selecting the right premises for your new business

Your premises and location will most likely be an important factor in your overall business success – regardless of the industry you're in.

For customer-facing businesses, location can make the difference between comfortable returns and failing to break even. Even service or manufacturing businesses have to factor in transportation costs and distance to suppliers before deciding on a premises.

Before signing a lease or purchasing a property, you'll need to consider your current and future needs. It's all about planning to make sure your premises remains suitable as your business expands beyond the start-up phase. Poor planning now could mean you are forced to change properties just as you start gaining momentum.

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Identify your business needs

Your needs will vary depending on the type of business you are setting up, but you should already have a basic idea of what features your new business will need.

Divide these into two categories: current and future needs. Your current needs might include accessibility, adequate parking and particular structural requirements such as a high ceiling. Future needs could include increased space, extra room for administration staff or additional seating for customers.

Moving your business is costly and also puts you at risk of losing your customer base. Planning for future expansions or additional product types before you decide on a property is the best way to make sure your new premises can cope as your business evolves.

If you sell online or don't deal with customers directly, it's worth asking yourself if working from home could be a better option. Working from home saves you money, but can also present a number of challenges with stock storage and that all important work-life balance.

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Choosing the right location

Now you've thought about your current and future business needs and requirements, it's time to begin your search.

As long as you keep your business needs and target market top of mind, it's easy to avoid the temptation to settle for a property that doesn't fit your business model. For example, if you're setting up a fashion store for teenagers, it might be tempting to move into a store that has recently been renovated, has a cheap lease but is located in a low-traffic area. It would be easy to get distracted from your identified need to be close to similar retailers or other businesses that cater to teenagers such as food or entertainment outlets.

Draw up a list of needs, from location, access and parking to toilets, kitchen and security to make it easy to access potential properties based on your business needs. This will help you narrow down your search and compare the pros and cons of properties within your price range.

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Lease or buy?

Leasing

A contractual lease is a legally binding agreement between landlord and tenant, and is generally the most popular option for new businesses.

Lease durations differ, but new businesses generally choose between three to five years – although leases can be as short as one year in some cases. For future security, there is often a pre-arranged agreement to renew the lease after the expiry date at a set price (or similar) if the tenant decides to stay.

Advantages:

- Little initial capital required.
- You don't have to raise capital to buy premises.
- If the property is no longer suitable, you can move on once the lease expires without further obligation.
- If you decide to move location or your business falls over before the lease ends, you may be able to sublet, minimising your financial loss.
- You may not be required to pay property tax, fire insurance, maintenance or repair costs.

Disadvantages:

- Being tied to a lease means you may experience rent increases – regardless of whether your business is in a position to absorb additional costs or not.
- It is up to the property owner to decide if they want to sell the premises. You could be forced to move your business elsewhere, which can result in reduced turnover from loss of existing customer base or other disruptions.
- You have no investment in the property or return on the rent paid.

Buying

If you have the financial means, buying a property could be a good asset, which will serve you well in the future and give you more options to raise capital if you need to expand.

Advantages:

- Real estate is generally a stable investment – even in times of economic uncertainty.
- Improvements or renovations belong to you as the property owner and add to the value of your investment.
- Having a mortgage loan on the property might mean the costs are only a little bit more than paying a lease – especially if you purchase when interest rates are low.
- You can use your property to leverage additional finances further down the track.

Disadvantages:

- Property ownership ties up capital, which could be directed elsewhere in the business, especially during the start-up phase, when you may need capital to keep you afloat until you start breaking even.
- You are tied to one physical location, which creates problems if the area changes or your market moves elsewhere.

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Negotiating tips to get the best lease or purchase price

Getting the best lease or purchase price will require a little planning, some determination and patience.

Here are some top tips to ensure you have a bit of spare cash in your back pocket after moving into your new premises.

- **Give yourself plenty of time to choose.** Patience is the key to getting the best deal on your new premises. Preferably, give yourself up to six months to decide on the premises that best suits your needs.
- **Don't rush into anything without considering other options.** This might seem obvious, but it can be tempting to go for the first option that meets your needs – especially if an agent is pushing the hard sell. Start by making a list of available properties and visit the least-appealing ones first – this gives you some insight and confidence before jumping into negotiations.
- **Consider negotiating on more than one property at a time.** There is no rule that says you can't negotiate on more than one property at once. This gives you a back-up if you find a property is unsuitable or out of your price range. You can also negotiate better terms by comparing agreements and bargaining accordingly. For example, one contract might include a two-weeks-free lease, which you can use to leverage a better deal on another contract.