On the *commercial* side

> Should business owners rent, lease or buy

WHEN fashion entrepreneurs Paul Tam and Caitlyn Lim decided to turn their small online business into a full fledged physical store, they thought long and hard about whether they should rent or buy their business premises.

"We initially wanted to buy," said Tam, adding "We found an appropriate unit that was up for sale or rent, and when we consulted our lawyer, he advised us to rent."

Whether you own a bookstore, hair salon or any other business, the decision to rent or buy the premise you run your business in, is a complicated one. If you find yourself in a situation similar to Tam and Lim, here are five important factors experts urge you to consider before making your decision.

CASH INVESTMENT

To buy a commercial property, you will need to have a significant amount of capital in hand to execute the deposit (usually 10% of the total price). Unless one has the means to execute the purchase in one go by cash, a bank loan will have to be secured. Compared to renting, more often, one's monthly loan instalments are higher. Financial experts say that if you are not in the position to make such a large initial investment or secure a bank loan, renting allows you "affordability". Renting does not require one to come up with a lump sum as deposit. Still, one will need an initial rental deposit and monthly rent. Even so, renting will demand a much lower capital outlay compared to purchase.

TIME FLEXIBILITY

It is faster and easier for a business owner to rent a commercial property rather than buy it. This is due to the legal processes involved. For example, a sale and purchase (S&P) agreement will take longer than drawing up a tenancy agreement.

According to Andy Low Hann Yong, a partner at Low & Partners, the legal transactions involved in purchasing a commercial property through sub-sales generally takes three months or more. These depend on the following factors:

- whether the business owner is buying the property by cash or through a loan;
- whether the property is subjected to state consent;
- whether the property is held under a master title or individual title; and
- whether or not the construction of the property has been completed.

> *"With the current market for offices, I advise to rent instead of buy, because the over-supply in office units makes it affordable. Moreover, you have the flexibility to move every few years. For retailers, since their rentals are much higher, the advice is to buy instead of rent."*

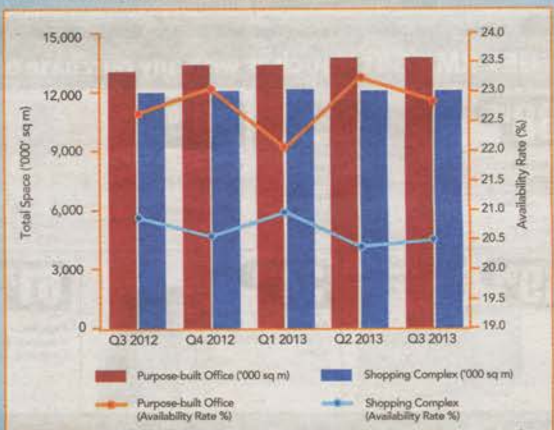
The vacant possession of the property is usually delivered to the business owner when the transaction is completed, which is upon the vendor/seller's receipt of the full purchase price from the purchaser or purchaser's bank.

On the other hand, the legal process involved in renting a commercial property is relatively faster. "As long as the terms and conditions of the tenancy agreement are agreeable by both parties, the vacant possession of the property is delivered to the tenant upon execution of the tenancy agreement, along with the payment of the deposit and first month rental," Low adds.

FIXED COSTS

Unlike renting, you can roughly estimate or forecast your yearly expenditure if you purchase your property, as changes can be expected. For example, your lease term may expire and there may be different clause factors and terms implemented within a lease agreement that may be altered. This includes monthly rental and maintenance fees.

SUMMARY OF SPACE AVAILABILITY IN COMMERCIAL BUILDINGS FROM Q3 2012 to Q3 2013



* Graph courtesy of www.jpph.gov.my

SUMMARY OF AVAILABLE SPACE IN COMMERCIAL BUILDINGS AS AT Q3 2013

State	Purpose-Built Office		Shopping Complex	
	Total Existing Space ('000 sq m)	Available Space ('000 sq m)	Total Existing Space ('000 sq m)	Available Space ('000 sq m)
WP Kuala Lumpur	7,114.69	1,582.78	2,410.00	396.98
WP Putrajaya	202.76	89.48	68.50	15.54
WP Labuan	49.12	12.95	26.06	0.44
Selangor	2,761.08	782.13	2,969.06	502.34
Johor	659.91	186.38	1,685.46	480.26
Pulau Pinang	842.20	203.57	1,479.11	460.57
Perak	236.24	27.03	723.29	88.70
Negeri Sembilan	124.79	18.30	382.55	65.50
Melaka	208.46	62.34	363.80	70.17
Kedah	153.79	17.37	425.24	92.46
Pahang	179.34	45.84	259.32	58.79
Terengganu	108.32	3.37	106.98	24.98
Kelantan	170.82	10.44	222.85	23.47
Perlis	40.50	0.00	69.61	3.60
Sabah	497.90	73.27	532.78	63.66
Sarawak	414.27	39.29	612.03	180.55
MALAYSIA	13,764.17	3,154.54	12,336.64	2,528.00

* Table of information courtesy of www.jpph.gov.my

LEVEL OF CONTROL

Low explains that if you rent a property for a period that is less than three years, it is known as a "tenancy" under the National Land Code (NLC) of 1965, which applies to Peninsular Malaysia. Under this law, the landlord can sell the property to a third party without the tenant's (leaser's) knowledge or consent. The new purchaser also has the right to ask the current tenant to vacate the premises even though there is a valid tenancy agreement to occupy it.

"The tenant in this circumstance can take action against the previous owner for a breach of the tenancy agreement. However, the tenant will not be able to continue occupying the unit and has no good defence if the new owner insists on exercising his rights for the tenant to vacate the premises," Low informs.

If the business owner owns the commercial property, he will not have this worry.

When a business owner is renting the property for more than three years, this is known as a "lease" (under the NLC of 1965). "If a lease is duly registered with the land office, then the lease interest is endorsed on the title deed and it is publicly known to any third party. This arrangement is more beneficial to the business owner as the subsequent sale of the property after the lease will be subjected to the lease-terms. In other words, the new owner has no right to ask the tenant to vacate the property as his purchase is subjected to the lease," explains Low.

ASSET APPRECIATION

When you buy a commercial property, you automatically have another business, as you become a proprietor and your property becomes an asset. If your intended business does not take off as planned, you can always sell off the property when the real estate value increases, to make a profit or rent it out.

"Generally though, most companies would rather invest their money into running their own business where they can make more money faster, instead of getting their capital and banking facilities tied up in costly, fixed, immovable assets like property, where the appreciation is only 5% to 10% per year," says Milan Doshi, renowned property and investment guru.

However, when you lease a property, any money that you spend on the monthly rental or maintenance does not add value or create any asset for you in the long run.

WHAT THE EXPERTS SAY

Property guru Milan Doshi's rule of thumb is to rent in an area which makes business sense unique to the business. This income can be invested in assets and optinos which make investment sense. "Let your business buy your assets .... it is not necessary to buy your own business premises."

He further advises: "With the current market demand for office space, I advise renting instead of buying, because the over-supply in office units makes it affordable. Moreover, you have the flexibility to move every few years. For retailers, since their rentals are much higher, the advice is to buy instead of rent."

▶ Please email your feedback and queries to: propertyqs@thesundaily.com

CUT AND KEEP