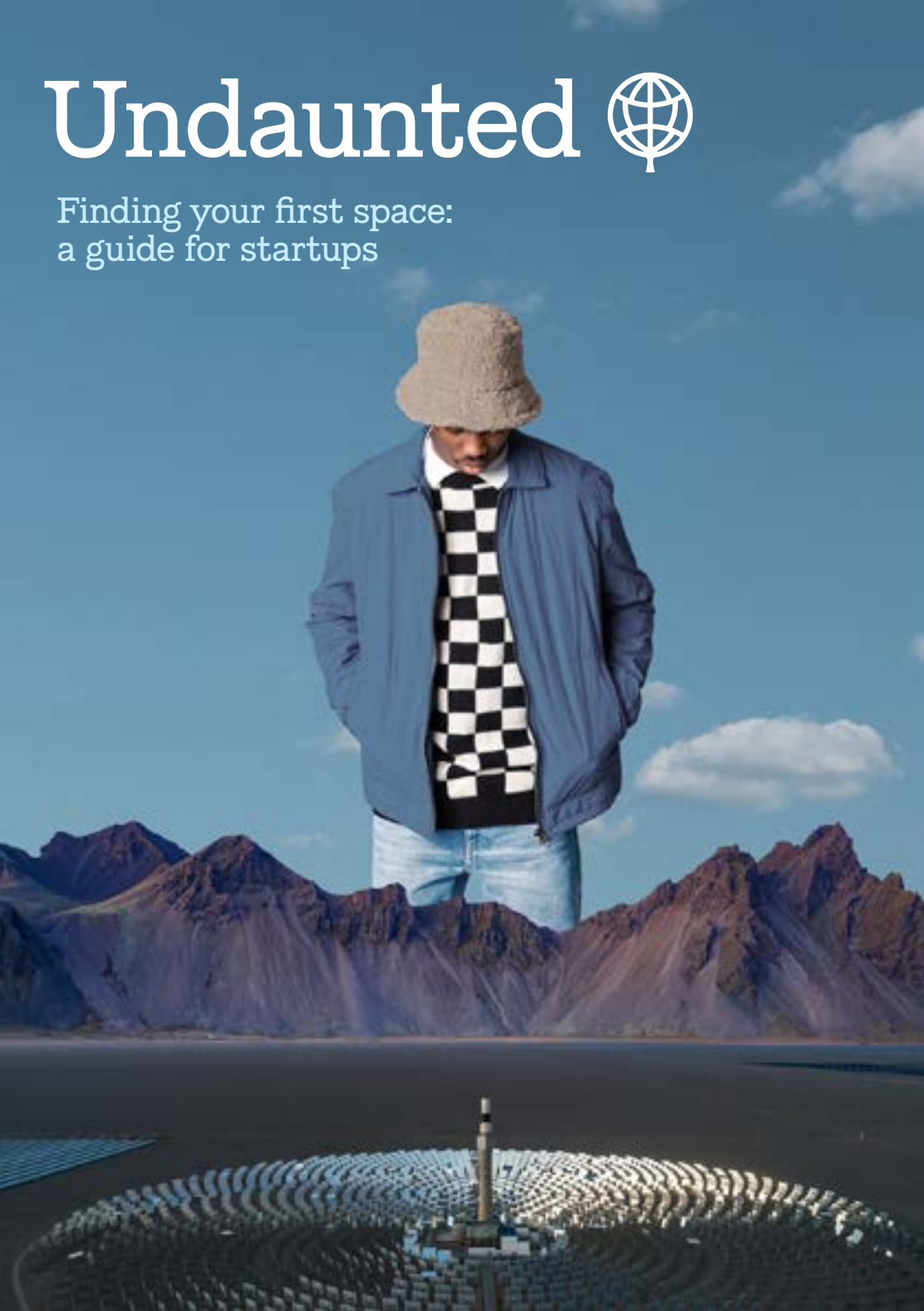
Undaunted

Finding your first space: a guide for startups



The UK has a growing climate technology innovation community, made up of businesses with varied and specialist space needs. Whether you are tackling the climate crisis in the energy, food, waste, transport or fashion sectors, finding and securing your first space as a startup can be overwhelming.

This guide covers what you should consider before committing to a space, from both a landlord's and startup's perspective. It explains some of the language and terminology that you might hear during the process, and offers our top tips on how to find your business's first home in a cost-effective and timely way.

1 **The basics**

We asked commercial landlords what you should consider when securing your first office or lab space.

2 **Meet the founders**

From patio gardens to production warehouses, we speak to four startup founders about how they found and grew their first space.

3 **Budget checklist**

The all-important costs, fees and charges you will have to consider when setting up your space.

4 **Key information**

Learn about the important documents, contracts and key terms you might come across when renting office and lab space.

The basics

"Space can be some or all of complicated, expensive, rare, and confusing; it needs a lot of planning and thinking"

Alyssa Gilbert, Director of Undaunted

Know your space needs

Much like finding somewhere to live, the type of space available to your business varies hugely depending on your needs.

Do you need lab space? If so, does it need to be in an R&D building or would a shipping container in a business park work? What about write up/office space? Does that need to be in the same space or could you manage in a nearby co-working set up or café?

You need to approach any landlord with a clear definition of your space requirements – both the square footage, and the facilities you need included (e.g., lab space, office pods, and meeting rooms). Don't forget that the more space you take, the more it costs!

You also need to think about how long you might want the space for. It will depend on how much confidence you have in your growth plans. Only you, as a business, can judge if you need a short licence/lease or a longer occupation. Too short, and you can't reach the next stage of your business, too long and you risk over committing yourself.

Landlords will have their own minimum length licence/lease periods as they are looking for certainty on income. The flexibility you can negotiate will be shaped by the state of the market for the type of space you need.

Location, location, location

Where do you want to be based? You might want to maintain a connection with academia and find a site close to, or run by, your institution in a city centre location.

Or perhaps you need space for prototyping or large-scale manufacturing. The nature of your business might mean you have to look to an out-of-town science park or industrial location.

You should consider how much you need to be around other people doing a similar type of work. A container in a car park might be cheap, but you might feel very lonely and isolated.

If your office and lab/manufacturing space is separate, also consider how much travel you will need to do between the two. You might also want to base your business close to where your investors are.

Timing is everything

How long it takes to set up your lab will depend on your requirements and how much fit out is involved. Mobilising a lab is much more problematic than an office move. The supply of your kit, delivery to site and commissioning of kit, all takes time; plan this in. Property companies want to make money and stability is important to them; in contrast, startups need flexibility, which will come at a cost.

It can be useful to think about your end point or goal and work backwards. What do you want to achieve, what do you need to help you get there, and how do you obtain that? Your plans will change all the time – maybe a bigger space will suddenly become available, or you might recruit two scientists instead of one.

A minimum lease term is typically 12 months, and a standard lease in the scaling environment is usually three years. As a rule, you cannot leave before your term ends without paying the remainder of the rent that is due (as well as any service charges). This is known as a surrender of lease and often incurs additional legal fees.

Longer leases often have a break notice at the end of year two, but crucially you must remember to serve your break notice by the due date – which could be a full six months before it is due. You can talk to your provider about upgrading your space within your contract, to avoid lease surrender.

Photography © Scale Space

Technical requirements

If you need lab space, you will also need to know what processes are involved, what equipment you need and whether you can do it safely. This will help your landlord and you to assess risk and manage it appropriately.

Most labs are enabled rather than fitted and you will need to supply the kit and consumables. If you're at an earlier stage, you might be less likely to have the time or money to fit out a space yourself. You can get turn-key labs, but they come at a cost.

You can often find second-hand lab equipment on eBay and auction sites, or secure cheap or free trials from equipment distributors. Lots of reagent and consumable distributors also offer discounts for new companies.

You should think about your style of lab. Is it focussed more on biology than chemistry, or a mix of both? This has a bearing on what you bring into the lab in the form of gases and other piped elements. While some landlords permit cannisters, some will only provide gas via a piped network. Retro-fitting of supply lines is a cost to consider, so if you can find a lab with some of these lines already fitted, that's even better.

Do you have highly specialised kit that will be energy intensive? Heavy machinery that's difficult to move? Will you generate large amounts of heat that need extracting? Remember that not all lab buildings are purpose built and anything that places extra demands on the building will incur an additional cost.

Note too, that you can't just do what you want once you're in. There will be conditions in your lease that say you can't materially change the dynamic of the lab and you will need a licence to alter if you do want to modify the structure in any way. Having down time in a lab due to changes to the structure also might not be favoured by your investors.

Be mindful that if you do any damage to your space (known as dilapidations) you will also need to put it back to day one state at your cost, once your lease ends.

You need to think about all of this as part of your search for space, not after you have signed your lease. Other similar companies might be well placed to advise on what you need to think about.

"Ask so many questions that you feel like you know the space, even if you've never had any experience in it!"

Réka Trón, CEO of Multus

Relationship building

Building a strong relationship with your landlord is crucial. Fundamentally they are trying to rent out their space and are looking for positive tenants who know what they want and can afford to pay for it. But they can also offer a wealth of experience and can be a valuable source of information and advice. If they get to know you as an individual, it can make problem solving and negotiation easier in the future.

In the early stages, you may also value the sense of community that comes from being based alongside similar companies as part of an ecosystem. Whether it's through sharing knowledge, experience or resources, these connections can benefit your business without costing a penny. Working alongside people in a similar industry can also help with recruitment, providing you with a ready-made talent pool.

Make sure you engage with the local community channels for the building you are operating in, and the wider community too. You will find a lot of support and advice from your peers and the organisation supporting you.

It's all about the money

Once you've decided what space you need and where, before you even think of doing any science you will need to think about paying for rent, service charges, business rates, and utilities. This is called your Total Cost of Occupancy (TCO).

Some landlords will offer an inclusive rate that includes some or all of these costs. In other spaces you will be charged separately. It's important to understand exactly what you are signing up for. An all-inclusive package is invariably more straightforward with no risk of unexpected bills, but you might be paying a premium for the certainty and simplicity. It may also come with additional perks such as access to more meeting rooms, or a free fruit basket.

You will also incur other costs along the way such as Stamp Duty Land Tax, Insurance, Cleaning and Fit-out costs (see our separate Budget checklist on p20).

To help reduce costs you can base yourself in a space with some degree of shared facilities, which might include an autoclave, bottle washer, and ice machines. This saves money and maximises your lab space for the science.

Don't be surprised by how much lab space costs. As a rough example, lab space costs are often 300-400 per cent higher than office space. You should also think about how long you can afford to sign up for. People often over-estimate the size of space they will need and end up taking on too much too soon. You should ensure you have enough, but also keep an eye on future growth.

Deposits and Reservation Fees

You may be asked to pay two or three months' rent as a reservation fee. This can be worth paying if it's the right space for you, as it can be rolled over into the deposit.

For lab space you will also be expected to put down a deposit to help cover costs if you don't pay your rent or do damage. The standard is three months' rent.

Rent free periods

If you have a longer lease, you may be able to negotiate a rent-free period. Typically taken at the front end of your contract, this can help with your set up costs. A three-year contract might include the first three months rent-free.

Rental charges

Be aware that rental payments generally fall on quarterly due dates in December, March, June, and September. You need to know when and how often your rent is due. Rent is payable on demand so you need to plan and budget accordingly.

Rental rates and review

It's important that once you're in the lease, you don't just forget about it. Rents are generally fixed for the first period, but leases will often have dates where fees can be increased (known as rent review), elevating annually between a cap and collar figure linked to inflation.

This is where legal advice is important and can help you negotiate a fixed or open market rate on a longer-term lease. You should always understand where your future commitments are.

Sustainability of your space

As a climate startup you should also consider the sustainability credentials of your space. Can you find somewhere that will enable you to work toward being a Net Zero Lab? Landlords and advisers can help you on this journey and your investors will likely be seeking your input into how your processes are sustainable. Try and think about your energy consumption, be mindful of the materials and consumables you are using, and try to move away from single use items.

Don't overload your lab; if you have too much kit the HVAC (heating, ventilation and air conditioning) will struggle. All lab kit emits heat and draws energy and this can play against you in a pressurised lab, so seek A+++ rated equipment where possible.

mygreenlab.education is a great site to visit to help you on the path to sustainability.

Meet the founders

Everyone has to start somewhere. That might be in your kitchen, your garage, at the end of a bench in a friend's lab. Once you're ready to expand, getting started can be incredibly daunting and challenging. We spoke to four startup founders about how they found their space and what they learned along the way.

"Do your research and always negotiate!"

Ludovico Mitchener

CTO & Co-founder of Phycoworks

Business: Phycoworks engineers algae to provide a sustainable manufacturing platform for chemicals and materials

Founded: 2021

First Space: *Entrepreneur First*

Current space: *Scale Space*

How has your space grown over time?

Our journey began at *Entrepreneur First* (EF). We spent the early days iterating on our business and developing our software at EF's facilities. After the 6-month program we worked remotely for six months during Covid. Then in 2021 we started exploring our options, but there were limited lab spaces available in London. After viewing multiple locations, we decided to set up in *Scale Space* because it offered a fully managed space at the heart of White City's science district.

What are the benefits of being based in an all-inclusive space?

Everything is included, kitchen, autoclave, meeting rooms, break out spaces. When we were first looking for a permanent home, it felt like a Google campus. It's an attractive set up which definitely aids recruitment – you can't put a value on that. It is expensive compared to other spaces but it's tricky to put a sq ft value on all the added extras. The food is well priced, and the ping pong table certainly made London winters more enjoyable!

What has your strategy been for growing your space?

I've heard a lot of horror stories from other founders dealing with their landlords. Our policy has been to select spaces that provide minimal friction to our team with no ugly surprises. Financial modelling is also crucial to making these decisions. You need to consider how your lease agreement will impact your company's growth and compare spaces across many different dimensions which is easier said than done.

What would be your top tips for other startups?

By far the most useful thing has been talking to other founders who have been through a similar journey. Reach out to companies on LinkedIn, founders are usually pretty friendly and happy to help. Also bear in mind that your investors probably won't know much about this process and the details are important, so make sure you speak to a lawyer.

What is next for your company's space?

We signed a three-year lease with a two-year break clause and have just taken that break. The market in London has completely changed in the last two years and prices are much more competitive. We expect to triple in capacity over the next two years and will need up to 3000 sq ft of space so now is the right time to renegotiate.

Abiel Ma

CEO and Co-founder of Vuala

Business: Vuala automatically separates food waste and turns it into energy

Founded: 2022

First Space: Family backyard patio

Current Space: Production facility, Slough and Royal Institution Offices

You built your first prototype on your patio at home - how did you expand from there?

We found six months' free office space in an incubator programme close to our house, and we worked there while we built our garage prototype! After that we moved the prototype to a lab space in Somerset House which was also free for three months, before another move to a Cambridge lab, but that involved too much travel back and forth. We are now using office space at the Royal Institution via Imperial, but we can't manufacture over there (our laboratory testing smells!) so we're also based out of town near Heathrow.

What has your strategy been for growing your space?

We think of everything in stages and plan everything based on milestones. Whether that's the manufacturing processes or hiring staff, or prototyping. I'm a strong advocate of not necessarily needing to raise any funding - there are lots of grants available and we've managed to design, grow the team and sell the product to different sites without major investment.

Who did you go to for advice in the early days?

I would speak to everyone from everywhere! When we were just an idea, I joined every slack channel and WhatsApp group I could find. It helped me understand the potential problems and the different solutions. People like to share what they do so I always ask about their successes - where they found office space, how much did they pay for it, and could you possibly get it for free?

What would be your top tip for other startups?

Think about your end point or goal and work backwards. What do you want to achieve and what do you need to help you get there, and how do you obtain that? Focus on your product and build community within your company.

Did you make any mistakes along the way?

We had the wrong product and the wrong people, and wasted time with investors who weren't committed. But in the very early stages, mistakes are cheap, so don't be afraid to make them! People will forget about it and move on and so should you.

"You learn quickly, you fail quickly and you get back up very quickly!"

Réka Trón

CEO of Multus

Business: Multus is developing the key ingredients needed to make cultivated meat affordable and profitable

Founded: 2019

First Space: *Hackspace* and a shipping container

Current Space: Translation and Innovation Hub, Imperial College, and a production warehouse in Park Royal

How has your space grown over time?

We started out in a shipping container in a parking lot. It wasn't ideal; it got very hot and it was tricky to manage our experiments effectively. But it was cheap, and meant we could hack our first lab together. We bought second hand equipment from ebay and auctions.

We were there for about six months, then we moved into the i-Hub, where we started with one U shaped bench, then two then three, then added a write up room, then grew to six benches. We were there for three years before we took on two full labs, our first offices and now an 8000 ft^2 production facility. We're a long way from that first shipping container!

What were the benefits of being based in an incubator?

An incubator or accelerator programme is a really good option when you are starting out. As well as office and lab space, you get subsidised rates, shared facilities, and a ready-made community of like-minded people. Lots of them give you access to tax, legal and marketing help too, as well as investors and mentors, which we found really helpful.

"Founding a company is like jumping out of a plane without an assembled parachute and assembling it on your way down!"

How far in advance did you plan your space?

Plans change, all of the time, and particularly at the beginning. Maybe there is a sudden availability of space, or you have recruited two amazing scientists instead of one so you have to start reshuffling. You need to use your financial plan for the next five years to estimate where you are going to be and how much space you might need.

There have been times where we were stretching the tail end of what was possible with our space in terms of really cramming everything in! It's about finding the right balance between what's available, what you need at the moment and what your plans are in the long run.

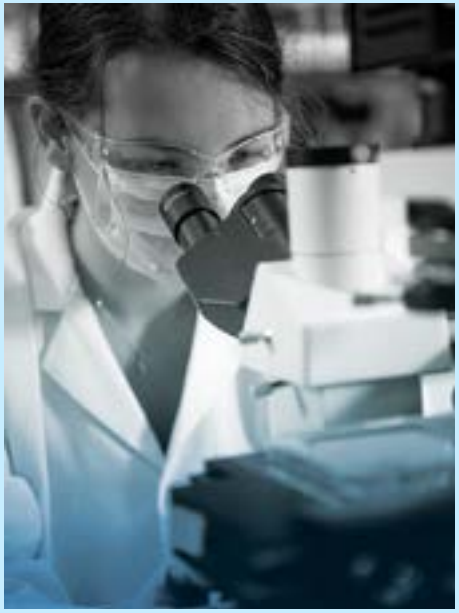
What are the most useful things you have learned about space so far?

We found visualising amounts of space really difficult, especially at first. You have to get out there and look at as many spaces as possible - drawing floor plans in PowerPoint also helps a lot! Looking for space also takes a huge amount of time away from your core business activity – don't underestimate how much research it involves!

You also need to make sure you are on top of your contracts and track all the dates. A lot of companies don't really understand notice periods at the start. And make sure you are on top of all the licences, they are your responsibility, not the landlord's!

What would be your top tips for other startups?

If you don't ask, you don't get; talk to suppliers (e.g., ThermoFisher, Sciquip and Wolflabs) who can offer you workshops and guidance and be prepared to haggle for discounts! If anything is unclear in a contract, ask your landlord or a lawyer. Listen to what other people have gone through and learn from their mistakes. Ask so many questions that you feel like you know the space even if you've never had any experience in it!



Tim von Werne

CEO of RFC Power Ltd

RFC POWER

Business: RFC Power produces a manganese flow battery system that delivers long lifetime, high efficiency, and low-cost energy storage

Founded: 2018

First Space: Imperial College Incubator

First Space: Translation and Innovation Hub, Imperial College

Where are you based now, and how did you get there?

We are currently based in our own dedicated lab and office at the i-Hub on Imperial's White City campus. We originally moved into this space as part of the Imperial College Incubator in 2020, and we took on more space when it moved over to Scale Space earlier this year. We chose it based on the access to ready to use lab space, and a willingness to work with us on some of the specific H&S (health and safety) requirements of our technology and lab needs.

What has your strategy been for growing your space?

We had a limited budget during the early stages of development, which limited our scope for expansion while we completed the initial technology validation phases. As we progressed through technology optimisation and scale up, we accessed additional funding through investment and grants which allowed us to expand the team and take on more space.

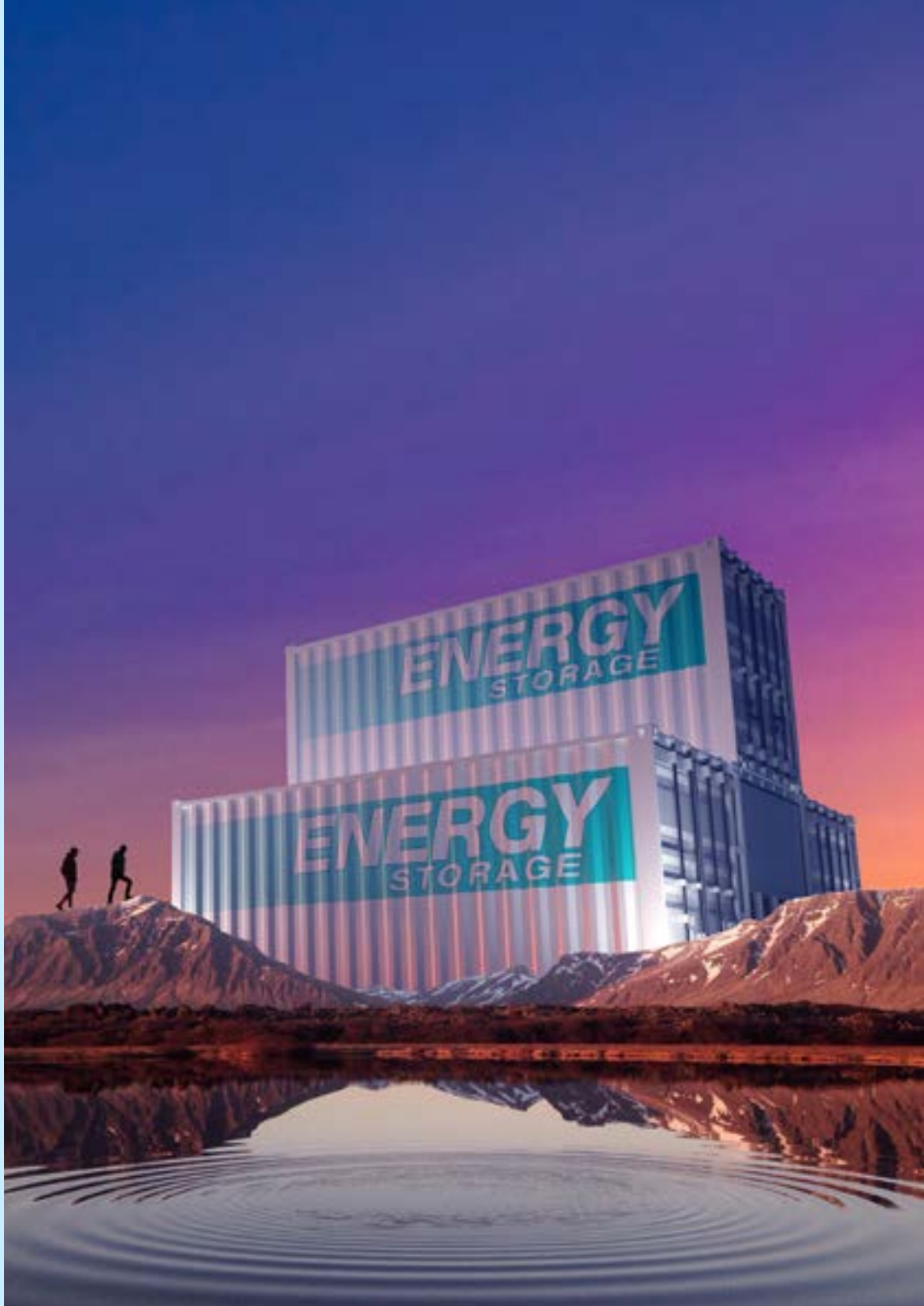
How do you align growth plans, fundraising plans, and space needs?

Our space requirements are one of the key factors we consider when we look at funding requirements. We have focused our internal efforts on the work that requires a high-spec lab environment and then we carry out the engineering building work that is less lab-dependent with external partners at their facilities.

Were there any hidden costs that you were not aware of?

Fit-outs and installations always cost more than you think, and the costs for business rates, electrics, waste, and cleaners add up and can be difficult to plan for. One of the benefits of the incubator or co-working spaces is that they can bundle these costs and give you a fixed amount to budget for.

"Be flexible and try hard to avoid signing long-term contracts with no break clauses!"



Budget checklist

1

Rent

The agreed price paid per annum for occupying a specific amount of space for an agreed period. Rent is paid quarterly in advance. Rent-free periods may be negotiated.

2

Service charge

This is a fair proportion paid by the occupier to run and maintain all the communal areas that you and your staff enjoy. The service charge is paid quarterly in advance.

3

Business rates

This is a tax levied on all occupiers of commercial property. The amount you pay is usually equivalent to 50 per cent of the annual rent. If the onus falls upon you to pay rates, you must register with your Local Authority to do so. If your rate is all inclusive, sit back as your landlord will have it covered!

4

Utilities

As you would expect, this is for the water, electricity and gas charges that a tenant consumes within their demised area. Some utility costs for common and shared areas are also likely to be absorbed into your service charge. Direct consumption into your lab/office space is either metered or costed on an allocation basis, and is charged accordingly.

5

VAT

Rent and service charges are VAT rated. Most, if not all commercial premises, are elected for VAT and the landlord will charge VAT on these items.

6

Legal fees

You will need a legal advisor to assist with your lease and other documents such as a licence for alterations.

7

Fit-out/equipment costs

Whether you lease Shell & Core or Cat-A space you will need to provide the tenant fit-out and furniture, unless of course you have done a deal with your landlord to fund this element.

8

Contents Insurance

The building will be insured by your landlord, but you will need to insure the contents, including fixtures and fittings, lab equipment and office supplies.

9

Cleaning

Your office space will need cleaning and you will need to hire someone to do it!

10

Stamp Duty Land Tax

SDLT is a levy paid on the acquisition of property whether leasehold or freehold. You don't pay SDLT on leases under £150,000 so it may not impact you at the start, but as your business scales and the value of leases rises, you should be aware of the likely tax charges on a transaction. You can calculate your likely liability here: gov.uk/stamp-duty-land-tax/nonresidential-and-mixed-rates

Key information

Very important documents

Heads of Terms

Agreeing a Heads of Terms document is a vital step in securing your space. It is a top-level summary of the transaction, and sets out everything you are going to do inside your lab. You can use a Heads of Terms document to secure an agreement in principle from your landlord, get legal counsel, and to present to your board. It helps the leasing process to run smoothly, captures all the relevant issues (like break points) and helps to prevent businesses from overcommitting. Your landlord/operator will issue the Heads, and negotiation of these terms is what will form the basis of the lease/licence.

Statutory Declarations

A Statutory Declaration is the legal process you must follow through when signing a lease. It involves you physically taking a copy of your lease to a lawyer and having them witness that you understand what you are signing. It typically costs around £50 and you must leave 14 days between signing the stat dec and your lease, so make sure you allow time in your plans. Do this early, as signing and executing a lease is often held up by missing statutory declarations, and that means you cannot start to operate.

Licences

You will also be responsible for securing licences for working with microbiological, bacterial, or fungal materials (GMO); chemical licences (for Industrial Denatured Alcohol, Duty Free Ethanol); drug licences; occupational health forms (COSHH); employer liability insurance; fire safety regulations (DSEAR); and Information Commission Office (ICO) licences.

Hazard Analysis

A hazard analysis (HA) form is key to you telling the landlord what you are doing inside the lab. Your landlord has a duty of care to you and other tenants, so non-disclosure of processes that endanger others is not acceptable. The HA is your method statement of what you do, how you manage risk, and what tools, equipment or services you need to fulfil your business need. It should always be updated to 100 per cent reflect what is being done in the lab, so, if you pivot to a new methodology, the HA needs to reflect this.

HAs are approved by a reviewing body from the landlord side and/or a health and safety advisor. The bottom line is that they MUST be approved before you commence operations.

Glossary of terms

CAT-A A space delivered with a raised floor, suspended ceiling, lighting, AC units, floor finish and floor boxes. This is usually the preferred option for people who need office space. Your fit-out costs would include partitions, meeting rooms, IT/power cabling etc, as well as your desks and other furniture.

Shell and Core A very bare, basic space with no internal finishing, exposed floor, and ceiling. This is usually a preferred option for laboratory users who want to fit out their space to their specific needs. Your fitout costs would also include raised floor, suspended ceiling, lighting, AC units, floor finish, floor boxes, etc.

Serviced office space Fully serviced desk space with no associated fit-out costs

Class 2 Labs Biosafety Level 2 (BSL-2) covers all laboratories that work with agents associated with pathogenic or infectious organisms that pose a moderate health hazard

Basic tenancy at will Simple agreement to occupy space for a fee

Agreement for Lease A document you sign before taking occupation of the space and usually used for CAT A spaces that are being fitted out

Lease A document you sign when you are ready to take occupancy. It is a contract between you and the landlord and gives you exclusive rights to possess the space for the period agreed.

Licence A document that gives permission for you to use an area of a building for a particular purpose. It can be fixed or ongoing. It offers more flexibility than a lease.

The Landlord Tenant Act 1954 Most leases sit outside of the 1954 Act, especially in the lower range of 2-5 years which is effectively where you would operate early in your business journey. In reality, this means you have no right to remain in the demise on expiry of the lease. If inside the act the opposite applies.

Freeholder The person or company who owns the land the space is built on

Landlord The person who has the ground lease with the freeholder, which enables them to own and operate the buildings

Tenants Any individuals, start-ups or corporates who want to lease space in that building (whether it's a desk, a unit, or a floor)

Agent Someone who can negotiate space on your behalf, for an additional fee

Legal counsel Someone who can advise on your lease and contract

For more advice on your climate startup needs, or further information about all of our climate innovation programmes, contact: undaunted@imperial.ac.uk and undaunted-hq.org

To find out more about commercial space in White City, contact: scalespace.co.uk and imperial.ac.uk/i-hub

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