



Funding the project



How often have you been told that there is a shortage of grade A office space due to the slowdown in office development over the last six years? Virtually every city in the UK will see a deficit in new high spec office in 2016.

Our regional report on page 76 highlights that in October this year Manchester passed the 1,000,000 sq ft office take up for the last 12 months, but even with the amazing new developments set of 2016 the thirst for quality office will not be satisfied.

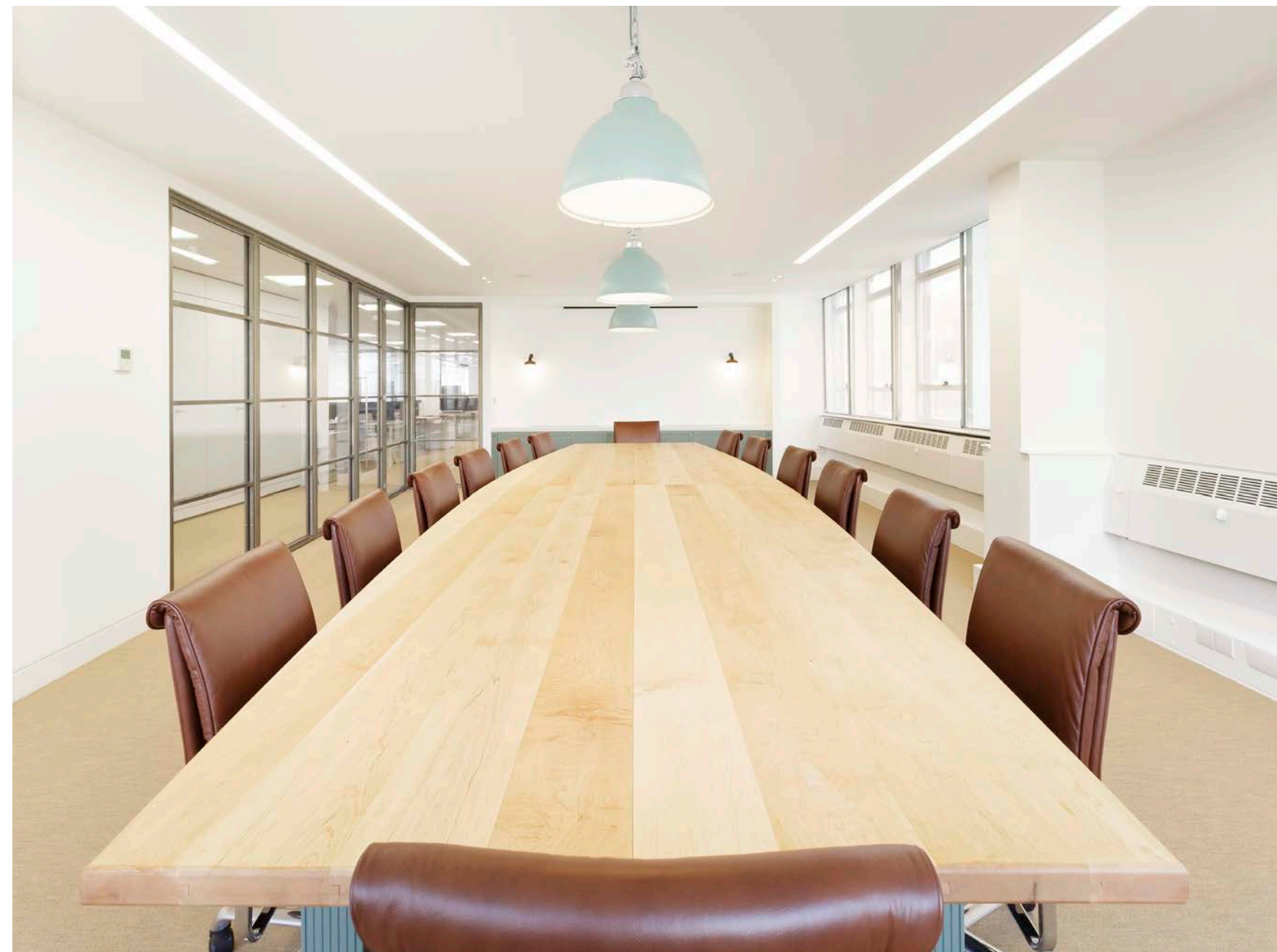
In our view, amazing office refurbishments will be making the news in 2016 and beyond as clients look to grow and consolidate (look out for our next issue where we look at the transformation of the headquarters of Regatta by Space Invader, for example).

So the client has made a decision about upgrading their current office environment; next issue to deal with is the current pressure to provide an office environment fit to attract the best staff. Then comes the challenge of funding the project.

Historically clients have used cash or bank facilities but as a recent report suggested, overdrafts for small firms are being withdrawn or cut by major lenders at an increasing rate, with around 17% of small and medium sized enterprises reporting that banks have removed their overdrafts altogether. We are told that many clients use Capex as their method of financial allocation, in other words deciding some months or years in advance, ensuring it is written into the annual accounts and added to an asset account.



Create beautiful working environments with no capital outlay



Leasing a fitout project can

- Unlock projects
- Overcome budget restrictions
- Utilise 100% tax allowances

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Brics. A range of rustic glazed porcelain slim format tiles. Available in an organic colour palette, taking inspiration from the natural irregularity of exposed brick.



Leasing

A financial arrangement in which a person or organisation pays to use land, a vehicle etc. for a particular period of time.



Nikki Matthews

Plus Finance

‘The finance landscape is changing and there is an increasing use of alternative asset finance, providing a real opportunity in the commercial interiors industry due to high capital cost of a fit out.’

Spotlight

1

What are the options?

The three most common methods of funding are: cash, bank facility or lease finance. As a method of finance leasing is common place in the business world for items such as vehicles and IT, yet it is little used in office fit-out. The next page gives you our overview of the options to fund projects together with some of the pros and cons.

2

What can be leased?

Anything in a Cat A or Cat B fit-out is the short answer including IT equipment, fit-out and furniture.

3

Can the lease be on furniture and fit-out?

Most high street lenders will lease furniture, however some specialist finance companies can lease everything including soft costs such as service, supplies and installation. Clearly homework is required.

4

Will the furniture be owned at the end of the lease?

The essence of a lease rental agreement is that you don't own the asset, so consequently the rentals become 100% tax deductible. At the end of the term, you can choose to retain use of the assets for an indefinite period via a small one off lifetime rental.

5

Over how long?

Usually anything from two to five years to be in line with leases on a building.

6

What are the benefits for the contractor?

- Provide clients with funding alternatives
- Get the competitive edge
 - Quick and easy
 - Upgrade or unlock suspended projects

7






What are the benefits for the client?

- Maximise cash flow
- Spread the cost with monthly payments
 - Tax advantages
- Easier and more accurate forecasting due to fixed payments
- Existing bank credit lines unaffected

Helping support your client with funding. What are the options?



Need a new impulse?

	 POSITIVE	 NEGATIVE
<div>CASH</div> <div></div>	<div>No interest to pay</div> <div>Easy to use</div> <div>Makes use of the AIA (where applicable)</div>	<div>Can leave cash flow vulnerable</div> <div>May restrict budget and therefore project specification and finish</div> <div>Reduced capital allowances on certain aspects of a fit-out</div> <div>Ties up working capital often in a depreciating asset such as IT or office fit-out where the benefits are realised over the longer term</div>
<div>BANK FACILITIES</div> <div></div>	<div>Cheap rates of interest (currently)</div> <div>Overcomes budget limitations</div> <div>Protects cash flow</div> <div>Makes use of the AIA (where applicable)</div>	<div>Banks reducing lending, so accessing finance not always easy</div> <div>Banks may require additional security over other assets</div> <div>Ties up credit lines</div> <div>Large administration fees can apply</div> <div>Overdraft can be withdrawn at any time</div>
<div>LEASE FINANCE</div> <div></div>	<div>Readily available and quick to arrange</div> <div>Protects cash flow as minimal upfront costs</div> <div>Fixed payments enable effective forecasting and cash flow management</div> <div>Payments are 100% tax allowable, overcoming restricted capital allowances on certain aspects of fit-out</div>	<div>Interest rates slightly higher than a bank loan</div> <div>You don't automatically own the asset (to ensure rentals are 100% tax deductible) but at the end of the term you can choose to retain use of them</div>



Impulse Too

Design | Ralf Umland