

# Pitfalls for Charities when they move offices

Finding and leasing new offices is not an easy undertaking for any organisation. It's time consuming and complicated. This is especially so for charities. The rise of the co-working and serviced office sector may have created more opportunities but it has also made things harder. How on earth do Charities choose which is best amongst the blizzard of new options and lease arrangements?

I have negotiated a great many office letting transactions for non-profit organisations and I would like to share some insights.

This article is only two pages so it's worth reading through to the end!



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## VAT

Most conventional offices charge VAT on rent and service charge and so do co-working providers. If you can recover VAT all well and good. But if you can't then you will end up paying VAT on the Business Rates element of monthly co-working charges. With a conventional office you escape this. You pay the Rates direct to the Council and they won't add VAT. Money is saved in the conventional office.

## Business rates

Most local authorities offer 80% discounts to Charities on their Business Rates but you have to have a rates bill in your own name. Having your own bill is usually not possible if you go for a co-working or serviced office. For example if you take 1000 sq ft in a serviced office in (say) Kensington, your business rates (hidden in the monthly rent cost) will be about £25,000 per annum. Your Business Rates for the same floor area in a conventional office might only be £5,000 per annum. It's a huge difference. If you add to that the VAT problem (another 20% gets added to your Business Rates in a serviced option) the discrepancy gets even larger. Food for thought.

However, don't be put off from all serviced and co working spaces, some offer brilliant and flexible solutions for Charities, but do ask questions and compare options on a true like for like basis.

## Buildings that don't charge VAT at all

Yes, they do exist, particularly in the City of London, which is one reason why so many Foundations and Charities have their London staff in buildings with an EC postcode. The problem is finding these buildings as most estate agents simply don't know which buildings are VAT free and which not.

## Sharing an office with other like-minded organisations

This can work well – shared reception – shared fibre broadband costs - shared meeting room facilities – so it always worth considering NOT having your own office at all.

## Deposits

This is an interesting one. Deposits of 3- 6 months rent are normal. For some non-profits, cash is not an immediate problem. There may be trustees able to provide the funds. But sometimes even where the cash is available it can be better spent elsewhere. Consider asking for a no deposit deal where you pay a slightly larger rent and either a smaller deposit or in some cases none at all. A last comment on this one – VAT is almost always added to deposits, but legally it does not have to be.

## Setting up a trading company to get round the VAT problems

This can work well. The trading company (which is not a Charity) registers itself to reclaim VAT on rents and service charges. A snag, and there is so often a snag I am afraid, is that if the trading company has no trading accounts then the deposit required by a Landlord might actually be larger. You also need to bear in mind that the trading company might NOT get its Charity relief on the Rates. So you need to compare the outcomes very carefully. Take advice early on.

## Is there a 'Halfway house'?

One question I get asked a lot is whether there are any landlords offering a halfway house solution where a Charity can have its own Rates assessment (to avoid the VAT on business rates problem) but NOT lose the flexibility that serviced offices provide. You will be pleased to hear that there are. Not a lot offer this but they do exist. I have dealt with several buildings in Central, East and West London where this flexibility can be achieved.

## Getting help

The one thing you must never do is try to negotiate your own office Lease. There are at least 15 other pitfalls and bear traps that are common to all office Leases - so do hire somebody to hold your hand! A good agent will save you a fortune and hopefully deliver you sane and smiling into your new office.

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