Opinion

Office fit outs: Why asset finance is the smart choice

by Nicki Matthews - 18 January 2016 5:30am

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With rents rising, companies are looking to better utilise the space they have (Source: Getty)

The London property market is booming – and it's not just the residential sector. The demand for office space in the capital is pushing up rents and this is having a significant impact on companies' business strategies. Many firms are looking to move their headquarters out of London to more affordable locations, retaining small offices in the capital for key people who need to be based there. An office in the centre of London could cost as much as £70 per square foot in rent, whereas it will be more like £30 in somewhere like Guildford. Other businesses are looking to better utilise their existing space: putting more employees into the same area, or turning meeting rooms into desk space while using the services of rented meeting rooms.

But fitting out new offices or adapting existing space for a new purpose can itself be costly. As high street banks are not particularly supportive of this type of project at the moment, many businesses will seek to finance the fit-out by drawing on cash reserves. There are downsides to this approach, however. Most companies could almost certainly better utilise the £250,000 it might cost to fit out an office (a hugely depreciating asset) in other areas of their business.

The problem is that many firms are not aware that there are other options for financing fit-outs – notably asset finance. Asset finance is perhaps best known as a way of buying machinery or equipment by securing a loan against that asset and, historically, asset finance providers have been nervous about the office fit-out part of the market. But this has changed dramatically. So why could asset finance be an appropriate funding source?

First, it is an effective way to spread the cost of the project – and also to match the term to the length of the lease. Most companies will take office space on a five-year term at a minimum and asset finance arrangements will be of a similar length. By funding the fit-out through asset finance, the company has certainty about its repayments and is able to avoid paying anything up-front. Repayments are also fully allowable as a business cost and can be offset against profits for tax purposes. This makes it very tax efficient.

Second, given that the cost is spread over, say, five years, it can be easier to finance more costly design-led or unusual office features that some businesses consider to be important in attracting or retaining staff. Even if you're not considering adding a slide in the breakout area for staff recreation, using asset finance can more generally allow a business to spend more money than if it were paying for the fit-out up-front.

Finally, using an asset finance arrangement can be beneficial in terms of efficiently working out the precise cost of office space per employee. Not all businesses will analyse their use of space in this way, but given that you will be repaying a fixed amount over a fixed term, this can easily be divided by the number of staff to provide a figure for what it costs to base an employee in a particular location.

So what can asset finance cover in terms of an office fit-out? Aside from items that are materially part of the building, nearly anything.