

Property

PART 5 BUSINESS OCCUPIERS: ADVANTAGES & DISADVANTAGES OF LEASEHOLD PROPERTY IN THE UK

Continuing confidence in the UK real estate market defies the negativism that was initially attached to Brexit; and whilst market fluctuations and uncertainty surround the future, the UK's resilience to the ups and downs of the economic cycle have set the path for a positive outlook to the letting market. Investment studies by market experts prove that many industries are continuing to grow and occupier demand for office and retail space is still live. In this newsletter, we will be looking at the advantages and disadvantages of leasing property.

Advantages of leasing property

The key advantages of leasing property:

- A landlord is only permitted to enter the premises as specifically set out in the lease and therefore a tenant will have exclusive possession of the premises.
- Leasing property gives a tenant flexibility to relocate if the premises are not suitable; however this depends on the terms of the lease and whether a break clause has been negotiated.
- If you are leasing part of a building, the landlord is usually responsible for the structural maintenance of the buildings; a tenant would only pay an apportionment of such costs.
- The initial upfront costs are less than that required to purchase a property.
- A tenant can negotiate the terms at an early stage to suit its needs.
- Dependant on market conditions, landlords can offer inducements to tenants such as rent free periods or rent concessions.
- A fall in property value will not have a negative effect on the tenant's business.
- If the lease is protected by the Landlord and Tenant Act 1954, you will have an automatic right to renew the lease at the end of the term.

Disadvantages of leasing Property

The key disadvantages of leasing are:

- The tenant will need to abide by the lease regulations and covenants in relation to the use of the premises.
- A lease may contain a rent review provision which gives rise to uncertainty of future rent payments.
- At the start of the negotiations, the landlord may undertake checks on your financial standing to determine tenant suitability. The landlord may also require you to pay a rent deposit (often 3-6 months' rent) as security which can tie up capital.
- You need the landlord's written consent prior to making alterations to the premises and you will be liable for the landlord's associated costs.
- If you have not negotiated a break clause at the start, then you will be tied into the lease until the end of the contractual term (if you cannot obtain a release from the landlord). This may be a problem if the premises are no longer suitable for your business.
- If you want to transfer the lease or sublet, you will need to obtain the landlord's prior permission and pay any associated costs.
- When the lease comes to an end, you will be required to put the premises into its original condition. The landlord may serve you with a schedule of dilapidations requiring works to be done which can often prove to be very costly.

In view of the above, it is very important to take legal advice before entering into a lease. It is nearly always possible to negotiate more favourable terms. 3HR are here to help.

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